

Peter J. Richardson ISB # 3195  
Gregory M. Adams ISB # 7454  
RICHARDSON ADAMS, PLLC  
515 N. 27<sup>th</sup> Street  
Boise, Idaho 83702  
Telephone: (208) 938-2236  
Fax: (208) 938-7904  
[peter@richardsonadams.com](mailto:peter@richardsonadams.com)  
[greg@richardsonadams.com](mailto:greg@richardsonadams.com)

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IDAHO PUBLIC  
UTILITIES COMMISSION

Attorneys for the Industrial Customers of Idaho Power

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE	)	<b>CASE NO. IPC-E-15-17</b>
APPLICATION OF IDAHO POWER	)	
COMPANY FOR AN ORDER	)	COMMENTS OF THE INDUSTRIAL
AUTHORIZING THE APPROVAL OF A	)	CUSTOMERS OF IDAHO POWER
LONG TERM PROGRAM CONTRACT	)	
WITH SIEMENS ENERGY, INC., AND	)	
<u>DEFERRAL OF ASSOCIATED COSTS.</u>	)	

**COMES NOW**, the Industrial Customers of Idaho Power (“ICIP”) pursuant to that Notice of Application and Notice of Modified Procedure issued by the Idaho Public Utilities Commission (“Commission”) on July 21, 2015, and hereby provides the following comments on Idaho Power Company’s (“Idaho Power” or the “Company”) application for (1) long-term program contract with Siemens Energy for maintenance of the Company’s gas plants; (2) sale and transfer to Siemens of \$21.9 million in spare parts for the Company’s gas plants; and (3) proposed accounting treatment for the transaction. Idaho Power is not, at this time, asking the Commission for a rate change.

The Company currently self-manages maintenance on its three natural gas plants. It typically buys parts from Siemens before a scheduled maintenance outage. Idaho Power

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capitalizes the parts and, after the older parts are replaced, they are retired from the Company's books and sent to Siemens where they are inspected and repaired. After repair, the parts are returned to Idaho Power, capitalized, and held for future use. However, with the construction of the Langley Gulch plant, the Company states that its employees do not have the necessary technical skills to maintain the three gas plants at the same level of quality as could be provided by Siemens.

Idaho Power and Siemens have entered into a Long Term Program ("LTP") pursuant to which Siemens will provide scheduled maintenance on the three plants, including parts and repairs, shipping, service, labor, engineering services, and program management for a period of 20 years. According to the Company, the LTP will provide savings over the life of the contract when compared to continuing to self manage the maintenance on its Danskin, Bennett Mountain, and Langley Gulch natural gas plants. The Company proposed to compensate Siemens for the maintenance work performed with the sale and transfer of \$21.9 million in spare parts held for the gas plants. The proposed accounting treatment would create a regulatory asset that will earn at the Company's last authorized rate of return.

#### ICIP SUPPORT WITH MODIFICATION

The ICIP believes the maintenance agreement between Idaho Power and Siemens is in the best interest of the Company and its rate payers for the reasons outlined below. However, the ICIP urges the Commission to reject the carrying charge on the regulatory assets proposed by the Company at its overall rate of return as determined in its last general rate case. If the Commission insists that a carrying charge should be recovered on this proposed regulatory asset,

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it should be at the Company's current cost of debt and not its overall rate of return.

## BACKGROUND

Idaho Power's rationale for entering into the Long Term Program for maintenance of their three natural gas plants is that:

*During construction of the Langley Gulch plant, Idaho Power began looking at other maintenance options for its gas fleet. The Langley Gulch plant is the Company's only CCCT and employs some of the newest, most technologically advanced parts on the market. Idaho Power recognized that its employees did not have all of the necessary technical skills to maintain all three plants to the level offered by Siemens and reached out to multiple third-party providers of gas plant maintenance as part of a formal request for information process.<sup>1</sup>*

When Idaho Power was contemplating the construction of Langley Gulch, the Company believed it would be able to self manage the maintenance of that facility based on its experience and knowhow from operating its existing natural gas plants. Idaho Power stated that it would:

*[B]e able to operate and maintain this combined cycle power plant. Idaho Power has been operating natural gas combustion turbines since Evander Andrews Unit Nos. 2 and 3 were constructed in 2001. The Company added Bennett Mountain in 2005, and Evander Andrews Unit No. 1 in 2008. Idaho Power's operations and maintenance staff is familiar with gas operations and has developed extensive expertise with Siemens F-Class gas turbines. In addition, the combined cycle power plant will be controlled by the Siemen's T-3000 system, which is the control system currently used to operate the Company's existing gas turbines.<sup>2</sup>*

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<sup>1</sup> Idaho Power Application, IPC-E-15-17, p.3.

<sup>2</sup> Direct Testimony of Vernon Porter, Idaho Power Company, IPC-E-09-03, p. 23.

The eventual turbine class selected for installation at Langley Gulch was not the older Siemen's T-3000, but rather the latest and more technologically advanced Siemens SGT6-5000F. Therefore:

*Langley Gulch is the Company's only CCCT and uses some of the newest, most technologically advanced parts on the market. Idaho Power recognized that its employees do not have all of the necessary technical skills to maintain the plants to the level offered by Siemens.*<sup>3</sup>

This new turbine contains many new technologically advanced components that Siemens, as the manufacturer, is more familiar with than Idaho Power personnel. Because Siemens was the best choice for maintenance at Langley Gulch, it also made sense for the Company to have all three of Idaho Power's gas facilities maintained by the same O&M vendor.

In essence, Idaho Power is proposing the transfer and sale of the Company's inventory of spare parts, which have been capitalized or put into service since Idaho Power's last general rate case for the cost of maintenance of its three natural gas plants over the next 20 years. The value of these spare part assets is \$21.9 million on an Idaho jurisdictional basis.<sup>4</sup>

*During negotiations with Siemens regarding the LTP Contract pricing, Siemens agreed to take back ownership of the initial spare parts in exchange for reduced contract pricing based on the net book value of those parts. As of December 31, 2014, the net book value of the assets that will be transferred to Siemens is approximately \$21.9 million on an Idaho jurisdictional basis.*<sup>5</sup>

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<sup>3</sup> Direct Testimony of Trevor Mahlum, Idaho Power Company, IPC-E-15-17, p.6.

<sup>4</sup> Approximately \$2.9 million in initial spare parts Idaho Power is proposing to transfer to Siemens is included in the Company's Idaho rate base approved under Order Nos. 32426 and 32585, Idaho Power's last general rate case (Case No. IPC-E-11-08) and Idaho Power's request for inclusion of the Langley Gulch power plant in rates (Case No. IPC-E-72-14). The remaining initial spare parts are located at the Bennett Mountain and Danskin plants with vintage years of 2072 and 2013, having been placed in-service after the Company's last general rate case. [Direct Testimony of Courtney Waites, Idaho Power Company, IPC-E-15-17, p. 5.]

<sup>5</sup> Idaho Power Application, IPC-E-15-17, p.6.

This means the Company is exchanging a rate base asset that is eligible to earn a return of- and on- its investment for the cost of maintenance which is merely an expense item for ratemaking purposes. The Company is proposing the value of the sold and transferred spare parts be booked as a regulatory asset with a carrying charge at the Company's overall rate of return.

*Idaho Power requests approval of (1) the deferral of the initiation fees to a regulatory asset, (2) the transfer of the net book value of the initial- spare parts and associated net tax expense to the regulatory asset, and (3) a carrying charge on a portion of the regulatory asset balance.<sup>6</sup>*

### BENEFITS OF THE LTP

There are numerous other benefits that reduce risk to Idaho Power, and its rate payers, as a result of the proposed LTP maintenance contract with Siemens. These benefits include warranty coverage for the parts installed by Siemens for Danskin and Bennett Mountain, as well as Langley Gulch.<sup>7</sup> In addition, Siemens will provide, under the proposed LPT, a scheduled outage duration guaranty along with a post-term parts warranty after the end of the contract.<sup>8</sup> A significant discount off the listed price of parts with the latest technology will be available for maintenance and repair.

*Program parts consist of the major combustion turbine parts provided by Siemens, including the locking hardware used to affix the parts, the parts installed in the combustion turbine upon the effective date, all-initial spare parts, and all parts changed during the length of the contract ("Program Parts"). Some of these Program Parts are the latest technology Idaho Power would not otherwise have access to and their superiority eliminates the need for two combustor inspection outages at Langley Gulch.<sup>9</sup>*

Under the current self-managed maintenance program, Siemens' liability is limited to the total price paid under the purchase order given rise to any given claim. Under the proposed LTP,

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<sup>6</sup> Testimony of Courtney Waites, Idaho Power Company, IPC-E-15-17, p. 6.

<sup>7</sup> Direct Testimony of Trevor Mahlum, Idaho Power Company, IPC-E-15-17, p.11.

<sup>8</sup> Direct Testimony of Trevor Mahlum, Idaho Power Company, IPC-E-15-17, p.10.

<sup>9</sup> Direct Testimony of Trevor Mahlum, Idaho Power Company, IPC-E-15-17, pgs. 8, 9.

there is a lifetime cap equal to 100 percent of all amounts paid to Siemens under the contract.<sup>10</sup>

When unscheduled maintenance occurs the LTP provides that Siemens performs the repairs.

*Siemens will also perform unscheduled maintenance on all three combustion turbines to the extent such work is not covered by Siemens' other warranties under the contract. Leveraging Siemens' pool of regional inventory, outage resources, and technical-expertise will result in lower overall costs to Idaho Power and its customers.<sup>11</sup>*

Idaho Power will be transferring its inventory of older spare parts and will have newer more technological advanced parts available for maintenance and repair supplied by Siemens. Some of the spare parts that will be transferred over the next 20 years, would no longer be used and in some cases are obsolete.

*And finally, in addition to the financial benefit of reduced costs over the life of the agreement, the transfer and sale of the initial spare parts will allow for the return of spare parts Idaho Power would otherwise no longer use. The demand for these specific parts is limited as the parts are no longer the latest technology and have a limited buyer pool, limiting their market value, or, in some cases, the parts are obsolete.<sup>12</sup>*

This would relieve rate payers from compensating the Company for assets that would not be used and useful.

## ACCOUNTING TREATMENT

Idaho Power's last general rate case (IPC-E-11-08) was filed with an adjusted 2011 test year based on actual 2010 data. This means expense items that may have increased, other than net power supply cost or single case filings for items such as pension expenses, are not currently included in rates. The cost of maintenance is an expense item that, no doubt, has increased since 2011 -- especially with the addition of Langley Gulch in 2012. In the normal course of regular

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<sup>10</sup> Direct Testimony of Trevor Mahlum, Idaho Power Company, IPC-E-15-17, p 10.

<sup>11</sup> Direct Testimony of Trevor Mahlum, Idaho Power Company, IPC-E-15-17, p 9.

<sup>12</sup> Response to the First Production Request of the ICIP, Response No. 6.



rate case filings, the cost of expense items, such as maintenance, are updated and included in rates on a regular basis per the Commission's Order at the conclusion of a rate case. Idaho Power has not filed a general rate case since IPC-E-11-08. However, as stated above, the Company now proposes to swap its currently rate based spare parts, that are for the most part already in rates, for a 20 year contract and proposes to earn a rate of return on maintenance costs that in the normal course of rate cases would be expensed.

As described above, the LTP with Siemens would have important benefits for both the Company and its rate payers over the next 20 years. The critical question is; Should Idaho Power be allowed to earn a return on and on an expense that is essentially the Company's maintenance expense? It is true, if Idaho Power were to continue to self manage maintenance on its three gas plants, which the Company admits Siemens could do a better job, the spare parts would remain in rate base and continue to earn a rate of return. However, under the proposed LTP they will be removed from rate base.

The ICIP believes Idaho Power has made its case that the Siemens LTP is a ratepayer benefit over the next 20 years; however, prudence requires that maintenance costs be expensed. Therefore, the ICIP supports putting the value of the spare parts into a regulatory asset. However, the Company should only receive relief for that regulatory asset when it decides to file its next general rate case. Hence, the preferred regulatory treatment for this regulatory asset is not to apply any carrying charge. Idaho Power can always file a general rate case to recover its maintenance expenses.

If the Commission is not comfortable with the Company not earning any return on this regulatory asset, it should only allow a carrying charge that is less than a full rate of return. The

Commission, in past cases, has set a carrying charge at less than overall rate of return. For example, in case IPC-E-97-12, a case dealing with the length of amortization of DSM expenditures, the Commission set a carrying charge at the Company's cost of debt. The Commission reasoned;

*By the same token, we find that it would be consistent and reasonable for us to consider the reduction in risk attributable to a shorter DSM recovery period in selecting a carrying charge. Because we have decided to allow the Company to shorten DSM recovery to 12 years, we find that a carrying charge of 7.25% based on utility bond rates would be appropriate.<sup>13</sup>*

The same rationale applies here. As pointed out above, Idaho Power will have significantly lower risk with the warranties and guaranties provided in the LTP and the Company is being relieved from carrying spare parts that may lose value over time or become obsolete. Accordingly, the same logic applies here. Rate of return is allowed for a utility for the risks the shareholders take for investing in the utility. The LTP reduces the Company's risk in maintaining its three gas facilities over the next 20 years. For these reasons the ICIP recommends the Commission should set the carrying charge at Idaho Power's cost of debt. According to the Company's 2014 10K the combined overall effective cost of Idaho Power's outstanding debt was 5.19 percent.<sup>14</sup> Therefore; should the Commission allow any carrying charge, it should be set at 5.2 percent, thus allowing ratepayers to share in the savings along with the Company.

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<sup>13</sup> Idaho Public Commission Order No. 27660, IPC-E-97-12.

<sup>14</sup> IDACORP & Idaho Power 2014 10K Report to the SEC, p. 99.



## CONCLUSION

The ICIP recommends the Commission approve Idaho Power's application in this docket with the modifications noted herein.

RESPECTFULLY SUBMITTED this 27th day of August 1 2015.

RICHARDSON ADAMS, PLLC

By \_\_\_\_\_  
Peter J. Richardson on behalf of  
the Industrial Customers of Idaho Power

## CERTIFICATE OF SERVICE

I hereby certify that on the 27th day of August 2015, copies of the foregoing Comments of the Industrial Customers of Idaho Power were hand delivered to:

Lisa Nordstrom  
Idaho Power Company  
1221 West Idaho  
Boise, Idaho 83702  
[lnordstrom@idahopower.com](mailto:lnordstrom@idahopower.com)  
[dockets@idahopower.com](mailto:dockets@idahopower.com)

Tim Tatum  
Idaho Power Company  
1221 West Idaho  
Boise, Idaho 83702  
[ttatum@idahopower.com](mailto:ttatum@idahopower.com)

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



Nina Curtis  
Administrative Assistant

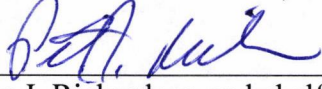
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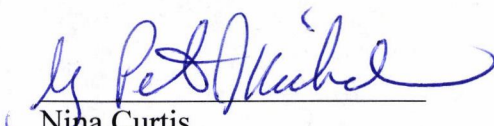
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[dockets@idahopower.com](mailto:dockets@idahopower.com)

Tim Tatum  
Idaho Power Company  
1221 West Idaho  
Boise, Idaho 83702  
[ttatum@idahopower.com](mailto:ttatum@idahopower.com)

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

  
Nina Curtis  
Administrative Assistant

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