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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER FOR A DEFERRED ACCOUNTING ORDER.	**CASE NO. PAC-E-12-8** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, submits the following comments in response to the Notice of Modified Procedure issued on September 21, 2012, Order No. 32648.

BACKGROUND

On May 3, 2012, PacifiCorp dba Rocky Mountain Power filed an Application with the Commission seeking a deferred accounting order authorizing the creation of a regulatory asset associated with the remaining book value of its Carbon plant.

The deferred accounting order would authorize the Company to transfer the remaining plant balances from electric plant in service and accumulated depreciation and establish a regulatory asset to recover these costs when the Carbon plant is retired. It is anticipated that the Carbon plant would be retired in early 2015 to comply with recently finalized Environmental Protection Agency (EPA) standards. The Company reports that, as of December 31, 2011, the Carbon plant had a net book value of approximately $55 million, with a depreciable life running through 2020, and an annual depreciation expense of approximately $3.7 million. The Company requests that the Commission approve the transfer of the remaining plant balances for the Carbon plant from FERC Account 101 (Electric Plant in Service) and FERC Account 108 (Accumulated Depreciation) and record a regulatory asset for the net amount in FERC Account 182.3 (Other Regulatory Assets) on the date the plant is removed from service. The Company also requests that the Commission approve the amortization of the newly created regulatory asset beginning with the transfer date over the remaining depreciable life of the Carbon plant, or 2020. Rocky Mountain Power states that Idaho's share of the regulatory asset would be established based on the system generation (SG) allocation factor for the calendar year prior to the date the plant is removed from service.

Rocky Mountain Power maintains that the transfer of the net plant balance of the Carbon plant to a regulatory asset with amortization over the remaining depreciable life of the plant will result in the continuation of equivalent levels of rate base and annual expense and have minimal impact on customer rates.

STAFF ANALYSIS

Staff has reviewed Rocky Mountain Power's filing and generally supports the Company's proposed deferred accounting treatment. In forming its recommendation, Staff considered several items including the need to retire the plant, reasonable alternatives to retirement, transmission issues, and customer impact of the Company's proposal.

Rocky Mountain Power maintains that the current emissions profiles of the Carbon units do not meet the EPA's recently finalized Mercury and Air Toxics Standards (MATS) limits for all regulated pollutants. In addition, Rocky Mountain Power has considered other regulations in its long-term planning decisions for the Carbon plant, including National Ambient Air Quality Standards (NAAQS) and long-term Regional Haze Rule planning. The Company anticipates that the Carbon plant will not be able to demonstrate attainment of the 1-hour nitrogen oxides or 1-hour sulfur dioxide NAAQS.

Generally, a power plant may be retrofitted with scrubbers, baghouses, or other significant emissions control equipment investments that would foster the plant's ability to comply with environmental regulations. The Carbon plant is unique in its mountainside location at the mouth of the narrow Castle Gate Canyon in Utah, and has no room to install significant environmental retrofits. Staff believes that even if economically feasible abatement technologies emerge in the near term, Rocky Mountain Power still may lack the physical ability to retrofit the Carbon plant.

An alternative to retirement of the coal-fired Carbon plant is to repower the plant using natural gas, as the Company intends to do with its Naughton plant. Repowering the Carbon plant to natural gas may provide benefits to both the Company and to its customers as the plant would still remain in service, providing capacity and energy while potentially extending the plant life through 2030. However, there are concerns with repowering the plant. Though current natural gas prices are at relatively historic lows, gas prices have been very volatile in the past, thus introducing risk in fuel prices with conversion.

In addition there is a risk that even with the conversion to natural gas, the plant will still not meet emissions standards and will still have to be shut down. The Company states that it previously assessed converting the Carbon plant to natural gas as a fuel resource in 2010, and found it to be economically beneficial. However, at the time of the analysis, Rocky Mountain Power did not consider current environmental constraints, and has since concluded that a conversion would not achieve an acceptable emissions profile for long-term environmental compliance. The Company has not provided supporting analyses conducted to reach this conclusion, though it plans to continue to assess viable compliance solutions. Staff believes that the Company should demonstrate that natural gas conversion is not a feasible solution for the Carbon plant no later than its next general rate case.

Rocky Mountain Power maintains that it will continue to assess compliance solutions including assessing whether emerging technologies could save the Carbon plant from decommissioning. Staff believes it is unlikely that a technical solution can be found in the near future, but supports the Company's willingness to identify a least-cost option, accounting for risk and uncertainty, for extending the life of the Carbon plant. Staff expects the Company to explore these options and keep the Commission informed of any potential solutions it comes across as a result of its continued assessment.

The Company also states that retiring Carbon may pose a complication with potential transmission reliability impacts. Rocky Mountain Power is in the process of studying to what extent these impacts may occur and has agreed to provide its assessment to Staff when completed. Should there be any detrimental impacts to the system reliability; EPA has provisions in its MATS ruling to extend operations of the plant beyond the initial April 2015 compliance deadline. Staff expects the Company to fully explore opportunities to extend the deadlines and to provide Staff with reports regarding the outcome of these efforts. Given the limited flexibility in the MATS ruling, Staff views the assumed shutdown date of April 2015 as the earliest the Carbon plant would be retired. Staff recommends that any retirement prior to 2015 require a filing with the Commission by Rocky Mountain Power to demonstrate the prudency of such a decision.

Staff has audited the remaining plant balances proposed to be transferred to the regulatory asset account, including the capital additions made in 2008 and 2009 previously reviewed by Staff. The audit found that those additions are reasonable to keep the plant functioning at an acceptable level until its planned retirement in 2020 and should be included in the amount to be transferred. The Application requests that the transferred amount be amortized over the remaining depreciable life of the Carbon plant as if it had remained in service. Staff believes this is reasonable and would have minimal impact on customers.

The Company currently estimates the cost of decommissioning the facility and remediating the site to be approximately $57 million, though it will continue refining that estimate over the coming months as its compliance assessment continues. Rocky Mountain Power has not included decommissioning costs or any other additional costs related to the Carbon plant in this filing. Staff's endorsement of the proposed accounting treatment does not imply prudency of any costs associated with the Carbon plant beyond what is currently included in rate base. If additional costs are incurred, Staff expects the Company to justify the expenditures in the context of a general rate case.

STAFF RECOMMENDATION

Staff recommends that the Commission approve Rocky Mountain Power's Application for deferred accounting treatment of the remaining net plant balance of the Carbon plant at the time of the plant's retirement. Doing so would transfer remaining plant balances from electric plant in service and accumulated depreciation to establish a regulatory asset for recovery over the current life of the plant. Staff will review any additional costs incurred associated with the shutdown of the Carbon plant when the Company seeks recovery.

Respectfully submitted this 20TH day of November 2012.

Kristine A. Sasser
Deputy Attorney General

Technical Staff: Bryan Lanspery
Joe Terry

i:umisc:comments/pace11.8ksbljt comments

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-12-08, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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