

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

**FROM: KARL KLEIN
DEPUTY ATTORNEY GENERAL**

DATE: MAY 20, 2012

**SUBJECT: ROCKY MOUNTAIN POWER'S APPLICATION FOR AN
ACCOUNTING ORDER RELATED TO NAUGHTON UNIT 3,
CASE NO. PAC-E-12-07**

On May 3, 2012, PacifiCorp dba Rocky Mountain Power applied to the Commission for an Order authorizing it to record a regulatory asset associated with its costs to meet emission requirements at Naughton Unit 3. These costs consist of costs to develop, design, engineer and procure environmental upgrades including Selective Catalytic Reduction (SCR) and Pulse Jet Fabric Filter (PJFF) systems. The Company says Idaho's share of the regulatory asset would be about \$479,000, and that it does not seek to recover that amount now. Rather, it will seek recovery in its next general rate case. The Company asks the Commission to process its Application under Modified Procedure.

THE APPLICATION

The Company has worked with state, tribal, and federal agencies to develop a Comprehensive Air Initiative (CAI) to improve visibility in national parks and wilderness areas. The CAI is designed to reduce power plant emissions in accordance with regional haze and other air-quality regulations while balancing customer interests and the obligation to serve current and reasonably projected demands. Application at 2-3.

With respect to the Naughton Unit 3 SCR and PJFF systems, the Company must meet environmental requirements such as U.S. Environmental Protection Agency Clean Air Act regional haze rules. The Company must also comply with Wyoming's regional haze state implementation plan (SIP) and best available retrofit technology (BART) analysis,

determination, decision and permit MD-6042, Amended BART permit MD-6042A, and a related settlement agreement which establishes a December 31, 2014 emissions control compliance and SCR and PJFF systems installation deadline. *See* Application at 3.

The Company began its compliance-planning activities for Naughton Unit 3 in response to Wyoming regulations requiring Naughton Unit 3 and similar emission sources to submit a BART application by December 15, 2006 (the Company received a 1-month extension). *See* Application at 4. Earlier, in November 2003, the Company began engineering assessments and evaluating emission control equipment for Naughton Unit 3. The Company says these assessments and evaluations, which it has continued to update and refine, were critical to establishing an environmental compliance plan and to mitigate SCR and PJFF systems-development risk. *Id.*

In 2010, the Company began executing its critical path schedule in order to meet the December 2014 regional haze compliance deadline. *Id.* This included developing detailed project procurement specifications and requesting proposals related to SCR and PJFF engineering, procurement, and construction (EPC). *Id.* The Company entered a limited notice to proceed (LNTP) EPC contract on December 1, 2011. *Id.* at 5. The LNTP contemplates detailed engineering and design of time-critical systems, development of equipment procurement specifications and preliminary three-dimensional modeling, development of project execution deliverables and procedures, site subsurface assessments, site geotechnical investigations and preliminary foundation design activities. *Id.* However, the Company subsequently learned that the environmental improvements contemplated for Naughton Unit 3 were no longer economically supported. *Id.* (citing Company's April 9, 2012 rebuttal testimony filed in Wyoming Docket No. 20000-400-EA-11). Accordingly, the Company suspended the EPC contract LNTP activities as of the end of February 2012. *Id.*

The Company says it has prudently incurred \$7,914,547.69 in necessary costs related to Naughton Unit 3 environmental compliance project permitting, development, engineering, and site assessment activities. *Id.* (citing Application Attachment 1, detailing the costs). With this Application, the Company seeks to transfer this amount out of FERC Account 107 (Construction Work in Progress) and record a regulatory asset in FERC Account 182.3 (other Regulatory Assets). The Company says Idaho's share of the regulatory asset will be established based on the system generation (SG) allocation factor, resulting in about \$479,000 allocated to Idaho. *Id.*

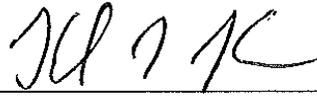
The Company says it will seek to recover this regulatory asset in its next general rate case, and that it would propose that amortization begin in that test period. *Id.* at 5-6.

STAFF REVIEW

Staff has reviewed the Application and recommends that it be processed under Modified Procedure.

COMMISSION DECISION

Does the Commission wish to process the case under Modified Procedure?



Karl Klein
Deputy Attorney General

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