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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF PACIFICORP DBA)	
ROCKY MOUNTAIN POWER'S APPLICATION)	CASE NO. PAC-E-12-07
FOR AN ACCOUNTING ORDER REGARDING)	
COSTS INCURRED FOR NAUGHTON UNIT 3)	COMMENTS OF THE
)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission comments as follows on PacifiCorp dba Rocky Mountain Power's Application.

BACKGROUND

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.

Naughton Unit 3 is a 330-MW thermal steam generation unit that began commercial operation in 1971. It is one of three coal-fired generation units wholly owned by PacifiCorp at the facility located near Kemmerer, Wyoming. The unit's economic life is expected to end by December 2029.

If the Company continues to operate the unit, the Company must comply with current Regional Haze (RH) rules and Best Available Retrofit Technology standards promulgated by the EPA and enforced by the Wyoming Department of Environmental Quality through the State

Implementation Plan (SIP). To operate the unit as a coal-fired unit beyond December 31, 2014, the Company must install a selective catalytic reduction (SCR) system and a Pulse Jet Fabric Filter (PJFF) system specified in the SIP.

In September 2011, the Company filed for a Certificate of Public Convenience and Necessity (CPCN) with the Wyoming Public Service Commission (Docket no. 20000-400-EA-11). The application sought authorization to construct the two control systems specified in the SIP, along with environmental-related upgrades to the existing facility. In support of its application, the Company analyzed different alternatives based on current economic conditions in the months before submitting the application.

While the Wyoming CPCN proceedings were ongoing, the Company entered into a December 1, 2011 engineering, purchasing, and construction (EPC) contract with a limited-notice-to-proceed (LNTP) provision. The Company believed it needed to begin engineering and design activities to complete the project on schedule. However, during the Wyoming proceedings, the Company performed additional analysis using: a more rigorous analysis for some of the alternatives, additional modeling assumptions, and updated forward natural gas price forecasts. The updated analysis led the Company to determine that the most prudent course of action was to convert Naughton Unit 3 to a natural-gas fired steam unit and to not install the emission controls originally proposed in the CPCN application. The Company suspended the EPC contract on February 27, 2012 and the contractor stopped all work on April 23, 2012. The Company provided the results of the updated analysis to the Wyoming Commission in the Company's Rebuttal Testimony in April 2012. The Company then moved to withdraw its application on May 11, 2012. The Wyoming Commission granted the motion and dismissed the matter on July 19, 2012. *See Order Granting Motion to Withdraw Application in Wyoming Commission Docket No. 20000-400-EA-11.*

Before suspending the EPC contract, the Company incurred \$7,914,547 in necessary costs related to Naughton Unit 3 environmental compliance project permitting, development, engineering, and site assessment activities. (*citing* Application Attachment 1, detailing the costs). With this Application, the Company seeks approval to transfer this amount from FERC Account 107 (Construction Work in Progress) to FERC Account 182.3 as a regulatory asset. Idaho's share of this amount is about \$479,000 based on the current system generation allocation factor. 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 ANALYSIS

First, Staff submitted information requests to the Company to confirm that the expenditures included in the overall requested amount for transfer were associated with the project to meet its intended purpose. Staff's requests asked the Company to describe various studies and other major activities performed by the Company's contractors. The requests also asked the Company to describe how the work activities related to the overall project. After thoroughly reviewing the Company's responses, Staff believes that the work performed was associated with the overall project as originally intended.

Second, Staff audited expenditures in each cost category to determine that each expense was reasonable compared to the scope of work completed by the contractor. The largest account in the amount requested to be transferred ties directly to the Company's contract payments. Staff obtained the EPC contractor's monthly status reports and a description of the activities the contractor had completed before suspending work on the project. Staff believes the dollar amounts incurred by the Company accurately represent the contract payments and work performed.

Finally, Staff analyzed the application, exhibits, and testimony filed with the Wyoming Commission in the Company's CPCN case (Docket No. 20000-400-EA-11) to determine if there was sufficient justification to record the incurred costs as regulatory assets. Staff believes there is sufficient evidence to allow the deferral of incurred costs as a regulatory asset.

Staff emphasizes that prudence of the expenditures will be evaluated when the Company seeks rate recovery. At that time, Staff will continue to examine what the Company knew at the time of the Wyoming CPCN application, and the method and assumptions the Company used to perform its initial economic analysis justifying the expenditures.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Company's request for an accounting order authorizing it to transfer \$7,914,547 from FERC Account 107 to FERC Account 182.3 as a regulatory asset. Staff also recommends that the Commission not determine prudence in this proceeding, but instead direct the Company to submit information documenting prudence in support of rate recovery in the Company's next general rate case.

Respectfully submitted this 20th day of November 2012.



Karl T. Klein
Deputy Attorney General

Technical Staff: Mike Louis
Joe Terry

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20TH DAY OF NOVEMBER 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-12-07, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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