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November 13, 2015

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

RE: Response to Order No. 30722 (Case No. IPC-E-08-10)
2015 Hells Canyon Allowance for Funds Used During Construction ("AFUDC")
Status Report

Dear Ms. Jewell:

In Order No. 30722, the Idaho Public Utilities Commission ("Commission") ordered Idaho Power Company ("Company") to file a status report for the relicensing of the Hells Canyon facilities along with an update on the accumulation of AFUDC by November 15, 2009. The Company has continued to file annual updates and therefore, enclosed for filing are an original and seven (7) copies of the 2015 status report.

This report details the Company's efforts to obtain the license, supporting continued collection of AFUDC in rates beyond December 31, 2010. Idaho Power now estimates that the issuance of the license will be delayed until at least 2020 due to the unresolved issues related to water temperature. The Company has spent in excess of \$158.1 million in support of the Hells Canyon relicensing (\$214.4 million less \$56.3 million in pre-tax AFUDC estimated collections) and will continue collection of AFUDC in rates going forward as authorized in Order No. 30722 unless it receives a Commission order directing otherwise.

If you have any questions regarding this filing, please contact Senior Regulatory Analyst Courtney Waites at 388-5612 or cwaites@idahopower.com.

Very truly yours,

Lisa D. Nordstrom

LDN:kkt
Enclosures

**2015 HELLS CANYON ALLOWANCE FOR FUNDS USED
DURING CONSTRUCTION STATUS REPORT**

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I. PURPOSE OF STATUS REPORT

The Hells Canyon Complex (“HCC”), comprised of the Brownlee, Oxbow, and Hells Canyon dams, represents approximately 1,167 megawatts of nameplate generation capacity. The HCC continues to be an important source of low cost, clean electric energy for Idaho Power Company’s (“Idaho Power” or “Company”) customers. With this in mind, Idaho Power considers the HCC relicensing project to be a viable, cost-effective effort that will ultimately serve the best interests of customers.

In Case No. IPC-E-08-10, Idaho Power’s 2008 general rate case, the Company included construction work in progress (“CWIP”) related to the Hells Canyon relicensing as part of its revenue requirement. The Company did not request that the Hells Canyon relicensing CWIP be included in rate base; instead, the Company requested that ongoing financing costs, or Allowance for Funds Used During Construction (“AFUDC”), associated with the Hells Canyon relicensing project, be allowed in rates. The Idaho Public Utilities Commission (“Commission”) agreed with Idaho Power and the Commission Staff that the Hells Canyon relicensing project presented unique circumstances and that it was in the public interest to include 2009 AFUDC levels in rates. Order No. 30722 at 14.

In Order No. 30722, the Commission ordered Idaho Power to file a status report with the Commission by November 15, 2009, regarding relicensing of the Hells Canyon facilities, including the accumulation of AFUDC. If the relicensing is not complete by the aforementioned date, the report should explain the Company’s efforts to obtain the

license, with evidence supporting continued collection of AFUDC in rates beyond December 31, 2009. While not required by Order No. 30722, the Company is filing its 2015 Hells Canyon AFUDC status report in recognition of the Commission's stated desire to be updated on the Company's ongoing relicensing efforts.

II. EFFORTS TO COMPLETE RELICENSING

A. Federal Energy Regulatory Commission ("FERC") License Application

Idaho Power filed a license application with FERC in July 2003, two years before the original license for the HCC expired in 2005. Since 2005, Idaho Power has been operating under annual licenses issued by FERC. The relicensing of the HCC is complicated by its location on a river that borders Idaho and Oregon and is located immediately above (1) critical habitat for anadromous and native fish (salmon and bull trout) listed as "threatened" under the Endangered Species Act ("ESA"); (2) the federally reserved Hells Canyon National Recreation Area; and (3) a seventy-mile stretch of the Snake River designated as "wild and scenic" under the Wild and Scenic Rivers Act. The project also potentially affects two national forests as well as federal lands managed by the Bureau of Land Management ("BLM").

Idaho Power filed the HCC license application with FERC under the "traditional licensing process." FERC has now implemented two other licensing processes, the "alternative licensing process" and the "integrated licensing process." The latter process became the default process for obtaining a license in 2005, but was not available in 2003 when Idaho Power filed its license application. The alternative process was promulgated by FERC in 1997 and provides for pre-filing consultation with interested agencies combined with a pre-filing environmental review process. However,

at the time the alternative process became available, Idaho Power had committed substantial resources to technical studies and analyses in support of the traditional process. The traditional licensing process generally consists of three stages. The first and second stages typically involve pre-filing consultation and completion of studies and preparation of a draft license application. Anticipating that there would be widespread interest in the relicensing of the HCC, in the 1990s Idaho Power began exploring opportunities to incorporate ongoing consultation throughout the first and second stages to provide for greater stakeholder involvement in the license application process. Through this more collaborative process, Idaho Power hoped to engage interested stakeholders on the development of studies and technical analyses that would address stakeholder concerns and strike an appropriate balance between project operations and the protection, mitigation, and enhancement of resource values.

By the time the final license application was filed in 2003, Idaho Power had held in excess of 200 meetings with stakeholders and completed more than 100 relicensing studies at an approximate cost of \$45 million. The final license application, and the technical and environmental studies that support it, is in excess of 35,000 pages and provides a comprehensive analysis of potential project impacts on the environment and natural resources affected by the project. The filing of the final application in July 2003 initiated the third stage under the traditional licensing process—FERC consideration of project effects and the development of proposed license terms and conditions.

On December 3, 2003, FERC issued a notice accepting Idaho Power's final application and soliciting motions to intervene and protests. Twenty-seven parties filed formal motions to intervene in the relicensing proceeding (some also filed protests),

including four Native American tribes, as well as numerous federal and state resource agencies and non-governmental organizations such as American Rivers, Columbia River Inter-Tribal Fish Commission, American Whitewater, the Northwest Resource Information Center, and Idaho Rivers United.

B. Federal Power Act (“FPA”) and the National Environmental Policy Act of 1969 (“NEPA”) Proceedings

Under the FPA, and other applicable laws, FERC must determine that a project, as licensed, will be best adapted to a comprehensive plan for improving and developing a waterway. In addition to the power and developmental purposes for which licenses are issued, FERC must give equal consideration to the purposes of energy conservation; the protection of, mitigation of damage to, and enhancement of fish and wildlife; the protection of recreational opportunities; and the preservation of other aspects of environmental quality. The NEPA complements the FPA process and is intended to ensure that federal decision makers, and the public, have a firm understanding of the environmental consequences of federal decisions so that actions implemented adequately protect, restore, and enhance the environment.

Pursuant to the FPA and the NEPA, in the fall of 2003, FERC initiated a scoping process, holding meetings throughout the region on an initial environmental scoping document prepared by FERC staff. FERC received oral and written responses to this initial scoping document and, in November 2004, issued a second scoping document. On the basis of the information received from this scoping process, in October 2005, FERC issued a notice that the project was ready for environmental review and set a 90-day period for the filing of comments, terms, prescriptions, and recommendations.

Fifteen parties filed comments, terms, prescriptions, and recommendations in response to the FERC notice. Idaho Power filed responses to these filings in April 2006.

Some of the filings by federal agencies, particularly the U.S. Forest Service (“USFS”) and the BLM, contained mandatory conditions under Section 4(e) of the FPA. Section 4(e) provides that FERC must include in a license for a project within a federal reservation (such as USFS or BLM lands) such conditions as the applicable agency considers “necessary for the adequate protection and utilization of that reservation.” Section 4(e) is a conditioning as compared to a veto authority. In other words, the applicable resource agency (USFS or BLM) may not prevent FERC from issuing the license, but when FERC issues a license, the resource agency’s conditions must be included in the license. In Section 241 of the Energy Policy Act of 2005 (“EPAAct”), Congress provided license applicants with a right to an evidentiary hearing on contested mandatory conditions before an administrative law judge. Prior to the enactment of the EPAAct, there was limited opportunity to challenge the factual basis of mandatory conditions. Idaho Power contested several of the mandatory conditions and became the first hydroelectric license applicant to take advantage of the evidentiary hearing process created by EPAAct. In May 2006, Idaho Power resolved its contests to the mandatory conditions through favorable settlements with the USFS and BLM.

C. FERC’s Additional Information Requests

Once a license application is filed, FERC may request additional information that it believes will help inform or support its licensing decisions. In May 2004, Idaho Power received notification that FERC would need additional information to complete their evaluation of the Company’s license application. In all, Idaho Power received 14

Additional Information Requests (“AIRs”) covering the following categories: general operations, geology and soils, water quantity and quality, aquatic resources, terrestrial resources, land use, developmental resources, and transmission lines. FERC allowed the Company between three and nine months, depending on the extent of the study, to provide the information requested in the AIRs. In some cases, FERC requested some follow-up AIRs to further clarify the results of what had been completed earlier. The final AIR responses to FERC were filed in 2007.

D. Environmental Impact Statement

On July 28, 2006, consistent with the requirements of NEPA, FERC staff issued a draft environmental impact statement (“EIS”) for the licensing of the HCC, which reviewed and analyzed Idaho Power’s proposed operations and mitigation measures together with the comments, terms, prescriptions, and recommendations previously received. Various parties, including Idaho Power, filed comments to the draft EIS and on August 31, 2007, FERC staff issued a final EIS for the licensing of the HCC. This final EIS contains FERC staff’s recommended terms and conditions for the licensing of the project and will be used by FERC in the development of final license conditions. However, certain portions of the final EIS involve issues that may be influenced by the water quality certifications for the project under Section 401 of the Clean Water Act (“CWA”) and the formal consultations under the ESA, which remain unresolved (see below). In addition, depending upon the final conditions in the water quality certifications, FERC may decide that a supplement to the final EIS should be prepared in accordance with NEPA guidelines. Idaho Power has reviewed the final EIS but does

not anticipate filing comments until the processes progress to a point where their influence upon provisions of the final EIS can be determined.

E. Clean Water Act Proceedings

Because the HCC is located on the Snake River on the border between Idaho and Oregon, Idaho Power has filed water quality certification applications, required under Section 401 of the CWA, with the states of Idaho and Oregon requesting that each state certify that any discharges from the project comply with applicable state water quality standards. These applications were filed with the Idaho and Oregon Department of Environmental Quality (“DEQ”) in conjunction with the filing of the final license application with FERC in 2003.

Since 2003, Idaho Power has been working with the states in the development of necessary information and proposed measures to ensure that any discharge from the project will comply with applicable standards relating to dissolved oxygen, total dissolved gas, temperature, and other water quality standards. This work has included the completion of technical studies and modeling to determine the effects of project operations on water quality, as well as the efficacy of proposed measures to address those effects. When final proposals are developed and presented to the states for approval, notice will be given to interested parties with an opportunity to comment on the proposals. The states will then render a decision on the Section 401 applications, including any measures to be included in the project license to address water quality impacts.

FERC cannot issue a new license for the HCC without Section 401 certification, or a waiver of that certification, from each state. Once the Section 401 certifications are

issued and filed with FERC, FERC will review the measures required by the certifications in its licensing order and may comment on whether, in its view, there is a need for such measures based on its NEPA analysis. But, regardless of FERC's views, in accordance with judicial precedent, it will incorporate all Section 401 conditions in the license without modification. Under applicable provisions of the CWA, the states have one year to issue a decision on a Section 401 application. However, due to the complexities involved and the need for additional technical analysis, Idaho Power, with the concurrence of the states, has withdrawn and re-filed its Section 401 applications annually since 2003. This process of withdrawing and refiling applications is procedurally necessary because Section 401 of the CWA requires that a state act on a pending 401 application within one year or be deemed to have waived its certification authority. To avoid this result, states generally allow the withdrawal and refiling of an application that is still under consideration. This process is consistent with the CWA. In 2014, FERC noted that 67 percent of the licensing proceedings pending before it are awaiting water quality certification (see *PacifiCorp.* 149 FERC ¶ 61,038, October 16, 2014).

Idaho Power's most recent applications were filed with the Idaho and Oregon DEQs on February 23, 2015. The applications contained proposed measures for complying with applicable water quality standards related to dissolved oxygen, total dissolved gas, and temperature. The measures proposed in the application to address dissolved oxygen and total dissolved gas have been pending before the DEQs for several years and appear to be acceptable. Issues related to temperature remain unresolved.

In 2004, as part of the Snake River Hells Canyon Total Maximum Daily Load process, the HCC was assigned a temperature load allocation related to the salmonid spawning temperature standard criteria below the Hells Canyon dam. At that time, the applicable salmonid spawning temperature criteria was 13° C. In 2010, Idaho Power filed petitions in Idaho and Oregon to change the 13° C criteria to 14.5° C, based on support by peer reviewed technical studies. In 2012, Idaho changed the temperature criteria and submitted the change to the U.S. Environmental Protection Agency (“EPA”) for approval. Oregon deferred action on the Company’s petition until the next triennial review of its water quality standards. The EPA has yet to take action on the criteria change approved by Idaho. The applicable salmonid spawning criteria remains 13° C as the 14.5° C standard change cannot become effective without EPA approval. The National Marine Fisheries Service (“NMFS”) and the U.S. Fish and Wildlife Service (“USFWS”) have advised the EPA that 14.5° C is protective of downstream aquatic resources and that they do not oppose the proposed standard change from 13° C to 14.5° C.

Working with outside consultants The Freshwater Trust and River Design Group, Idaho Power has developed a river restoration and water quality plan that will promote the natural restoration of the Marsing reach of the Snake River above the HCC and riparian restoration in five tributaries to the HCC to address the temperature standard below Hells Canyon dam. In the May 2014 Section 401 application, Idaho Power presented its Snake River Stewardship Program to the Idaho and Oregon DEQs. Since the filing of the Section 401 application, Idaho Power has continued to meet with the DEQs and refine the proposed plan in an effort to resolve the temperature issue.

These meetings continued through 2014 and necessitated a February 2015 withdrawal and re-filing of the applications for certification. Idaho Power will be withdrawing that Section 401 application and submitting a subsequent application in December 2015.

If the DEQs determine that the proposed Temperature Management and Compliance Plan, which includes the Snake River Stewardship Program, is not sufficient to address the temperature standard below Hells Canyon dam, the only measure available to Idaho Power to address a 13°C temperature standard below the HCC is the installation of a temperature control structure (“TCS”) in Brownlee Reservoir to access cool water from lower reservoir levels and pass it downstream below the Hells Canyon dam. Idaho Power biologists do not believe that a TCS in Brownlee is the most effective measure to protect salmonid spawning below the Hells Canyon dam and are concerned that accessing and releasing cool, low level Brownlee water downstream will result in the release of anoxic water with elevated levels of toxics, including mercury, to the potential detriment of downstream and in-reservoir aquatic resources and habitat.

Fish consumption advisories for Brownlee Reservoir have been in place for several decades because of elevated mercury levels. Elevated mercury levels, coupled with stakeholder interest in having Idaho Power install a deep-water pump in Brownlee Reservoir, have prompted the need to study mercury in Hells Canyon. Idaho Power has contracted with nationally recognized mercury research experts from the USGS to study the status of mercury in the HCC. This is an ongoing cooperative study between Idaho Power, USGS, and the Idaho DEQ designed to understand mercury issues and processes in Hells Canyon. The overall study effort will continue for at least the next five

years. Idaho Power will continue to work with the DEQs and resource agencies to resolve issues associated with Section 401 certification for temperature.

F. Endangered Species Act Consultation

In conjunction with the issuance of the final EIS, on September 13, 2007, FERC requested formal consultation under Section 7 of the ESA with the NMFS and the USFWS regarding the effect of HCC relicensing on several aquatic and terrestrial species listed as threatened under the ESA. However, because the “proposed action” that FERC will include in any final license is not adequately defined until the water quality measures to be implemented under the Section 401 certifications are identified, FERC has been unable to move forward with formal consultations as required by the ESA. As with Section 401 certification, FERC cannot issue a new license for the HCC until formal consultation under the ESA is complete. These water quality certifications together with the information in the final EIS, as supplemented by Idaho Power, should provide NMFS and USFWS with sufficient information to complete ESA consultation, develop biological opinions, and make appropriate recommendations to FERC for measures to be included in the project license to address ESA issues. Each agency continues to gather and consider information relative to the effect of relicensing on ESA listed species. Idaho Power continues to cooperate with NMFS and USFWS, as FERC’s designated non-federal representative, in the development of this information in an effort to ensure that any ESA concerns are adequately addressed.

III. COMPLETION DATE

FERC is expected to issue a permanent license order for the HCC after completion of the Section 401 certification and the ESA consultation processes. As

mentioned above, certain provisions of the final EIS involve issues that may be influenced by the water quality certifications for the project under Section 401 of the CWA and the formal consultations under the ESA. In addition, if the foregoing certifications or consultations result in modifications or additions to project structures or operations not previously evaluated, FERC may conclude that a supplement to the final EIS should be prepared. When final proposals are developed and presented to the states for approval, notice will be given to interested parties with an opportunity to comment on the proposals. The states will then render a decision on the Section 401 applications, including any measures to be included in the project license to address water quality impacts. FERC cannot issue a permanent license for the HCC until the states have issued water quality certifications under Section 401 of the CWA.

Under the most optimistic scenario, Idaho Power expects that a permanent license could be issued in 2020. However, due to the potential for further delay in the issuance of the Section 401 certification and biological opinions, it is possible that a FERC license may not be issued until sometime after 2020.

IV. CONTINUED AFUDC COLLECTION

Based upon the current status of the HCC relicensing efforts detailed in Sections II and III of this report, Idaho Power believes that it is reasonable and appropriate to continue collecting AFUDC in rates for the HCC relicensing project in the amount of \$6,815,472 pre-tax as authorized by Order No. 30722 and \$6,520,122 annually for the Idaho jurisdiction, as authorized by Order No. 32426. Continued collection in rates remains consistent with the Commission's stated rationale for authorizing such collection in Order No. 30722. Idaho Power is still more than a year away from

acquiring a permanent license and continues to spend money to relicense the HCC. As a result, the Company believes that it will continue to be appropriate to collect the AFUDC for the HCC relicensing project in rates until the project is completed and included in rate base. The amount of current year AFUDC anticipated to be accrued for the HCC relicensing project is approximately \$15.7 million. However, at this time, the Company is not requesting to adjust the amount currently collected through rates.

Through September 30, 2015, Idaho Power has spent in excess of \$158.1 million in support of the Hells Canyon relicensing (\$214.4 million less \$56.3 million in pre-tax AFUDC estimated collections). As the Commission previously explained, "The lengthy duration of the project, and an as yet unknown completion date, mean that AFUDC is already significant and will continue to accumulate to alarming levels The amount of AFUDC included in rates now will reduce the total project costs that ultimately will be included in rate base, thereby reducing future rate increases." Order No. 30722 at 14. Beginning in February 2009, Idaho Power began recording the accrual of monthly estimated revenue collections as determined in the Order for both the tax portion and principal for AFUDC associated with the HCC relicensing. The monthly entries are shaped based on the Company's forecasted Idaho normalized monthly retail sales revenues included in Order No. 32426. The amortization of these costs will commence once the HCC relicensing costs are placed in-service.

The Company is also recording monthly interest on the accrued pre-tax balance for the AFUDC associated with the Hells Canyon relicensing. The interest is calculated using the monthly AFUDC rate. The entries will be recorded monthly until the HCC relicensing costs are placed in-service and are as follows:

(1)

To record the monthly estimated revenue collection for both the tax and pre-tax portion of the HCC relicensing AFUDC. This entry started in February 2009 and will continue until the new license is received.

449108 Provision for Rate Refunds	\$XXXX	
229105 Accumulated Provisions for Rate Refunds – Pre-Tax		\$XXXX
229106 Accumulated Provisions for Rate Refunds – Tax		\$XXXX

(2)

To record monthly interest.

431090 Other Interest Expense	\$XXXX	
229105 Accumulated Provision for Rate Refunds – Pre-Tax		\$XXXX

As of September 30, 2015, the accrued balances in the accounts associated with the AFUDC costs are as follows:

229105 – Accumulated Provision Pre-Tax ¹	(\$56,330,800.55)
229106 – Accumulated Provision 2009 Tax	(\$27,939,586.36)

The accumulated provisions in both Accounts 229105 and 229106 will be transferred to a regulatory liability account for subsequent amortization concurrent with receiving a permanent license and the placing of the Hells Canyon relicensing project in-service. Amortization of the total estimated AFUDC revenues accrued will be over the life of the permanent license once it is received.

V. CONCLUSION

The Company is filing this status report regarding relicensing of the Hells Canyon facilities, including the accumulation of AFUDC, in response to Order No. 30722, because the relicensing of the HCC has not occurred. In this report, the Company

¹ The balance in Account 229105 also includes interest in the amount of \$12,811,194.58.

details its efforts to obtain the license, supporting continued collection of AFUDC in rates. Idaho Power now estimates that the issuance of the license will be delayed until at least 2020 and the Company will continue to annually update the Commission until the licensing process concludes.