

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

**FROM: KRISTINE SASSER
DEPUTY ATTORNEY GENERAL**

DATE: JUNE 20, 2014

**SUBJECT: CASE NO. GNR-E-14-01 (Idaho Power, Avista, PacifiCorp)
ADJUSTABLE PORTION OF AVOIDED COST RATE
REVISED/UPDATED CALCULATION FOR EXISTING CONTRACTS.**

**CASE NO. PAC-E-14-04 (PacifiCorp)
ANNUAL VARIABLE ENERGY RATE ADJUSTMENT –
1992 AMENDMENT QF CONTRACTS.**

The Idaho Public Utilities Commission in Order No. 28708, Case No. GNR-E-99-1, established a methodology for the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip, a coal-fired generating facility in southeast Montana. For those QF contracts with Colstrip-related fuel costs and variable O&M, future Colstrip variable cost adjustments are to be calculated by using FERC Form 1 Colstrip Unit Coal Costs per megawatt hour (MWh) and adding \$2.00/MWh (the average variable O&M cost of Colstrip plus 20¢/MWh for generation taxes plus a five percent (5%) adjustment for line loss). As computed by Commission Staff, the Colstrip related adjustable rate should change from 15.12 mill/kWh to 16.08 mill/kWh. The same calculated rate revision under the avoided cost methodology is used by Avista, PacifiCorp dba Rocky Mountain Power, and Idaho Power Company. This change in the variable rate affects existing contracts under the previous SAR methodology.

The adjustable portion of the avoided cost rates under Sumas-based methodology is based on annual average gas prices indexed at Sumas, Washington. As reported by Avista, the indexed gas prices have increased by \$0.9/MMBtu. The approved gas price of \$3.45/MMBtu

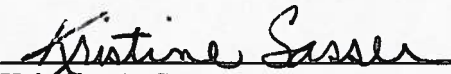
plus the \$0.9/MMBtu increase results in a gas price of \$4.35/MMBtu for the 2014-2015 year. This equates to a SAR fuel cost of 30.89 mill/kWh, using a heat rate of 7,100 Btu/kWh as used in the model for potential future contracts in accordance with Order No. 29124. For existing contracts signed under an assumed heat rate of 7,350 btu/kWh, this equates to a SAR fuel cost of 31.97 mill/kWh.

The Commission Staff calculated changes to the annual adjustable rate portion of avoided costs for those QF contracts, using variable costs associated with Colstrip and Sumas, and provided the respective utilities with the updates for review by letter dated June 3, 2014. Avista, Idaho Power, and PacifiCorp responded by letter that Staff's calculations are correct.

In accordance with Order No. 29316, the adjustable portion of the avoided cost rate for existing PacifiCorp contracts with year 1992 amendments has also been recomputed: Beginning on July 1, 2003, the adjustable portion for these contracts was ordered to be equal to the average cost of fuel for the Carbon, Hale, Naughton, Huntington, and Hunter generating plants, including a variable O&M component of \$1.51 but exclusive of generation taxes and a line loss adjustment. The variable energy rate applicable to deliveries commencing July 1, 2014 extending through June 30, 2015 has been computed by PacifiCorp to be \$20.47/MWh, an increase from \$19.17 last year.

COMMISSION DECISION

Under avoided cost methodology the adjustable portion of avoided cost rates for existing contracts is calculated annually for an effective date of July 1. Avista, Idaho Power, and PacifiCorp agree with Staff's proposed calculations. Also adjusted annually is the adjustable portion of avoided cost rates for existing PacifiCorp contracts with year 1992 amendments. PacifiCorp for those contracts has computed the new variable energy rate. Does the Commission agree with the proposed changes in the variable rates?



Kristine A. Sasser
Deputy Attorney General

bls/M:GNR-E-14-01_PAC-E-14-04_ks



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IDAHO PUBLIC
UTILITIES COMMISSION

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL
LAWRENCE G. WARDEN

June 3, 2014

Avista Corporation

Michael Andrea
Avista Utilities
1411 E. Mission
PO Box 3727
Spokane, WA 99220-3727

Clint Kalich
Avista Utilities
1411 E. Mission
PO Box 3727
Spokane, WA 99220-3727

Rocky Mountain Power

Daniel Solander
Ted Weston
PacifiCorp dba Rocky Mountain Power
One Utah Center
201 S. Main Street, Suite 2300
Salt Lake City, UT 84111

Greg Duvall
Hui Shu
Laren Hale
PacifiCorp dba Rocky Mountain Power
825 NE Multnomah Street
Portland, OR 97232

Idaho Power Company

Donovan E. Walker
Idaho Power Company
PO Box 70
Boise, ID 83707-007

Randy Allphin
Idaho Power Company
PO Box 70
Boise, ID 83707-0070

Re: Case Nos. GNR-E-14-01; PAC-E-14-04

The Idaho Public Utilities Commission in Order No. 28708, Case No. GNR-E-99-1, established a methodology for the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip, a coal-fired generating facility in southeast Montana. For those QF contracts with Colstrip-related fuel costs and variable O&M, future Colstrip variable cost adjustments are to be calculated by using FERC Form 1 Colstrip Unit Coal Costs per megawatt hour (MWh) and adding \$2.00/MWh (the average variable O&M cost of Colstrip plus 20¢/MWh for generation taxes plus a five percent (5%) adjustment for line loss). As computed by Commission Staff, the Colstrip related adjustable rate will change from 15.12 mill/kWh to 16.08 mill/kWh. The same calculated rate revision under the avoided cost methodology is used by Avista, PacifiCorp dba Rocky Mountain Power, and Idaho Power Company. This change in the variable rate affects existing contracts under the previous SAR methodology.

The adjustable portion of the avoided cost rates under the Sumas-based methodology is based on annual average gas prices indexed at Sumas, Washington. As reported by Avista, the indexed gas prices have

June 3, 2014

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increased by \$0.9/MMBtu. The approved gas price of \$3.45/MMBtu plus the \$0.9/MMBtu increase results in a gas price of \$4.35/MMBtu for the 2014-2015 year. This equates to a SAR fuel cost of 30.89 mill/kWh as used in the model.

In accordance with Order No. 29316, the adjustable portion of the avoided cost rate for PacifiCorp contracts with 1992 amendments has also been recomputed. Beginning on July 1, 2003, the adjustable portion for these contracts was ordered to be equal to the average cost of fuel for the Carbon, Hale, Naughton, Huntington, and Hunter generating plants, including a variable O&M component of \$1.51 but exclusive of generation taxes and a line loss adjustment. The variable energy rate applicable to deliveries commencing July 1, 2014 extending through June 30, 2015 has been computed to be \$20.47/MWh, an increase from \$19.17 last year.

Accompanying this letter are worksheets showing the computation of the updated adjustable rates for the various affected contracts. If you accept the updated rates after reviewing them as accurate, please indicate your approval by letter (or other filing) directed to the Commission in the reserved case docket numbers identified above. The case heading for the generic adjustment, Case No. GNR-E-14-01, will read as follows:

IN THE MATTER OF THE ANNUAL REVISION AND UPDATED CALCULATION OF THE ADJUSTABLE PORTION OF THE AVOIDED COST RATE(S) FOR EXISTING PURPA CONTRACTS FOR AVISTA CORPORATION DBA AVISTA UTILITIES, FOR IDAHO POWER COMPANY, AND FOR PACIFICORP DBA ROCKY MOUNTAIN POWER.

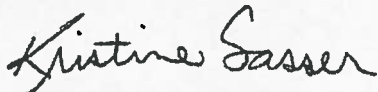
The case heading in the PacifiCorp case for PacifiCorp QF contracts with 1992 Amendment language, Case No. PAC-E-14-04, is as follows:

IN THE MATTER OF THE ANNUAL REVISION OF QF VARIABLE ENERGY PRICES IN ACCORDANCE WITH TERMS OF THE 1992 AMENDMENTS TO POWER PURCHASE AGREEMENTS BETWEEN IDAHO QFS AND PACIFICORP.

Please file your respective responses with the Commission on or prior to June 17, 2014.

Thank you for your cooperation. Please feel free to contact Yao Yin if you have any questions.

Sincerely,



Kristine A. Sasser
Deputy Attorney General

Enclosures

b1s/L:GNR-E-14-01_PAC-E-14-04_ avoided cost

COLSTRIP ADJUSTABLE RATE CALCULATION Updated

For Period 7/1/14-6/30/15

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2013

| | | |
|---------|----------------------|---------------------|
| line 12 | Net Generation (kwh) | 1,227,151,000 |
| line 20 | Fuel | <u>\$17,275,865</u> |
| | Fuel cost per kwh | \$0.014078 |

| | |
|--|-----------------|
| Fuel Cost per MWh | \$14.0780 |
| Variable O&M, Gen. Tax, 5% line loss per MWh | <u>\$2.0000</u> |
| Total Colstrip Adjustable Rate | \$16.0780 |

Reference GNR-E-99-1 O.N. 28708 4/17/2001

**Average Gas Prices at Sumas, Washington from Inside FERC publication
(\$/MMBtu)**

Calculating the 2014-2015 Avoided Cost Adjustable Rate

| | <u>2012</u> | <u>2013</u> |
|---------|-------------|-------------|
| Jan | \$3.47 | \$3.58 |
| Feb | \$2.78 | \$3.58 |
| Mar | \$2.47 | \$3.46 |
| Apr | \$1.96 | \$3.93 |
| May | \$1.82 | \$3.91 |
| Jun | \$2.35 | \$3.94 |
| July | \$2.44 | \$3.46 |
| Aug | \$2.74 | \$3.27 |
| Sep | \$2.44 | \$3.19 |
| Oct | \$2.91 | \$3.24 |
| Nov | \$3.94 | \$4.27 |
| Dec | \$4.03 | \$4.31 |
| Average | \$2.78 | \$3.68 |

Actual Annual Adjustment:

$$\$3.45 - (\$2.78 - \$3.68) = \underline{\$4.35}$$

Note:

\$6.94/MMBtu = 2007-08 Approved Rate
\$7.18/MMBtu = 2008-09 Approved Rate
\$9.00/MMBtu = 2009-10 Approved Rate
\$4.62/MMBtu = 2010-11 Approved Rate
\$4.99/MMBtu = 2011-12 Approved Rate
\$4.60/MMBtu = 2012-13 Approved Rate
\$3.45/MMBtu = 2013-14 Approved Rate

**PacifiCorp
Total Variable Energy Rate
for 2014/2015**

| | Carbon | Naughton | Huntington | Hunter | Totals |
|--|---------------|----------------|----------------|----------------|----------------|
| Fuel Cost (\$) | | | | | |
| FERC Form 1 - Page 402, line 20 | \$ 26,055,932 | \$ 116,935,308 | \$ 111,058,721 | \$ 154,836,539 | \$ 408,886,500 |
| Generation (MWh) | | | | | |
| FERC Form 1 - Page 402, line 12 | 1,197,765 | 5,533,895 | 6,768,625 | 8,067,889 | 21,568,174 |
| Average Fuel Cost (\$/MWh) | \$ 21.75 | \$ 21.13 | \$ 16.41 | \$ 19.19 | \$ 18.96 |
| Variable O&M | | | | | |
| IPUC Order No. 28709 | | | | | \$ 1.51 |
| Total Variable Energy Rate for 2014/2015 | | | | | \$ 20.47 |

For deliveries commencing July 1, 2014 extending through June 30, 2015
13 PacifiCorp QF contracts with 1992 approved amendment language