State of Utah
DEPARTMENT OF COMMERCE
Committee of Consumer Services

5 May 2004

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, Utah 84111

Attn: Julie Orchard
Commission Secretary

RE: Docket No. 03-035-T10
Schedule 37 – Avoided Cost Purchases from Qualifying Facilities up to 1 MW

On 19 April 2004 PacifiCorp filed comments on the recommendations provided by the Division of Public Utilities and the Committee of Consumer Services on 6 April and 12 April, respectively. The Committee has reviewed PacifiCorp's comments and now responds to issues regarding the Committee's proposed gas price forecast. The Committee also comments on matters that respond to the Division's gas price forecast.

In the Committee's Schedule 37 memo, we recommended the following gas price options for use in determining avoided energy costs:

1) Using a fixed price forecast, we recommended the Commission adopt the Committee's alternative gas price forecast that is based on forecasts provided by PacifiCorp, Nymex and the Energy Information Administration (EIA); or
2) Using actual gas prices to reflect more accurate fuel costs, the Committee recommended the Commission tie the avoided energy costs to the index fuel price and set rates at the time the power is delivered.

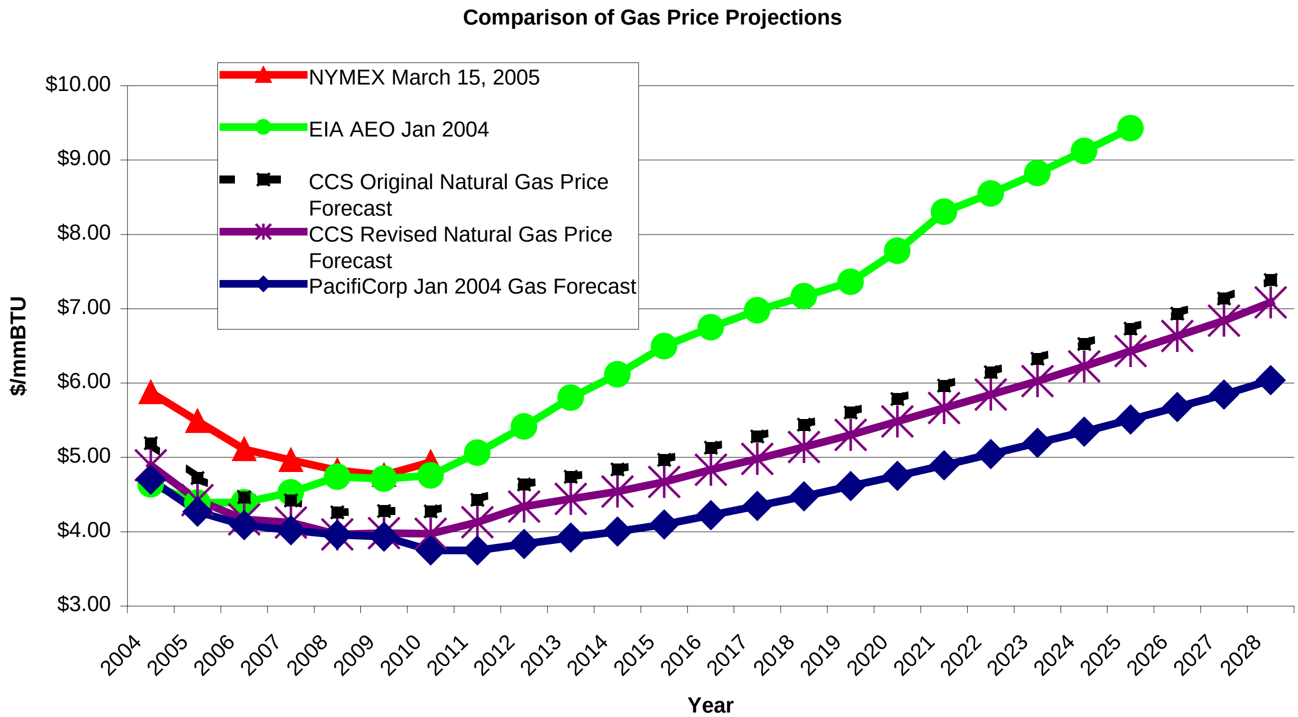
Regarding "Option 1" above, PacifiCorp recommended that the Commission reject the Committee's proposed natural gas prices. In its letter, the Company stated, "The

Committee forecast is not adequately substantiated and appears to rely on the Committee's view, in part, on future gas prices at Henry Hub." While it is true that the Committee partially relied on the Nymex Henry Hub forecast, the Committee also examined the EIA's Annual Energy Outlook forecast released in January 2004 to gauge the reasonableness of PacifiCorp's gas price forecast. As the Committee stated in its 12 April Schedule 37 memo to the Commission, it is not the Committee's intent to advocate for higher gas prices than are reasonable.

PacifiCorp and the Committee have subsequently discussed and reached general agreement that the Committee's gas price differential between Henry Hub and Opal appears to be too low. The Committee used a basis differential that assumed 40 cents/Dth should be subtracted from the Henry Hub price to determine the Opal price. This assumption was based on the fact that in 2004 Henry Hub prices have averaged about 40 cents/Dth more than Opal. However, PacifiCorp correctly pointed out that the differential has been higher and averaged as much as $1/Dth when considering a longer period (2001-2004). Thus, PacifiCorp believes a differential of $1.00 is more appropriate.

Based on these factors, the Committee has reconsidered its 12 April recommendation and proposes that an adjustment of 70 cents/Dth be used, simply as a compromise position. The Committee believes this differential is more accurate going forward because although the average has been as much as $1/Dth during the last three years, the natural gas market is undergoing changes that will reduce that average. In the past, the Rocky Mountain region has lacked adequate pipeline transmission capacity to export large volumes of gas to other regions in the country. Therefore, the availability of excess gas supply has resulted in lower natural gas prices in the region as compared to other parts of the country. New gas pipelines will increase the amount of gas exported out of the Rocky Mountain area, and new gas-fired electric generation in the region will increase demand. Thus, gas prices in the Rocky Mountain region will likely rise and become more aligned with the rest of the country.

With this gas price adjustment, the forecasts proposed by the Committee and the Company are much closer in the short term. However, there is still considerable difference over the long term. The following graph compares the different gas price forecasts, including the Committee's original and revised forecasts. The Committee believes its revised forecast is reasonable.



It should be mentioned that in its 6 April comments the Division also compared the EIA gas price forecast to the Company's forecast, which it found to be reasonable. However, the Division made a comparison of a real price forecast to a nominal price forecast, which is not in line with the methods used by PacifiCorp. Had the Division compared EIA's nominal price forecast, which is shown in the graph above, it most likely would have come to a different conclusion.

Sincerely,

Dan Gimble
Chief of Technical Staff