

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

**FROM: CAMILLE CHRISTEN
DEPUTY ATTORNEY GENERAL**

DATE: NOVEMBER 3, 2016

**SUBJECT: THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY
TO INCREASE ITS RATES FOR ELECTRIC SERVICE TO RECOVER
COSTS ASSOCIATED WITH THE NORTH VALMY PLANT, CASE NO.
IPC-E-16-24**

On October 21, 2016, Idaho Power Company filed an Application requesting Commission authorization to “(1) accelerate the depreciation schedule for the North Valmy power plant (“Valmy”) to allow the plant to be fully depreciated by December 31, 2025; (2) establish a balancing account to track the incremental costs and benefits associated with the accelerated Valmy end-of-life date, and (3) adjust customer rates to recover the associated incremental annual levelized revenue requirement of \$28.50 million with an effective date of June 1, 2017.” Application at 1. The result is an overall *increase* of 2.51 percent.¹ The Company concurrently filed this Application with a request to adopt revised depreciation rates for its electric plant-in-service and correspondingly adjust Idaho jurisdictional base rates (Case No. IPC-E-16-23). With the filings, the Company intends to facilitate a single rate change for customers, and asks the Commission to enter final Orders in both matters by April 1, 2017, to allow it to incorporate any associated rate impacts in its April 14, 2017 Power Cost Adjustment (PCA) filing.

¹ Application Attachment 1. Staff counsel contacted Idaho Power about discrepancies in the Company’s filing papers. According to Idaho Power, the 2.51 percent figure identified in Attachment No. 1 is correct and reflects the impact of the Valmy Application, Case No. IPC-E-16-24. The 3.10 percent figure in the Application at 10 was not intended to be used in that sentence; it reflects the combined impact of the Applications in both Case Nos. IPC-E-16-23 and IPC-E-16-24.

THE APPLICATION

The Company's most recent Commission-approved depreciation study, which went into effect on June 1, 2012, reflects retirement of the Valmy plant's two units in 2031 (Unit 1) and 2035 (Unit 2). *Id.* at 2. (Idaho Power co-owns these units with NV Energy, with each owning 50 percent, and NV Energy operates the plant. *Id.* at 3.) The Company explains that in preparing to file a new depreciation study, which it filed concurrently to this Application in Case No. IPC-E-16-23, it identified that significant changes had occurred with regard to the life of the Valmy plant which warrant a specific review. *Id.* at 2.

The Company explains 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 explains its treatment of Valmy's retirement dates in recent past studies and analyses: in 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 2013 Coal Study used end-of-life dates of 2031 for Unit 1 and 2035 for Unit 2 in analysis of future investments for environmental compliance. *Id.* at 4. The 2013 IRP's preferred portfolio included continued operations at the plant, in full environmental compliance, through the 2013-2032 planning period. *Id.* However, the 2015 IRP's preferred portfolio for the 2015-2034 planning horizon contained the Boardman to Hemingway transmission line and retirement of Valmy in 2025, both of which showed favorable economics in the Company's IRP analysis. *Id.*

The Company also states that significant changes in Valmy operations have occurred since 2010. *Id.* at 5. Prices for off-system sales have declined significantly since 2010, as have the number of hours in which Valmy operates economically. *Id.* The dispatch cost is now typically higher than the market price. *Id.* Instead of using Valmy to generate off-system sales, the Company relies on Valmy to meet peak energy needs (for example, in extreme cold or hot weather) and that it will continue to do so as load increases and until new resources are available during peak hours or can provide additional transmission capacity. *Id.*

The Company states that accelerating the depreciation of Valmy will (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 shutdown of the plant. *Id.* at 7. The Company is requesting establishment of 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 is requesting to recover is \$28,497,934, to be recovered from all customer classes through a uniform percentage increase to all base rate components except the service charge. *Id.* at 10.

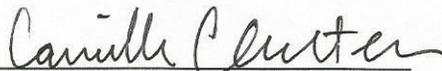
The Company has filed one set of tariff sheets specifying the proposed rates including the proposed changes from both this Application and the related one in Case No. IPC-E-16-23 and asserts that filing individual tariff sheets with each Application would be administratively complex and would not aid in the review of the proposed adjustments. *Id.* at 10.

STAFF RECOMMENDATION

Staff recommends that the Commission issue an Order providing notice of Application and setting an intervention deadline of 21 days from the service date of the Order. The Order should also direct Staff to confer with the parties about a proposed schedule, and to report the proposed schedule to the Commission.

COMMISSION DECISION

Does the Commission wish to issue an Order providing notice of the Application, setting an intervention deadline of 21 days from the service date of the Order, and directing Staff to confer with the parties about a proposed schedule and to report the proposed schedule to the Commission?



Camille Christen
Deputy Attorney General

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