

090537-EQ

Exhibit B

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Q4. Please refer to the Energy Information Administration's (EIA) Annual Energy Outlook reference case for Henry Hub natural gas prices (dated December 2009). This is a long term natural gas price forecast through 2035 and is in 2008 dollars. Please respond to the following:

a. Assume the reference case Henry Hub prices for 2012 through 2032 are adjusted at the escalation rate used in PEF's response to Question 10 of Staff's First Data Request, dated February 10, 2010. Please explain the differences between these forecasted gas prices and the forecasted gas prices used by PEF in its NPV analysis of the amended contract. In particular, please explain the differences in forecasted prices in the near-term, e.g., 2012 through 2017.

Answer:

	(A) Henry Hub Spot Price from EIA	(B) EIA Price adjusted using █% escalator	(C) Forecast used by PEF
2007	7.12		
2008	8.86		
2009	3.49		
2010	4.50		
2011	5.68		
2012	6.17		
2013	6.13		
2014	6.09		
2015	6.27		
2016	6.38		
2017	6.38		
2018	6.43		
2019	6.51		
2020	6.64		
2021	6.74		
2022	6.93		
2023	6.96		
2024	6.91		
2025	6.99		
2026	7.15		
2027	7.29		
2028	7.53		
2029	7.77		
2030	8.05		
2031	8.39		
2032	8.50		

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The table above shows the EIA Annual Energy Outlook reference case for Henry Hub natural gas prices in Column A. Column B takes the EIA prices and escalates them at █% per year starting in 2009. Column C is the natural gas forecast that PEF obtained from PIRA with the prices for 2029 through 2032 escalated at █%.

The natural gas forecasts in Columns B and C are different for a number of reasons. First, the escalator of █% is inappropriate. PEF used that escalator for the last few years of its forecast based on the remainder of the forecast. That escalator was not intended a fuel price escalator for the entire twenty year forecast. In this case, a measure of inflation would be a more appropriate escalator because the escalator is used to reflect the time value of money by adjusting 2008 dollars to nominal dollars. Second, the forecasts were prepared at different times with different assumptions. The EIA forecast was prepared in December 2009 while the forecast used by PEF was prepared in August 2008.

- b. In light of differences between the EIA's reference case natural gas price forecast and the long-term gas price forecast used by PEF, please explain how the long-term gas price forecast used by PEF is reasonable for purposes of the NPV analysis.

Answer: Forecasts of volatile commodities, like natural gas, change frequently. This can be seen by looking at the last four forecasts of natural gas provided by PIRA below. In these forecasts, the average price fluctuated up and down during 2009.

For consistency, PEF uses the forecast used to develop the Ten-Year-Site-Plan throughout the year when evaluating QF purchases. Negotiated contracts can take months to negotiate and during that time the forecast of natural gas may change. It may even change more than once during negotiations. If PEF used the latest natural gas forecast during negotiations then the negotiations would have to restart each time a new forecast became available.

PIRA	8/27/08	2/24/2009	8/19/2009	10/21/2009
2012	█	█	█	█
2013	█	█	█	█
2014	█	█	█	█
2015	█	█	█	█
2016	█	█	█	█
2017	█	█	█	█
2018	█	█	█	█
2019	█	█	█	█

2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
Average Price	11.250	10.344	11.055	10.248

Another reason that PEF uses the fuel forecast from Ten-Year-Site-Plan when evaluating QF contracts is to maintain consistency with the Ten-Year-Site-Plan. If a different fuel forecast had been used in the Ten-Year-Site-Plan then a different avoided unit may have emerged. Therefore, it is consistent to use the fuel forecast used to establish the avoided unit when evaluating QF contracts against the avoided unit.