

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-16-24
AUTHORITY TO INCREASE ITS RATES)
FOR ELECTRIC SERVICE TO RECOVER)
COSTS ASSOCIATED WITH THE NORTH) ORDER NO. 33771
VALMY PLANT)**

This case concerns Idaho Power Company’s (“Idaho Power” or “Company”) October 2016 Application to accelerate depreciation and recover costs associated with the Company’s operation and eventual retirement of the North Valmy power plant (“Valmy”), which Idaho Power co-owns with NV Energy. On May 3, 2017, Idaho Power filed an agreed Motion to approve a Settlement Stipulation signed by Idaho Power; Commission Staff; the Idaho Irrigation Pumpers Association, Inc. (IIPA); the Idaho Conservation League (ICL) and Sierra Club; Micron Technology, Inc.; the U.S. Department of Energy and the Federal Executive Agencies (DOE); and the Industrial Customers of Idaho Power (ICIP) (collectively, “Parties”). The Parties agreed that the Settlement Stipulation fully resolves the issues in the matter. Having reviewed the record, the Commission accepts and approves the Settlement Stipulation in the public interest as a fair, just, and reasonable resolution of this case.

BACKGROUND

Valmy is a coal-fired power plant near Winnemucca, Nevada, consisting of two units. Application at 3. Unit 1 went into service in 1981 and Unit 2 in 1985. *Id.* Idaho Power and NV Energy each own 50% of the plant. *Id.* NV Energy operates the plant and the two owners make joint decisions regarding environmental investments, plant retirement, or conversion. *Id.* Idaho Power’s share of the nameplate generating capacity is 284 MW. *Id.*

Idaho Power’s last two depreciation studies, filed with this Commission in 2008 and 2012, used 50-year lives for Valmy Units 1 and 2, resulting in a 2031 end-of-life for Unit 1 and a 2035 end-of-life for Unit 2. *See* Order Nos. 30639 (Case No. IPC-E-08-06) (adopting a stipulation in which the parties accepted the Company’s proposal to use a 50-year life for the Valmy units), and 32559 (Case No. IPC-E-12-08). The depreciation currently embedded in base rates is based on those dates. *See* Order No. 32559.

The Company indicated that its request to use a 2025 end-of-life date for the Valmy units would synchronize its assumptions with those used by NV Energy. Application at 5. In 2013, the Public Utilities Commission of Nevada approved a 2025 end-of-life date for both Valmy units in a NV Energy depreciation study filing. PUCN Order, Docket Nos. 13-06002 *et al.*, 46 (Dec. 18, 2013). NV Energy used that date for both units in two recent filings with the Nevada Commission: a depreciation study filing in June 2016 (*see* PUCN Docket No. 16-06008) and an Integrated Resource Plan (IRP) filing in July 2016 (*see* PUCN Docket No. 16-07001).

THE APPLICATION

Idaho Power explained that in preparing to file a new depreciation study in Case No. IPC-E-16-23,¹ which it filed concurrently with this matter, the Company identified significant changes with regard to the life of the Valmy plant warranting review in a separate filing. *Id.* at 2. The Company noted that in 2013, the Public Utilities Commission of Nevada approved a 2025 end-of-life date for both units for NV Energy, and that NV Energy used that date for both units in its most recent depreciation study filed with the Nevada Commission in June 2016. *Id.* This “provides an indication that the Valmy plant will not be operational beyond 2025.” *Id.* at 3.

The Company explained its treatment of Valmy’s retirement dates in recent studies and analyses – its 2013 Coal Unit Environmental Investment Analysis for the Jim Bridger and North Valmy Coal-Fired Power Plants (2013 Coal Study), and in its two most recent Integrated Resource Plans (IRP). *Id.* at 3-4. The Company also noted there have been significant changes in Valmy operations since 2010. *Id.* at 5. The Company stated that accelerating the depreciation of Valmy would (1) result in the appropriate matching of cost recovery with the remaining operating life of the plant; and (2) mitigate future rate impacts associated with earlier plant shutdown. *Id.* at 7.

The Company asked to establish a balancing account to track costs and recovery of the levelized revenue requirement that includes the costs of accelerating the depreciation of Valmy, the return associated with the Valmy capital investments net of accumulated depreciation forecasted through the remaining life of the plant, and the decommissioning costs associated with a 2025 end-of-life. *Id.* at 8, 9. The Idaho jurisdictional incremental annual levelized revenue requirement that the Company asked to recover was \$28,497,934, to be recovered from all

¹ In that case, Idaho Power asked the Commission to adopt revised depreciation rates for its electric plant-in-service and correspondingly adjust Idaho jurisdictional base rates, and also requested an effective date of June 1, 2017. Application (Case No. IPC-E-16-23) at 1.

customer classes through a uniform percentage increase to all base rate components except the service charge. *Id.* at 10.

The Commission issued an Order providing notice of the Application and setting a deadline for interventions. Order No. 33650. The Commission granted Petitions to Intervene from IIPA, ICL and Sierra Club, Micron, DOE, and ICIP. Order Nos. 33660, 33671, 33672, 33674, and 33746. The Parties conferred and agreed to process the Application via Modified Procedure with agreed comment deadlines, which the Commission adopted. Order No. 33690. The Parties engaged in settlement discussions in February and April 2017.

THE SETTLEMENT STIPULATION

The Parties agreed and joined as signatories to a Settlement Stipulation which they asserted fully resolves all the issues in this case. The Parties agreed that the Settlement Stipulation represents a “fair, just, and reasonable compromise of the dispute(s) between the Parties, and that this Settlement Stipulation is in the public interest.” Settlement Stipulation at 2.

The Parties agreed “to an Idaho jurisdictional revenue increase of \$13,285,285, to be recovered from all customer classes through a uniform percentage increase to all base rate components except the service charge effective June 1, 2017.” *Id.* at 3. Under the Settlement Stipulation, “the amount all Idaho customer classes pay for electric service [would] increase by \$13.3 million which equates to an overall increase of 1.17 percent” as set forth in Attachment 1 to Settlement Stipulation. *Id.* at 3-4. To “accomplish a levelized revenue requirement collection period beyond the operation life of the [Valmy] plant, the Parties agree[d] to support the issuance of an accounting order.” *Id.* at 4.

The estimated target shutdown dates for the two coal-burning units at Valmy are the end of 2019 for Unit 1, and end of 2025 for Unit 2, but “the Parties agree to treat the shutdown year of both units as the end of 2028 for ratemaking purposes.” *Id.* at 5. Also, the Parties “support authorization of regulatory accounts” to facilitate the appropriate accounting. *See id.*

The Parties agreed Idaho Power will negotiate with co-owner NV Energy – using prudent and commercially reasonable efforts – to accomplish a permanent end to coal-burning operations of Valmy Unit 1 by December 31, 2019, and of Valmy Unit 2 by December 31, 2025. *Id.* at 6. Alternatively, the Parties agreed that Idaho Power will use prudent and commercially reasonable efforts to “end its participation in the operation of [Valmy] Unit 1 by December 31, 2019, and [Valmy] Unit 2 by December 31, 2025.” *Id.* Idaho Power agreed to provide the

Commission and Parties a status report on such negotiations with NV Energy by December 31, 2017. *Id.* The Parties agreed to file comments responding to such status report by March 31, 2018. *Id.*

Finally, the Parties in this case (which are also parties in Case No. IPC-E-16-23) agreed or did not object to the terms in the Settlement Stipulation filed in the revised depreciation case (Case No. IPC-E-16-23). *Id.* at 9.

The Commission issued notice of the Settlement Stipulation (Case No. IPC-E-16-24) and set deadlines for comment, if any, from the Parties and the public. Order No. 33763. Staff, Idaho Power, and ICL/Sierra Club submitted comments in support of the settlement. The Commission received seven public comments about the case before Idaho Power filed the Parties' Settlement Stipulation. The Commission received no comments from the public specifically regarding the Settlement Stipulation.

COMMENTS

A. Commission Staff

According to Staff, “the core of the case [is] the assumed retirement dates of the two Valmy generation units for which the Company seeks recovery.” Staff Comments at 3. Staff explained that the closure dates impact:

- (1) the length of time the Company has to recover capital cost and to continue to earn a return;
- (2) the incremental capital cost needed to keep the facility in operation while still open; and
- (3) the amount of savings customers will realize by closing a plant that has shown to be no longer economic.

Id. Staff also noted a complicating factor – that “the facility is jointly owned between Idaho Power and NV Energy, requiring both companies to agree on when the facility should be closed.” *Id.*

Staff determined that the 2025 retirement date in the Company's Application – identified in its 2015 IRP Preferred Portfolio – was not least-cost/least-risk, but was based on “qualitative risk factors” that appeared to overlook “possible benefits of retiring the plant earlier.” *Id.* at 4. However, responding to a discovery request by Staff, “the Company conducted a supplemental study that confirmed the cost savings associated with [earlier] retirement dates and stated that the qualitative risks identified in [the] 2015 IRP had been largely resolved.” *Id.* As a result, Staff and Idaho Power “now believe that 2019 is the appropriate retirement year on which to base Unit 1 cost recovery.” *Id.* Because “Unit 2 becomes

significantly less economic after Unit 1 is retired,” Staff believes periodic review of Unit 2’s economic viability – as provided for in the Settlement Stipulation – is warranted. *Id.* at 5.

As to the balancing account for full cost recovery of Valmy, agreed to in the Settlement Stipulation, Staff believes the inputs for the balancing account model are correct and that the outputs “can be relied upon to calculate the levelized revenue requirement for the Valmy Plant.” *Id.* at 5-6. Staff supported the 9.5% return on equity (ROE) used to calculate Valmy’s levelized revenue requirement, as it is the same ROE approved in Order No. 32424 (for the Accumulated Deferred investment Tax Credit trigger), and used in the Boardman coal plant amortization and deferral account. *Id.* Also, Staff supported levelizing the revenue requirement through 2028 (three years beyond plant closure) because it adds “rate stability without sacrificing intergenerational equity or significantly increasing total cost to customers.” *Id.*

B. Idaho Power

In its comments, Idaho Power summarized the terms of the Parties’ agreement and the resulting impact to customer rates. The Company noted that the Settlement Stipulation “recognizes and incorporates recent Idaho Power integrated resource planning efforts that will be submitted to the Commission . . . in Idaho Power’s 2017 IRP.” Idaho Power Comments at 5. Also, “the Settlement Stipulation strikes a reasonable balance between the Company’s need for timely cost recovery associated with the accelerated depreciation of Valmy while mitigating the rate impact to customers.” *Id.* “Finally, it outlines a process to review future Valmy-related expenditures and adjust rates as necessary when each unit ceases operations.” *Id.*

The Company highlighted its supplemental study, addressed in Staff’s comments, which demonstrated that much of the uncertainty prompting the higher cost retirement date of 2025 “have largely diminished in the two years since completion of the 2015 IRP.” *Id.* at 6. The Company indicated it will use “prudent and commercially reasonable efforts” to amend its Valmy ownership and operating agreement with NV Energy to achieve shutdown of coal-burning operations in Unit 1 and 2 by 2019 and 2025, respectively. *Id.* The Company also recognized the Parties’ agreement that future capital, decommissioning and O&M expenditures “should be timely reviewed, updated, and trued-up to ensure that Idaho Power recovers no more and no less than the revenue requirement related to its prudent expenditures to benefit customers.” *Id.* at 8.

C. ICL/Sierra Club

ICL and Sierra Club supported the Settlement Stipulation as providing “a clear path for the near-term retirement” of Valmy. ICL/Sierra Club Comments at 1. They also lauded the agreement as “a balanced outcome that allows [Idaho Power] an opportunity to recover undepreciated plant balances at Valmy in a manner that reduces rate shock without causing excessive intergenerational inequities.” *Id.* ICL and Sierra Club further noted the agreement “provides balance to ratepayers by setting a schedule to fully depreciate plant balances at Valmy by 2028.” *Id.* at 3.

D. Public Comments

The Commission received seven public comments about this case before the Company filed its Settlement Stipulation. Five commenters asked the Commission to deny the Company’s requested rate increase, and three indicated that ratepayers should not bear the costs of accelerated depreciation that benefits the Company. A commenter who opposed the increase suggested that ratepayers should not pay Idaho Power to abandon a “perfectly good operating plant” in favor of wind and solar, which the commenter believes are unreliable and provide little benefit.

One comment suggested that both units of Valmy be closed in 2019, and that depreciation did not need to be accomplished in the same timeframe as the plant closure. The commenter listed a number of perceived benefits to earlier closure, including saving customers money, reduced carbon output, and the potential for development of clean energy jobs for constructing and maintaining future wind and solar facilities. The commenter concluded that closing the plant in 2019, but extending the payback period of costs to customers, should lead to greater savings overall without undue burden on customers.

Another comment supported closure by 2019, expressing that customers would benefit from such early closure. The commenter believed that customers would pay less in total for the Valmy plant units under an accelerated depreciation schedule. The commenter also indicated that if “the ‘rate shock’ is too great from a depreciation schedule ending in 2019,” then the depreciation could occur over a longer period, such as through 2025.

The Commission received no public comments specifically regarding the Settlement Stipulation. As in all matters before us, we appreciate the time and effort extended by members of the public in providing input in this case.

DISCUSSION AND FINDINGS

The Commission has discretion to determine the manner in which it will consider proposals of settlement. IDAPA 31.01.01.274. We find that the Settlement Stipulation before us is the result of substantial negotiations in which all Parties participated and to which the Parties agreed. In addition, we recognize the considerable efforts of the Parties and commend their cooperation in reaching agreement on the various and complex issues in this case. We therefore find that further proceedings are not necessary.

After reviewing the Settlement Stipulation, Parties' comments, and public comments, the Commission adopts and approves the Settlement Stipulation as presented. We find that it appropriately resolves issues concerning depreciation and recovery of costs for Valmy. We further find that the Settlement Stipulation is a reasonable compromise of the contested issues; by entering such agreement, the Parties resolve such issues, avoiding expense, inconvenience, and uncertainty of further litigation. Notably, the Idaho jurisdictional revenue increase of \$13,285,285 in the Settlement Stipulation (an overall increase of 1.17%) is less than half that requested in Idaho Power's Application. Also, we find that the agreement's terms achieve an appropriate balance of competing interests, and set a reasonable framework for future prudence reviews.

We find that the Settlement Stipulation is just, fair and reasonable, in the public interest, and in accordance with the law and regulatory policy of this state. IDAPA 31.01.01.275 and .276. Accordingly, we accept and approve the Settlement Stipulation proposed by the Parties, without modification.

ORDER

IT IS HEREBY ORDERED that Idaho Power's Motion to Approve the Settlement Stipulation is granted. The Commission approves the Settlement Stipulation and its attachments without modification.

IT IS FURTHER ORDERED that the depreciation rates approved by this Order shall become effective on June 1, 2017.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this ^{31st}
day of May 2017.


PAUL KJELLANDER, PRESIDENT


KRISTINE RAPER, COMMISSIONER


ERIC ANDERSON, COMMISSIONER

ATTEST:


Diane M. Hanian
Commission Secretary

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