

1 Q. Schedule II (2nd Revision-Oct.31, 2003), Page 8 of 8. J.C. Roberts

2

3 The purchase price per barrel of fuel for each month in the August filing is set
4 at the price of \$29.20/bbl, the purchase price per barrel for each month in the
5 October filing is set at different prices throughout the year. Why has Hydro
6 changed its method of settling the purchase price per month for each barrel
7 of fuel? What impact does this have on the revenue requirement?

8

9

10 A. Hydro has not changed its method of setting the purchase price. Hydro
11 prepares its forecast purchase price based on the latest PIRA forecast.
12 When the original price forecast was prepared for the May filing, which was
13 not revised for the August filing, PIRA only provided an annual average
14 forecast price for 2004. The updated forecast provided by PIRA for the
15 October filing had price forecasts for each month in 2004. This is also
16 consistent with the 2002 final cost of service price forecast which included
17 monthly prices as outlined in Schedule VIII to the prefiled evidence of J. R.
18 Haynes.

19

20 The impact of monthly prices is that they will provide a better estimate of
21 price variability during the year and therefore give the best estimate of the
22 price impact on production costs.