

KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 5156

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UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S APPLICATION FOR APPROVAL)	CASE NO. IPC-E-15-17
OF LONG-TERM MAINTENANCE PROGRAM)	
CONTRACT WITH SIEMENS ENERGY, SALE)	COMMENTS OF THE
OF SPARE PARTS INVENTORY TO SIEMENS)	COMMISSION STAFF
ENERGY, AND DEFERRAL OF ASSOCIATED)	
COSTS)	
)	

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's Application.

BACKGROUND

On June 5, 2015, Idaho Power Company (the "Company") applied to the Commission for an Order approving the Company's: (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. The Company does not seek to change customer rates at this time.

The Company's Application notes that the Company owns and operates three natural gas plants in Idaho: the Langley Gulch plant near New Plymouth, and the Danskin and Bennett Mountain plants near Mountain Home. The Company presently maintains its plants by contracting with the original equipment manufacturer, Siemens Energy, to service them on a

case-by-case basis. The Company's current practice is to buy parts from Siemens before a scheduled maintenance outage. The Company then capitalizes the parts. During the outage, the existing parts are removed and replaced. They are then retired from the Company's books and sent to Siemens' service shop, where they are inspected and repaired. Once repaired, these "initial spare parts" are returned to the Company, capitalized, and ready for future use. The Company states that this approach was the most cost-effective way to maintain its gas fleet until the addition of Langley Gulch. Application at 2-3.

The Company now desires to enter into a long-term service contract with Siemens Energy, rather than continuing to self-manage the maintenance as it has done in the past. The services to be provided by Siemens under the proposed contract include scheduled maintenance on the three plants, including parts and repairs, shipping, service, labor, engineering services, and program management services. The Company believes that the long-term program contract will lower overall costs to the Company and its customers by leveraging Siemens' pool of inventory, outage resources, and technical expertise, and will save costs over the life of the agreement when compared to the Company continuing to contract with Siemens under the current case-by-case maintenance approach. *Id.* at 3-4.

Besides seeking approval of its long-term program contract with Siemens, the Company asks the Commission to approve the Company's transfer of its current "initial spare parts" inventory to Siemens. *Id.* Idaho Power believes the sale of this property satisfies the requirements of *Idaho Code* § 61-328.

The Company also asks the Commission to approve a proposed accounting treatment allowing: (1) the deferral of initiation fees (i.e., a prepayment towards Siemens' services under the life of the long-term program (LTP) contract) to a regulatory asset to be amortized on a straight-line basis over the length of the contract; (2) the transfer of the parts' net book value (about \$21.9 million subject to true-up at closing) and associated tax expense (about \$1.8 million) to a regulatory asset to be amortized on a straight-line basis over the length of the contract; and (3) a carrying charge on a portion of the regulatory asset balance, consisting of the initiation fees and \$2.9 million of the initial spare parts that are not yet included in the Company's authorized base rate and on which the Company is not yet earning a return. *Id.* at 6-7.

STAFF ANALYSIS

In its Application, the Company states that it began considering other maintenance options for its fleet of gas generators when it was building the Langley Gulch plant. Langley Gulch is the Company's only combined cycle combustion turbine (CCCT) and employs some of the newest, most technologically advanced parts on the market. Idaho Power states that it recognized that its employees did not have all of the necessary technical skills to maintain the Langley Gulch, Danskin and Bennett Mountain plants as well as Siemens. Application at 3. In addition, because the Company expected to run the Langley Gulch plant far more than the Danskin or Bennett Mountain plants, major maintenance would be more frequent and occur at more consistent intervals.

The Company began exploring its options to maintain its gas fleet by hiring IEM Energy Consultants, a consultant with extensive experience in long-term maintenance contracts for thermal generation facilities. Once retained, the consultant issued a formal request for information to multiple third-party providers of gas plant maintenance. The Company and its consultant then analyzed the proposals received.

Evaluation of LTP Contract Bidders and Proposals

IEM Energy Consultants received information from [REDACTED] different contractors with experience and ability to maintain and repair utility-scale gas generation units and to supply needed parts. [REDACTED]

[REDACTED] IEM helped the Company evaluate the contractors and determined that [REDACTED] were able to provide the necessary parts and services. In the initial evaluation, however, the capabilities of supplying parts was restricted to only the Danskin and Bennett Mountain units. [REDACTED]

[REDACTED]

After the initial evaluation, the consultant narrowed its focus to Siemens and one other contractor. [REDACTED]

[REDACTED]

Energy Consultants and the Company agreed that Siemens offered the best proposal.

Staff believes that the Company vetted the contractor's proposals with reasonable evaluation criteria, and that the evaluation was thorough and fair to all interested candidates. Staff believes that the Company prudently decided to choose Siemens following this evaluation.

Comparison Between Siemens LTP and Self-Manage

Besides selecting the best qualified contractor, the Company had to revisit whether that contractor could maintain the gas fleet better and at less cost than the Company could by continuing to self-manage the maintenance. The Company recognized that its employees lack the necessary technical skills to maintain the three gas plants as well as Siemens. But the Company could alternatively continue to buy parts and technical services from Siemens on an as-needed basis.

The Company compared the self-management alternative to the long-term maintenance contract alternative in two ways. First, it assessed its own capabilities and compared them to the services that would be provided by Siemens, including scheduled maintenance on the three plants, parts and repairs, shipping, service, labor, engineering services, and program management services. Because Siemens manufactured the Company's plants and is the industry leader in gas plant maintenance, the Company concluded that its only alternative to the long-term program contract with Siemens would be to continue contracting with Siemens on a case-by-case basis for parts and technical support.

Second, the Company compared the cost of self-managing maintenance to the cost of entering into a long-term maintenance contract with Siemens. The results of this comparison are shown on Exhibit No. 1 to the direct testimony of Courtney Waites. Staff thoroughly reviewed the Company's analysis and believes it is accurate and a fair financial comparison of the alternatives.

The Company's analysis shows that over the 20-year period considered, the revenue requirement associated with the Siemens LTP contract has a net present value that is about \$7.3 million less than the self-management option. For the first several years, however, the Siemens

contract would be more expensive. Nonetheless, Staff believes that the long-term comparison is most appropriate in this instance.

In its Application, the Company states that the long-term program contract will lower overall costs for the Company and its customers by leveraging Siemens' pool of inventory, outage resources, and technical expertise, and will save costs over the life of the agreement when compared to the Company continuing to contract with Siemens under the current case-by-case maintenance approach. *Id.* at 3-4. Staff agrees.

Requirements of Idaho Code §61-328

In addition to seeking approval of its long-term program contract with Siemens, the Company also asks the Commission to approve the Company's transfer of its current "initial spare parts" inventory to Siemens. The Company explains that Siemens would remove the inventory after the Commission approves the long-term program contract, and that the contract price has been reduced to reflect the net book value of the inventory being transferred to Siemens. *Id.*

Idaho Code § 61-328 governs the Company's transfer of property to Siemens. The section provides, in summary, that an electric utility may not dispose of its property unless authorized to do so by the Commission after a hearing in which the Company establishes: (1) that the transaction is consistent with the public interest; (2) the cost of and rates for supplying service will not be increased by reason of such transaction; and (3) the purchaser has the bona fide intent and financial ability to operate and maintain said property in the public service.

The Company states that the transaction satisfies *Idaho Code* § 61-328 because the transfer will let the Company return about \$21.9 million of older spare parts to Siemens that would otherwise have a limited market, and will result in lower overall costs to the Company and its customers. Further, the Company believes Siemens has a bona fide intent and financial ability to operate and maintain the parts in the public interest. *Id.* at 5-6.

Staff concurs that the transaction satisfies the three-part test in *Idaho Code* § 61-328. First, the proposed transfer of spare parts is consistent with the public interest because, as a condition of the Siemens contract, the transfer would result in an overall cost savings and operational benefit to ratepayers. Second, because of the expected cost savings, the transaction will not raise customer rates. Third, Staff is satisfied that Siemens, as the original equipment

manufacturer of all three generation units and as one of the leading manufacturers in the industry, has the bona fide intent and financial ability to operate and maintain the parts for use in the public interest.

Proposed Accounting Treatment

The Company asks the Commission to approve accounting treatment that includes: (1) the deferral of initiation fees to a regulatory asset to be amortized on a straight-line basis over 20 years, the average length of the contract; (2) the transfer of the spare parts' net book value and associated tax expense to a regulatory asset to be amortized on a straight-line basis over 20 years, the average length of the contract; and (3) a carrying charge on part of the regulatory asset balance, consisting of the initiation fees and \$2.9 million of the initial spare parts that are not included in the Company's authorized rate base and on which the Company is not yet earning a return. The supporting testimony of Company witness Trever Mahlum indicates that the contract term is from the contract's execution date (defined to be the date on which the Commission approves the contract) and the earlier of the "performance end date" for each combustion turbine, or 25 years. Because the "performance end date" is based on a combination of the number outages, equivalent baseload hours or equivalent starts, the contract would expire at a different time for each CCCT. The Company estimates the LTP contract for each turbine will expire in 18-22 years. The Company assumed an average 20-year contract life when analyzing the LTP contract. *See* direct testimony of Trever Mahlum, p. 11; see also LTP contract, p. 9.

Regulatory Assets

Regulatory Assets may be established for incurred costs that are deferred for recovery to a future time, through future rates. The deferral allows for consideration of recovery in the next general rate case. In this case, the Company requests deferral of the initiation fees to a regulatory asset for recovery over the average contract length of the LTP contract, or 20 years. The initiation fees for the LTP contract are per plant unit. The Application, Ms. Waites testimony, and Mr. Mahlum's testimony indicates that the initiation fees serve as prepayment toward services to be performed by Siemens over the contract's life. Mr. Mahlum indicates that, under the current self-management maintenance approach, there has historically been an 89 percent capital, 11 percent O&M expense split and the milestone payments would receive similar

treatment. Staff believes it is prudent to take the same approach in the initialization (initiation) fee treatment. Because the initiation fees serve as prepayment toward future maintenance expenses (including milestone payments), the Company would spend that amount under both the LTP contract and the self-manage program approach. Staff supports the deferral of 89 percent of the initiation fees [REDACTED] to a regulatory asset for amortization on a straight-line basis over the remaining life of each asset. The remaining 11 percent of the initiation fees [REDACTED] would normally be expensed, and the Company requests an amortization on a straight-line basis over the full length of the contract.

The Company asks to transfer the initial spare parts' net book value and associated tax expense to a regulatory asset for amortization treatment over the length of the LTP contract. The Company requests that about \$21.9 million in initial spare parts (subject to true-up at closing) be transferred from the Plant-in-Service Account to the FERC Other Regulatory Asset Account. \$19.1 million of the \$21.9 million initial spare parts mentioned are already included in rates, but are unrecovered as of the filing date of the Application. Staff supports the Company transferring \$21.9 million in initial spare parts' net book value, and \$1.8 million associated tax expense, to a regulatory asset for amortization treatment. The Company would no longer possess the assets transferred to Siemens (except when placed in service at the plant). However, Siemens will recirculate the parts back into service, at contractually defined intervals, as originals or as part of planned outages and maintenance work performed. Staff notes that the Company's request to transfer the spare parts to the regulatory asset removes those parts from the previous plant-in-service accounting treatment with investment recovery through depreciation over 30 years, and instead proposes investment recovery over 20 years. Although the initial spare parts are "shorter-lived" assets, Staff does not recommend the requested 20-year amortization treatment of these assets and instead recommends continuing to amortize the regulatory asset over the same period as the assets are currently depreciated, i.e., on the same schedule as the associated plant. Maintaining the current recovery period minimizes any shift in cost or faster recovery.

Carrying Charge

The Company requests a carrying charge on the part of the regulatory asset balance consisting of the initiation fees and \$2.9 million of the initial spare parts that are not included in the Company's authorized rate base and not earning a return. Staff, on the other hand, does not

recommend a return or carrying charge on the regulatory assets. When parts are actually placed in service, they may be capitalized as a transfer from the regulatory asset and included in rate base in the next general rate case at the then authorized rate of return. Even under the Company's proposal, Staff believes a carrying charge on 89% of the initiation fees [REDACTED], is the maximum amount that would ordinarily be capitalized upon the Effective Date of the Contract. The remainder would typically be expensed. If the Company's proposal is accepted, Staff recommends that the Commission not allow a carrying charge before 2016 when the first scheduled maintenance outage for the plants occurs. This is when the initiation fees will be used toward milestone payments and other maintenance that contributes to the delivery of services to customers.

Staff does not support, under any scenario, interest or an accrual of return on the \$2.9 million of the initial spare parts that will be returned to Siemens' possession when the contract takes effect. These assets would not be "used and useful" because the Company would no longer possess them. The Company should not, therefore, accrue further benefit other than the already supported deferral in a regulatory asset and future rate recovery of the amortization. Staff recommends the \$2.9 million in initial spare parts be authorized on the same amortization schedule as recommended above for the initial spare parts already in rate base, i.e., the same as the depreciation rate on the associated gas plant with no return or carrying charge.

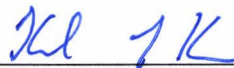
STAFF RECOMMENDATION

Staff recommends that the Commission approve the LTP contract with Siemens Energy. Staff also recommends that the Company approve the sale and transfer to Siemens of \$21.9 million in spare parts for the Company's gas plants. Lastly, Staff recommends that the Commission order include an accounting paragraph authorizing the requested deferred accounting treatment for the transaction in separate regulatory asset subaccounts upon the following conditions:

- Initialization/initiation fees – deferral to a regulatory asset to be amortized over the remaining life of each asset.
- Transfer of initial spare parts net book value (approx. \$21.9 million, subject to true-up) and associated tax expense (approx. \$1.8 million, subject to true-up) to a regulatory asset to be amortized over the life of the plant to which the initial spare parts are associated.

- No carrying charge on any of the regulatory assets.

Respectfully submitted this 27th day of August 2015.



Karl T. Klein
Deputy Attorney General

Technical Staff: Rick Sterling
Amber Christofferson
Terri Carlock

i:umisc/comments/ipce15.17kkrsactc comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 27TH DAY OF AUGUST 2015, SERVED THE FOREGOING **NON-CONFIDENTIAL COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-15-17, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA D NORDSTROM
REGULATORY DOCKETS
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: lnordstrom@idahopower.com
dockets@idahopower.com
(Confidential Comments)

PETER J RICHARDSON
RICHARDSON ADAMS PLLC
PO BOX 7218
BOISE ID 83702
E-mail: peter@richardsonadams.com
(Confidential Comments)

TIMOTHY E TATUM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: ttatum@idahopower.com
(Confidential Comments)

DR DON READING
6070 HILL ROAD
BOISE ID 83703
E-mail: dreading@mindspring.com
(Confidential Comments)



SECRETARY

CERTIFICATE OF SERVICE