DP Late-filed Exhibit 2

O&M Discussion Points 9.23.2004

1. What drives non-fuel operating costs (O&M)-

   Components –

   Labor – including health and benefits (Wage Related)
   Supervision/Management (Wage Related)
   Contract Services – Rebuild (Some Wage Component)
   Parts (specialty machining Materials and Wage Related)
   Chemicals/consumables (Materials Related)
   Water treatment & water (Materials Related)
   Plant power (Energy Related)
   Insurance (Services Related)
   Misc. supplies (Materials Related)

2. What are the factors driving reported costs-

   Operating plant load factor – Higher load factor will drive up total cost but reduce O&M/MWH

   Size of facility – Older smaller plants are being retired, new larger plants are more automated and have greater economies of scale that reduce O&M/ MWH

   Cash flows for actual expenditures are not smooth. There is a cost cycle of 40,000-50,000 hours for overhaul for turbine systems.

3. What does the proxy plant look like that was used to develop O&M portion of the rate-

   Currant Creek

   Based on scrutinized numbers – if O&M set in NBA too high would have let other parties to beat the utility build alternative.

   If O&M set in NBA too low would have been a point of contention.

   NBA model assumes 2.89% inflation for O&M factors so higher than QF assumed inflation.

4. Conclusions

The O&M costs have a high degree of labor factors built into the cost structure.

The latest representative Global Insights O&M indexes that we have for 2003 (2.85%-3.05%) are very close to and are above the reported CPI (2.3%). The forecast of O&M escalation in index prices from Global Insights (2.36%-2.69%) are also close to the projection from the Federal Reserve for CPI (2.5%).

See Global Insights Data – (RJS O&M 1)
See History of CPI – (RJS O&M 2)

There is some data from the Hermiston Plant that corroborates this finding but the data is from a single plant for an 8-year period. (Hermiston 3.2% and CPI for the same period 2.4%)

See RJS FERC Form 1 Hermiston (RJS O&M 3)

The evidence that we have at this time shows an apparent tie to CPI from the data that we have seen so far.

See (RJS O&M 4)

The trigger as is used to catch extraordinary excursions from the assumed 2.5% rate will not bring the O&M factor directly in line with CPI but only make an adjustment after 2 years of excursion above or below the band. The trigger for an adjustment is meant to provide a positive or negative adjustment to maintain pricing closer to ratepayer indifference and keep the QF from extraordinary inflationary event exposure.