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IDAHO PUBLIC
UTILITIES COMMISSION

March 8, 2013

To: Idaho Public Utilities Commission

Commissioner Paul Kjellander
Commissioner Marsha Smith
Commissioner Mack Redford

Randy Lobb – Commission Staff
LuAnn Westerfield – Commission Staff
Wayne Hart – Commission Staff

From: Snake River Alliance

Re: Idaho Power 2011 Integrated Resource Plan Update [IPC-E-11-11]

Dear Commissioners:

On June 28, 2012, Snake River Alliance staff had an opportunity to meet with you and members of your staff to discuss a variety of issues, including the Alliance's concerns regarding the use of coal-fired power generation by Idaho's regulated electric utilities and plans by those utilities to not only retain their coal assets but also to make significant investments of ratepayer dollars in their coal plants to keep them in compliance with state and federal health and environmental regulations.

The Alliance understands and appreciates that our regulated electric utilities face profound decisions regarding the future use of ratepayer dollars to fulfill their obligation to provide adequate and affordable power to their customers. Our electric utilities, like similarly situated utilities across the United States, have been deliberating the wisdom and prudence of maintaining some or all of these supply-side resources or whether to replace them with alternatives that are less vulnerable to an unknown regulatory future. Our Idaho utilities rely on coal-fired power plants to various degrees, but they have so far indicated no intent to begin planning to reduce these regulatory risks and exposure to existing or expected environmental laws or regulations by reducing their reliance on coal-fired power generation.

Incremental Investments

Sequential or piecemeal utility investments in coal assets as enunciated by Idaho Power in its recent 2011 Integrated Resource Plan Update amount to *de facto* development of new supply-

side energy resources that if not for their incremental nature would otherwise be subject to CPCN review. While we are concerned about all utilities' use of coal, Idaho Power's recent IRP Update and its Coal Study bring the issue to the fore. These investments are intended to prolong the life of particular power plants, but their impact is also to add significantly to the balance of the assets' debt that must be retired well beyond the original, expected life of the plants as initially approved by the Idaho Public Utilities Commission [Commission, Idaho PUC] for purposes of cost recovery.

Furthermore, unless such investments are thoroughly scrutinized by utility regulators, once a generation asset such as a coal plant comes online and its costs sunk into rates, these repeated upgrades will almost always compare favorably to the overnight costs of new, low-risk, resources or even market purchases.

It was suggested during our June meeting with the Commission that the interests of Idaho electricity consumers might be well served if such investments were subject to the same Certificate of Public Convenience and Necessity [CPCN] review employed by the Commission when reviewing other significant capital investments by a regulated utility.

In reviewing Idaho Power's 2011 Integrated Resource Plan Update, [IRP Update] filed with the Commission on Feb. 14, 2013, and for other reasons outlined more fully below, we believe the time to do so has arrived and we ask the Commission to implement the CPCN mechanism in reviewing these proposed investments.

We believe a thorough vetting of these proposed investments through a CPCN process will not only protect the interests of Idaho Power customers, but also of the company itself and its shareholders as we seek to avoid investments that may be determined imprudent and not recoverable at a later date – an experience endured by one of Idaho Power's coal-plant partners, PacifiCorp.

In its IRP Update [or at least those portions available for review and not considered proprietary or confidential by Idaho Power or its coal plant co-owners PacifiCorp and NV Energy], Idaho Power indicates it may spend a sum of \$400 million over the course of its 20-year IRP planning period to ensure its coal assets continue to operate in compliance with a variety of state and federal health and environmental laws and regulations. It is important to remember that such investments would do nothing to control carbon dioxide emissions from the plants, and that the likelihood of a carbon assessment on those emissions in one form or another is high over the course of the life of the plants.

The proposed investments are delineated in the "Coal Unit Environmental Investment Analysis" [Coal Study] that were included in the IRP Update. Yet the Update falls short in attempting to meaningfully estimate the costs of such upgrades, leaving interested parties and the public unable to assess specific financial commitments proposed by Idaho Power. Some of this information has been deemed proprietary by Idaho Power, which employs extremely broad

cost estimate “ranges” that challenge the level of scrutiny required in a prudence determination. In its most recent annual report filed with the U.S. Securities and Exchange Commission, and referenced in more detail below, Idaho Power acknowledges that it “anticipates that a number of new and impending EPA rulemakings and proceedings addressing, among other things, ozone and fine particulate matter pollution, emissions, and disposal of coal combustion residuals could result in substantially increased operating and compliance costs in addition to the amounts set forth above, but Idaho Power is unable to estimate those costs given the uncertainty associated with pending regulations.”

Yet here we are, confronting a Company proposal in the form of an IRP Update that would nonetheless commit Idaho Power customers to such unknown investments, and that would require the Commission to divine the prudence of those investments to fulfill its regulatory responsibilities.

The Alliance does not propose that such costs must be known with a level of precision that would be uselessly speculative, difficult to provide or that would stymie infrastructure investment decisions. The difference here is that, in deciding to make these investments in what all agree are tremendously expensive environmental retrofits over the course of time, the Company is asking the Commission to send ratepayers on a nearly irrevocable path toward additional investments in the future.

It is likely that, once investments are made that rival or surpass the original value of the asset itself, further investments to meet new but unknown requirements will be harder to resist. This build-and-retrofit model common to extending the life of coal-fired power plants is analogous to the “Company Store” model: Once ratepayers are hit with the initial sticker shock, they are drawn into a pattern of repeated additional investments in the name of economics but which in fact can be unnecessarily onerous compared to other alternatives.

Compounding this possibility is Idaho Power’s assertion that additional coal investments are also desirable in order to maintain a “diversified portfolio of generation assets and fuel diversity that can mitigate risk associated with increases in natural gas prices” [Idaho Power 2012 10-K, P 16]. We question whether throwing good money after bad in coal plant investments to maintain a diverse fuel mix is appropriate, particularly given there are other fuel sources, as well as demand-side alternatives, that are cost competitive and that do not expose customers to such a high degree of risk.

These other resources can be called upon to help diversify the Company’s generation portfolio at competitive costs, yet it does not appear they had the benefit of analysis during the preparation of the Coal Study. Rather than “diversify” the portfolio, these proposed plant upgrades would instead galvanize and extend Idaho Power’s outdated model of centralized power generation in an era in which utilities are protecting their interests and those of their customers by employing more distributed generation.

Urgency of Idaho Power's Investment Timeline

One of the most concerning examples of the urgency of Commission attention to the 2011 IRP Update is the timeline for some of the proposed capital expenditure projects contained in the Update's Near-Term Action Plan [P. 33][emphasis added]:

Idaho Power has revised the near-term action as part of the 2011 IRP Update:

1. *2013 Integrated Resource Plan – Prepare and file by June 30, 2013.*
2. *Boardman to Hemingway Transmission Line – Ongoing permitting, planning studies, and regulatory filings.*
3. *Gateway West Transmission Line – Ongoing permitting, planning studies, and regulatory filings.*
4. *North Valmy Unit Number 1 [NV1] Dry Sorbent Injection [DSI] – To comply with the Mercury and Air Toxics Standards regulation, NV1 will require a DSI system to be operational by March 2015. Idaho Power anticipates the company will be required to commit to the installation of the DSI system no later than the third quarter of 2013.*
5. *Jim Bridger Unit Number 3 [JB3] Selective Catalytic Reduction [SCR] – To comply with the Regional Haze-Best Available Retrofit Technology regulation, JB3 will require SCR to be operational by December 31, 2015. Idaho Power anticipates the company will be required to commit to the installation of the SCR by the second quarter of 2013.*
6. *Jim Bridger Unit Number 4 [JB4] Selective Catalytic Reduction [SCR] – To comply with the Regional Haze-Best Available Retrofit Technology regulation, JB4 will require SCR to be operational by December 31, 2016. Idaho Power anticipates the company will be required to commit to the installation of SCR by the second quarter of 2013.*

Idaho Power intends to implement the six items identified in the near-term action plan.

It is clear based on the above that Idaho Power believes these investment decisions must be made in the very near future – certainly within the current year – and in the heart of a regulatory climate that Idaho Power portrays as uncertain if not chaotic. Given the lack of certainty described by Idaho Power regarding the possibility of the need for these environmental retrofits, we are very concerned about a decision to “commit” such a large amount of ratepayer dollars for power plants with unknown futures. We do not believe such a time frame as that described by the company above, regardless of whether the Commission decides to review this IRP Update for “acceptance” purposes or hold a public workshop or in some other way involve the affected public in these spending decisions, can be made in the time frame proposed by the 2011 IRP Update.

It appears that, given today's discussion between the Commission and staff and Idaho Power regarding the Update, there is a probability that Idaho Power may commit to these investments *before* it submits the 2013 IRP for Commission review, even though that IRP will be based in large part on these investments and the assumption that the plants will remain in the Company's portfolio for the foreseeable future.

It is debatable whether Idaho Power will even be in a position to commit to the expenditures in the time frame identified above. As the Commission is aware, the majority owner of the Jim Bridger plants, PacifiCorp/Rocky Mountain Power, is currently seeking a CPCN before the Wyoming Public Service Commission for SCR additions to Jim Bridger Units 1 and 3 [(Docket No. 2000-418-EA-12)]. In addition and in conjunction with Idaho Power's filing of this 2011 IRP Update with the Idaho Commission, the company made a similar filing in its Case LC-53 before the Oregon Public Utility Commission, where it is seeking Commission acknowledgement of its filing:

"The IRP Update also includes a revised near-term action plan that addresses several emission control investments at the Company's coal-fired plants, as described in detail in the Coal Study. Because the 2011 IRP Update includes changes to the action plan acknowledged by the Commission in Order No. 12-177, Idaho Power requests that the Commission acknowledge the revised action plans items." [Application by Idaho Power to Oregon Public Utility Commission for Acknowledgement of 2011 Integrated Resource Plan Update, P. 2].

Given the magnitude of the investments sought by Idaho Power, it must be asked whether approval of these investments would place utility customers on an irreversible course toward future investments of unknown size as the utility has clearly determined it plans to extend the life of these coal plants as long as possible. Given that Commission "acknowledgment" or "acceptance" is viewed as an IRP complying with Commission rules, they do not commit a Commission to subsequent approval of capital investments contained in an IRP's action plan. Nonetheless, we understand why Idaho Power asked the Oregon Commission to acknowledge the IRP Update. For these reasons and others outlined below, it would seem reasonable if the Idaho Commission considered a similar path inasmuch as this IRP Update is in many ways more substantive than others.

If this filing were a simple update and revision to the 2011 IRP, things would be much different. But this filing instead constitutes a major commitment to supply side resource acquisition by our largest electric utility. Oregon regulators will no doubt provide Idaho Power's customers and stakeholders in that state with proper review of this request; we ask only that those interests in Idaho be accorded the same opportunity. On top of the magnitude of the change to the 2011 IRP is the clear urgency for public participation and also because Idaho Power's plans to upgrade these plants is based on what we believe is an inadequate analysis of its coal assets. As well, there are other elements of the 2011 IRP Update, such as the wind integration study report and the ill-fated solar demonstration pilot project, that are appropriate for public review.

Prudence of Investments Difficult to Assess

The Alliance believes that the Coal Unit Analysis performed by Idaho Power and its consultant,

Science Applications International Corporation [SIAC] does not provide the Idaho PUC or affected customers adequate information to determine the prudence of such investments. More troubling is the fact that such investments, so far as the Alliance is able to determine, may not be subject to public scrutiny, review, and comment before the investments are made. In effect, and based on the information available at present, Idaho Power is proposing that the PUC grant what amounts to a blank check for an undetermined amount to complete an undetermined scope of improvements that may or may not be made on some or all of the coal plants in which Idaho Power has an interest.

That such proposed investments were disclosed in an analysis that has not been subject to the rigors of a CPCN review should be reason enough for the Commission to initiate a CPCN process as requested above to allow a more thorough vetting of the proposed investments and also to better protect the interests of Idaho Power customers and shareholders. At a minimum, Idaho Power's IRP Update should be subject to the same level of review for Commission acceptance as the 2011 IRP it is designed to update.

It is asking too much of the Commission or affected Company customers to decide whether coal plants should be retired or retained when the only options presented are switching the plants to run on natural gas or replacing them with gas plants altogether. For instance, in the case of the early retirement Portland General Electric's Boardman coal plant [in which Idaho Power is a 10 percent partner] the decision was made based on the threat of required regulatory retrofits and uncertainties. The retirement decision was not made based on what will replace Boardman's energy output: That determination has yet to be made.

The Alliance has been very involved in Idaho Power's IRP process for several years, including this year as Idaho Power prepares its 2013 IRP. Because we place a premium on the value of the IRP process, we have a keen interest in the 2011 IRP Update. Given the IRP-altering nature of the Update, we believe the issues regarding Idaho Power's Coal Analysis, particularly the company's projected timelines for decisions on whether to commit to various coal plant retrofit investments must be reviewed by the Commission *before* Idaho Power submits its 2013 IRP to the Commission in June and before the public has an opportunity to comment on it to the PUC later this year.

We also believe the material changes to the 2011 IRP that are contained in the 2011 IRP Update demand an opportunity for public scrutiny and an opportunity for the Commission to *accept* the 2011 IRP Update. While Idaho Power requested that the Oregon Public Utilities Commission *acknowledge* its 2011 IRP Update [Application for Acknowledgment of 2011 Integrated Resource Plan, Oregon Public Utilities Commission, Case LC 53], it did not ask the same of the Idaho Commission.

The Oregon PUC also directed Idaho Power to examine "whether there is flexibility in the emerging environmental regulations that would allow the Company to avoid early compliance

costs by offering to shut down individual units prior to the end of their useful lives.” Idaho Power’s Coal Study says it did look at such “Compliance Timing Alternatives” but described a negotiated early plant retirement as “strictly hypothetical” and said it may lack the ability to do so in any case because it doesn’t manage the Bridger or Valmy plants, its partners do. We note that this scenario made it possible to retire the Boardman coal plant early, and also that many of the inputs used in the Coal Study [natural gas or CO2 price projections, for instance] are similarly “strictly hypothetical.”

Also, Idaho Power told Oregon regulators that “Notably, none of the relevant regulatory authorities have offered or agreed to any such delay, and the study does not conclude that Idaho Power can legally implement such a delay even if the plant operator agreed.” However, it does not mention whether Idaho Power has even sought to negotiate such a delay if it would avoid some retrofit investments in exchange for an early plant retirement.

A CPCN Review of Proposed Coal Plant Retrofit Investments is Appropriate

We believe that the magnitude of the coal plant investments proposed by Idaho Power qualify for an application for a CPCN as per *Idaho Code* § 61-541 (2) [emphasis added]:

A public utility that proposes to construct, lease or purchase an electric generation facility or transmission facility, or make major additions to an electric generation or transmission facility, may file an application with the commission for an order specifying in advance the ratemaking treatments that shall apply when the costs of the proposed facility are included in the public utility’s revenue requirements for ratemaking purposes. For purposes of this section, the requested ratemaking treatments may include nontraditional ratemaking treatments or nontraditional cost recovery mechanisms.

[a] In its application for an order under this section, a public utility shall describe the need for the proposed facility, how the public utility addresses the risks associated with the proposed facility, the proposed date of the lease or purchase or commencement of construction, the public utility’s proposal for cost recovery, and any proposed ratemaking treatments to be applied to the proposed facility.”

In addition, 61-541 [4] states:

- (a) *In reviewing the application, the commission shall also determine whether:*
- (i) *The public utility has in effect a commission-accepted integrated resource plan;*
 - (ii) *The services and operations resulting from the facility are in the public interest and will not be detrimental to the provision of adequate and reliable electric service;*
 - (iii) *The public utility has demonstrated that it has considered other sources for long-term electric supply or transmission;*
 - (iv) *The addition of the facility is reasonable when compared to energy efficiency, demand-side management and other feasible alternative sources of supply or*

transmission; and
(v) The public utility participates in a regional transmission planning process.

The Alliance understands and appreciates that Idaho Power has a commission-accepted integrated resource plan, and also that the Company participates in regional transmission planning processes. We are concerned, however, that the public interest in seeing the Company satisfy the above CPCN requirements cannot be served until Idaho Power is also able to demonstrate that it has considered other sources for long-term electric supply or transmission; or that the addition of the facility is reasonable when compared to energy efficiency, demand-side management and other feasible alternative sources of supply or transmission.

Certainly, neither of the two requirements [had Idaho Power applied for a CPCN or if the Commission requires one] have been met in the cases above, at least not in a way that the public can scrutinize.

In fact, we reiterate that Idaho Power's Coal Study considers only two alternatives for the future of the company's existing coal fleet and both entail switching to natural gas as a replacement for coal. The Analysis presents no information on how Idaho Power's chosen alternative – to retain the plants and invest in their environmental upgrades – might compare to replacing some or all of the generation from those plants with energy efficiency, demand-side management and other feasible alternative supply side and demand side resources. The Commission should require that Idaho Power's analysis of its coal assets for purposes of resolving the "retire or retrofit" question includes the examination of renewable energy alternatives for some or all of the generation from the plants.

Following up on Commissioner Smith's inquiry to Idaho Power during today's meeting at the Commission's offices, we also would support some form of "workshop" or public hearing on Idaho Power's filing, as is expected in Oregon, according to a comment from Idaho Power today.

However, such a "workshop" or related opportunity for a public airing of the IRP Update should not serve as a replacement for affirmative Commission action on the filing itself. Providing the public an opportunity to raise any concerns they may have about the 2011 IRP Update is important, but it cannot be a substitute for a procedure that allows stakeholders to inquire in more depth about the Study, its conclusions, and how it was prepared. Furthermore, it appears that, in the Oregon case, parties to the 2011 IRP docket before the Oregon Commission may have an opportunity to review the confidential portion of Idaho Power's filing through the routine practice of executing a protective agreement. Because no case has been initiated in Idaho and because the IRP Update has been filed in a closed case, we cannot see how interested parties can 1) Intervene in this case as a party and 2) review all relevant documents contained in the filing.

Investments Would Further Expose Utility, Customers to Added Risk

In its most recent 10K annual report to the U.S. Securities and Exchange Commission, filed Feb. 21, 2013, Idaho Power laid out the potential risks the company, its customers, and its shareholders face due to the uncertain environmental regulatory landscape before it as it prepares to navigate the uncertain world of state and federal health and environmental regulations:

"A number of federal, state, and local environmental statutes, rules, and regulations relating to air quality, water quality, natural resources, and health and safety are applicable to Idaho Power's operations," the utility wrote in its report. "These laws and regulations generally require Idaho Power to obtain and comply with a wide variety of environmental license, permits, inspections, and other approvals, and may be enforced by both public officials and private individuals. Some of these regulations are changing or subject to interpretation, and failure to comply with them may result in penalties or other adverse consequences. Environmental regulations have created the need for Idaho Power to install new pollution control equipment at, and may cause Idaho Power to perform environmental remediation on, its owned or co-owned Jim Bridger power plant in 2015 and 2016 at a cost of approximately \$120 million, and a second set of control apparatus in 2021 and 2022. Idaho Power expects that there will be other costs relating to environmental regulations, and those costs are likely to be substantial. Idaho Power is not guaranteed recovery of those costs. For instance, in December 2012 the Oregon Public Utility Commission disallowed in part cost recovery for certain environmental upgrades made to a coal plant by one of Idaho Power's Northwest region peer utilities, citing an insufficient cost analysis. If Idaho Power is similarly unable to recover in full its costs through the ratemaking process, such non-recover would negatively impact IDACORP's and Idaho Power's financial conditions and results of operations"

Idaho Power's February SEC filing continued:

"Moreover, there are many legislative and rulemaking initiatives pending at the federal and state level that are aimed at the reduction of fossil fuel plant emissions. Idaho Power cannot predict the outcome of pending or future legislative and rulemaking proposals, or the compliance costs Idaho Power would incur in connection with that legislation. Future changes in environmental laws or regulations governing emissions reduction may make certain electric generating units (especially coal-fired units) uneconomical and subject to shut-down, may require the adoption of new methodologies or technologies that significantly increase costs or delay in-service dates, and may raise uncertainty about the future viability of fossil fuel as an energy source for new and existing electric generation facilities."

This is the future that Idaho Power is proposing to buy into. Clearly, the company understands

the risks associated with such a significant new investment in coal-fired power generation.

The Idaho Power Northwest region peer utility, which saw some requested costs disallowed by the Oregon PUC, was PacifiCorp. Pacific Power sought recovery of the Oregon portion of \$661 million for capital investments in emissions control equipment at seven of the company's 19 coal-fueled generation units, including Jim Bridger No. 3, which Idaho Power in this case proposes to retrofit. In its Order [12-493, Case No. UE 246], the Oregon Commission said that Pacific Power's "imprudent and inadequate analysis and decision-making put ratepayers at risk," although when it came to determining the amount of the disallowance, the Oregon Commission said that, "Quantifying the impact of Pacific Power's imprudence has been hindered by the very actions that underlie our finding of imprudence – the utility's inadequate analysis and decision-making." Oregon regulators determined that Oregon's share of the contested investments was about \$170 million, and that their decision to disallow 10 percent of those investments amounted to a \$17 million disallowance for Pacific Power in that case.

The actions of PacifiCorp [Pacific Power, Rocky Mountain Power] in the above-referenced Oregon case should not reflect on Idaho Power other than the fact that Idaho Power relied to an extent on PacifiCorp's analysis for inputs into its own analysis for the Bridger units.

Will the Proposed Power Plant Upgrades be "Used and Useful"?

That Idaho Power understands the necessity to reduce its carbon dioxide (CO₂) emissions, which are not addressed in any of the current or proposed EPA regulations or the environmental retrofits proposed by the Company is clear in its commitment to reduce its CO₂ emissions intensity. In response to a 2009 resolution that was adopted by company shareholders, Idaho Power says it intends to reduce its CO₂ emissions intensity through a number of means, including, according to the Company [*Emphasis Added*]:

- A more effective use of the company's hydropower assets;
- Benefitting from above-average stream flows;
- The addition of the new Langley Gulch natural gas-fired power plant;
- *Reduced use of company-owned coal facilities.*

The Alliance wholeheartedly agrees with the need for Idaho Power to reduce its reliance on its coal assets while at the same time meeting current and future load requirements. We believe only so much carbon reduction can be attained by further hydropower enhancements, and that makes it more important to deliberately reduce coal plant operations as the primary means to meet CO₂ reduction goals. That raises questions about the "used and useful" metric in determining the prudence of these coal plant investments.

If the Company's position on the one hand is to dial back its use of coal generation, how on the other hand can it justify these retrofits not just one or two plants, but across its entire coal fleet? It seems intuitive that an investment of several hundred million dollars or so in fleet-wide

retrofits should be targeted at supply side or demand side resources that the company intends to maximize, not power plants it says it intends to use less.

As acknowledged by Idaho Power and the proposed power plant upgrades notwithstanding, the cost of the proposed upgrades to these plants cannot be determined with precision. What is known is that these investments, should they be approved at some future point by the Commission, will commit Idaho Power's customers to hundreds of millions of dollars in environmental retrofits without customers being able to determine whether more cost effective alternatives are possible.

Such a package of investments would rival the cost of the new Idaho Power Langley Gulch natural gas plant, which went online in the summer of 2012. The next Idaho Power rate case is, by most accounts, more than a year away from being decided [depending on when it is filed], and that is well beyond the company's expected decision timelines for the Valmy and Jim Bridger coal plants. If Idaho Power's timetable were to be met, and absent an elevated form of regulatory and public review of the proposed investments, the Company could find itself in the position of risking possible disallowance of some of its investments of ratepayer dollars.

The Regulator's Perspective

The issue of how – or whether – a utility recovers costs such as those for coal plant upgrades contemplated in Idaho Power's 2011 IRP Update rests with the Commission, which must decide whether the utility prudently incurred the costs on behalf of its customers, whether the utility adequately analyzed all reasonable alternatives, and whether costs for those alternatives were properly allocated for purposes of the study. This is all the more important given that, in many cases, the cost of major environmental retrofits for a coal plant can be greater than the plant's original cost. It's also important because, as stated earlier, the potential for piecemeal upgrades to power plants to accumulate means that ratepayers may end up "paying twice" for the same power plant just to keep it operating legally.

The Regulatory Assistance Project [RAP, www.rap.org] released its analysis of this phenomenon, "Incorporating Environmental Costs in Electric Rates: Working to Ensure Affordable Compliance With Public Health and Environmental Regulations," by Jim Lazar and David Farnsworth, in October 2011.

"Regulators should expect to receive piecemeal requests from utilities for preapproval and rate case approval of their investment in emission control measures at older power plants and the operating expenses associated with these emissions controls. Rather than seek approval for the full suite of improvements needed to address SO₂, NO_x, hazardous air pollutants like mercury, CO₂, and other environmental compliance issues, it is likely that many applications will address only one pollutant at a time, so that the full picture of long-run costs is never before regulators in a single docket. To be fair, it may be that specifics of some of the future rules are not fully known at any point. A comprehensive

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analysis can include an estimate of future compliance costs for regulators to evaluate.

Some of these requests will likely seek recovery for emission management costs as part of a general rate case. In many cases, however, the request will seek dollar-for-dollar recovery through adjustment clauses rather than consideration in general rate cases and inclusion in base rates. Some requests will come in the form of preapproval requests for such things as budget approval, certificates of public convenience and necessity (CPCN), and integrated resource plan (IRP) proceedings. Other requests will come to regulators only after the expenditures are made in general or special purpose rate cases."

Idaho Power's Coal Study provides an example of such bit-by-bit upgrades to its coal fleet. The Company is considering installing new selective catalytic reduction (SCR) additions to each of the four Jim Bridger coal units in 2015, 2016, 2021, and 2022, as well as a dry sorbent injection (DSI) upgrade to one of the North Valmy coal plants in Nevada. All of the Bridger units may also receive new controls to reduce mercury emissions. Such requests, sometimes coming in myriad forms for various capital investment spending, present utility regulators with a new challenge – and an opportunity to implement new alternatives to addressing the old problem of power plant upgrades. In the case of Idaho Power's Coal Study, for example, it cannot be determined from information available to the public whether the company calculated the transmission benefits of energy efficiency and distributed generation that would spare the utility and its customers from electricity lost to transmission line losses and other infrastructure requirements.

A review in a case such as Idaho Power's proposed coal plant upgrade regime should include such minimal requirements as an analysis of available alternative and conventional generation options as well as a similar analysis of available demand-side resources, including demand response opportunities. Failure to provide such basic baseline information, Lazar and Farnsworth argue, should shift the financial burden for cost recovery from customers in rate cases to shareholders:

"For example, if the utility prepares a partial analysis considering only NOx and SO2 costs, but not costs such as combustion residuals management or CO2, then the regulator should make it clear that the utility is at risk for future incremental costs that were not considered.

This is most important to prevent piecemeal evaluation. The utility may fear that presenting a complete picture may lead to the regulator rejecting a request for cost recovery of retrofit costs. That rejection could leave the utility with a non-operable plant, and recovery of the remaining investment may be at risk."

It is also critical for regulators, when faced with proposed power plant updates such as those being promoted by Idaho Power, to ensure the ability for the public to weigh in, whether in a

rate case, a CPCN case, or both, according to the RAP report.

“Regulators can protect consumers by insisting that utilities seeking approval for compliance strategies prepare a comprehensive plant-specific and fleet-wide analysis of known and potential future costs, and present that to the regulator at the earliest point in time for possible review. Interested parties, including both supporters and skeptics of renovation, should be invited to comment on the analysis and participate in the evaluation. At a minimum, utilities should be required to examine these potential costs when actual compliance proposals are submitted. Ideally, utilities will examine the potential costs through an integrated process, in which retrofit or other compliance costs can be compared with all generation and non-generation alternatives.”

Conclusion

For reasons stated above, the Snake River Alliance believes the proposed power plant additions identified by Idaho Power in its 2011 IRP Update Coal Unit Environmental Analysis for the Jim Bridger and North Valmy Coal-Fired Power Plants must undergo rigorous review and public evaluation similar to that employed in a certificate of public convenience and necessity (CPCN) procedure.

We are not asking the Commission at this stage to attempt to determine the merits of the Coal Study contained in the 2011 IRP Update. Rather, we believe there are several ways for the Commission to provide for public review of a proposal that will have long-lasting and major impacts on Idaho Power customers. Specifically, we suggest:

- A formal fact-finding procedure such as a CPCN review is important, particularly given the likelihood that these proposed investments, if made, may be challenged before or after ratepayer dollars are committed;
- The Commission should consider an IRP “acceptance” or similar procedure that allows public comment and input not only on the Coal Study portions of the 2011 IRP Update, but other elements as well;
- The 2011 Update should be made available for public review and comment on the Commission’s web site and through other traditional means of soliciting public input regularly used in cases before the Commission. Currently, the information is filed in the “closed cases” section of the Commission web site.
- The Commission should consider issuing a news release notifying the public of the Idaho Power 2011 IRP Update filing. Such a news release would also inform the public on how to locate and review the Update and its associated documents, as well as how to comment on the filing to the Commission.

The Alliance understands our recommendations for pre-construction Commission review of the capital improvement proposals by Idaho Power is out of the ordinary. But then so is the breadth and potential impacts of Idaho Power’s 2011 IRP Update. Never before have American electric

utilities faced so much regulatory uncertainty about the future of their assets as they do today, and we appreciate the difficult decision-making processes that brought Idaho Power to this point. However, the consequences of imprudent investments of ratepayer dollars on a scale this large could be severe. While this 2011 IRP Update is intended to freshen the original 2011 IRP and resolve some questions that by necessity were left unanswered, it is guaranteed that the regulatory climate will be no less settled as Idaho Power completes its 2013 IRP.

For these reasons, we recommend that the Commission consider raising the bar of regulatory approval as it considers Idaho Power's proposed investments associated with its recently submitted Coal Study.

Respectfully submitted,



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