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201 South Main, Suite 2300
Salt Lake City, Utah 84111

May 15, 2015

VIA HAND DELIVERY

Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

**Re: CASE NO. PAC-E-14-10
IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER
FOR APPROVAL OF THE TRANSACTION TO CLOSE THE DEER CREEK
MINE AND FOR A DEFERRED ACCOUNTING ORDER**

Dear Ms. Jewell:

Please find enclosed an original and seven (7) copies of Rocky Mountain Power's Reply Comments responding to Staff comments and joint comments of Monsanto Company and PacifiCorp Idaho Industrial Customers in the above referenced matter. Confidential information is provided under separate cover.

Informal inquiries may be directed to Ted Weston, Idaho Regulatory Manager at (801) 220-2963.

Very truly yours,


Jeffrey K. Larsen
Vice President, Regulation

Enclosures

CC: Service List

Yvonne R. Hogle (8930)
201 South Main Street, Suite 2400
Salt Lake City, Utah 84111
Telephone No. (801) 220-4050
Facsimile No. (801) 220-3299
E-mail: yvonne.hogle@pacificorp.com

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Attorney for Rocky Mountain Power

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of Rocky Mountain Power for Approval of a Transaction to Close Deer Creek Mine and for a Deferred Accounting Order

Case No. PAC-E-14-10

**ROCKY MOUNTAIN POWER'S
REPLY COMMENTS
RESPONDING TO STAFF
COMMENTS AND JOINT
COMMENTS OF MONSANTO
COMPANY AND PACIFICORP
IDAHO INDUSTRIAL
CUSTOMERS**

Pursuant to the Notice of Scheduling Order No. 33221 ("Notice"), issued by the Idaho Public Utilities Commission ("Commission") February 6, 2015 in this Case, PacifiCorp, d.b.a. Rocky Mountain Power ("Rocky Mountain Power" or "Company") hereby files its reply comments ("Reply Comments"), in response to the comments ("Staff Comments") filed by the Staff of the Idaho Public Utilities Commission ("Staff") and to the joint comments ("Joint Comments") filed by Monsanto Company and the PacifiCorp Idaho Industrial Customers ("Joint Parties"). In support of the Reply Comments, the Company states as follows.

PROCEDURAL BACKGROUND

On December 15, 2014, the Company filed an Application (1) seeking approval to close the Deer Creek mine; (2) for an accounting order authorizing the Company to defer the ensuing

costs, losses and balances related to the Transaction to a regulatory asset;¹ and (3) seeking Commission determination that the Company's decision to consummate the Transaction is prudent. Pursuant to *Idaho Code* § 61-328, an electric utility must obtain approval from the Commission before it sells or transfers ownership in any generation, transmission, or distribution plant.

Before authorizing the transaction, the public utilities commission shall find: (a) That the transaction is consistent with the public interest; (b) That the cost of and rates for supplying service will not be increased by reason of such transaction; and (c) That the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service.

On April 23, 2015 and April 24, 2015, the Joint Parties and Staff, respectively, filed Comments responding to the Company's Application. The Company files these comments in response to the parties' Comments.

INTRODUCTION

The Transaction is the culmination of the Company's multi-year effort to protect customers from rising costs and risks associated with the Deer Creek mine, while ensuring a reliable supply of coal to the Company's Huntington plant. As compared to the alternatives, the Transaction saves hundreds of millions of dollars for customers by capping pension liabilities, selling certain mining assets, executing a replacement coal supply agreement ("CSA") with favorable pricing and risk-mitigation provisions, and establishing a significant negotiated reduction in the Company's retiree medical obligation related to the mine.² Indeed, there is ample evidence on the record for the Commission to find that the Transaction is prudent and in

¹ As in previous filings, the "Transaction" includes the Company's decision to close the Deer Creek mine, withdraw from the United Mine Workers of America 1974 Pension Trust "1974 Pension Trust," settle the retiree medical obligation, sell certain mining assets, and enter into new and amended coal supply agreements for its Huntington and Hunter generating plants.

² Direct Testimony of Cindy A. Crane, Case No. PAC-E-14-10, p. 32, lines 14-19 (December 15, 2014).

the public interest. Among other compelling reasons, [i]t “results in a lower cost option than continuing to invest in and operate the Deer Creek mine through 2019.”³

The closure of the Transaction necessitates a finding as to the deferred accounting of the related costs, balances, and losses. Idaho Code § 61-524 provides the Commission with wide discretion in this regard, and the accounting treatment proposed by the Company in its Application is reasonable given the significant benefits to customers of moving forward with the Transaction. The Company should not be penalized for acting on an opportunity that will provide significant benefits to customers. Certain of the proposals advanced by Staff and also by the Joint Parties would do just that.

While Staff’s position largely aligns with the Company’s recommendations, Rocky Mountain Power recommends that the Commission reject the following Staff recommendations: (1) deny continued amortization of the Deer Creek Mine investment and other mining assets at the current rate of depreciation through the Energy Cost Adjustment Mechanism (“ECAM”); (2) deny a one-time, non-precedential modification to the ECAM for no application of the 90/10 sharing band for other Transaction-related net power costs and replacement fuel costs; (3) deny carrying charges and amortization periods as proposed in the Company’s Application; and (4) deny additional return on the unrecovered investment in the Deer Creek Mine and related assets in the next general rate case.

Rocky Mountain Power also recommends that the Commission reject Joint Parties’ extreme positions and recommendations to: (1) delay a finding that the Transaction is prudent until the next general rate case; (2) use the “depreciation reserve methodology” to assign some of the responsibility of the unrecovered plant to the Company; (3) amortize the deferred account

³ Comments of the Commission Staff, Case No. PAC-E-14-10, p. 4 (April 24, 2014); *see also* Direct Testimony of Cindy A. Crane, p. 31, line 14 – p. 32, line 2.

balances over seven or nine years; (4) deny carrying charges as proposed in the Company's Application; (5) delay approval of deferred accounting related to the withdrawal from the 1974 Pension Trust; (6) deny deferral of costs related to construction work in progress ("CWIP") and preliminary survey and investigation expenditures ("PS&I"); (7) deny deferred accounting for expenses related to union supplemental unemployment and medical costs, non-union severance costs, and miscellaneous closing costs, including labor; (8) reduce Transaction costs that flow through the ECAM in an amount equal to the Idaho-allocated return on the Mining Assets already reflected in rates until removed from rates in the next general rate case; and (9) defer the projected reduction in fuel inventory and credit it against the inventory write-off, and credit any excess thereof against the remaining regulatory assets.

ARGUMENT

RESPONSE TO STAFF COMMENTS

I. The Commission Should Adopt the Company's Recommendations with Respect to the Prudence of the Transaction and the Establishment of Regulatory Assets for All Costs, Balances and Losses Requested, as Supported by Staff.

Recognizing that the Transaction provides significant net benefits to customers, Staff appropriately recommend "that the Commission find the Company's decision to consummate the sale to be prudent and in the public interest."⁴ Specifically, Staff supports the proposal to close the Deer Creek Mine and sell the Mining Assets to Bowie as it "results in a lower cost option than continuing to invest in and operate the Deer Creek Mine through 2019."⁵ Staff agrees that the Transaction "is consistent with the public interest" and that "the proposed sale is the best way to limit increasing costs of the Deer Creek Mine"⁶ Staff recommended the creation of

⁴ *Id.*, p. 4 (April 24, 2015).

⁵ Comments of the Commission Staff, Case No. PAC-E-14-10, p. 4 (April 24, 2014).

⁶ *Id.*, p. 3.

regulatory assets for the unrecovered mine investment and related assets, the loss of the sale of the Mining Assets, CWIP and PS&I, Transaction closure costs, the 1974 Pension Trust Withdrawal Liability, and the Retiree Medical Obligation. This recommendation is reasonable and consistent with the Company's Application. The Company should be able to establish regulatory assets for costs, balances and losses that are related to a transaction that is prudent and in the public interest. The Commission should, therefore, approve the Transaction as prudent and in the public interest and the creation of regulatory assets for these items, consistent with Staff's recommendations.

Staff did not recommend offsetting the regulatory assets for the return on the unrecovered investment in the Deer Creek Mine or for the change in fuel inventory, or for a sharing based on depreciation reserve percentages of the unrecovered investment, Transaction closure costs, United Mine Workers of America ("UMWA") medical settlement or the 1974 Pension Trust withdrawal payments as proposed by the Joint Parties. While the Staff comments are broadly in line with the Company's Application, the Company opposes the following Staff recommendations.

II. Staff's Recommendation to Create a Separate Deferral for the Unamortized Investment in the Deer Creek Mine and Related Assets *Without* Additional Return on Investment In a Future General Rate Case Should Be Rejected Because it is Punitive and Unreasonable.

While the Company does not necessarily oppose Staff's recommendation to apply the 90/10 sharing band in the ECAM to the net power costs related to the Deer Creek Mine⁷ and the Bowie CSAs and the creation of a deferral for the unamortized investment in the Deer Creek Mine and related assets without sharing separate from the ECAM wherein all of the other

⁷ Staff specifically excluded the depreciation of unamortized amounts from its recommendation to share at 90/10 percent pursuant to the ECAM.

Transaction-related net power costs and CSAs will flow through, the Company opposes Staff's recommendation of no return on unamortized investment in the Deer Creek Mine and related assets included in such separate deferral account at the conclusion of a future general rate case. This is unreasonable and punitive given the Company's diligence, planning and ability to secure the Transaction. The Company is not seeking special recognition or reward for its efforts that culminated in a very valuable deal for customers, but it should definitely not be punished for it. All the Company is seeking is fair and equitable treatment.

Absent the Transaction, the Company would continue to earn a return on the Deer Creek Mine assets and the other Transaction related Mining Assets and would fully recover the investments through depreciation. As a result of the significant customer benefits demonstrated through the Transaction, the Company should not be penalized for a decision that benefits customers either through reduced recovery of investment or through a lack of return on investment where owners basically are financing the benefits of the Transaction for customers over time. For these reasons the Commission should reject Staff's recommendation of no additional return on the unamortized investment in the Deer Creek Mine and related assets in a future general rate case. Alternatively, the Company recommends that the Commission not make a determination on this issue until the next general rate case.

III. Staff's Recommendations (a) Opposing Carrying Charges for All Deferrals and (b) Extending Amortization Periods to Five Years are Unreasonable and Should Be Rejected.

The Commission should reject Staff's recommendations opposing carrying charges for all deferrals and extending amortization periods for the regulatory assets over a five year period beginning with the next general rate case because they are unreasonable and arbitrary, as more specifically explained in the Company's response to the Joint Parties' Comments below. If no

return on investment or carrying charge is applied after the next general rate case, then the recovery of shareholder investment should occur as quickly as possible so that shareholders are not penalized for a Transaction that provides benefits to customers. If the Commission does not adopt the Company's ratemaking recommendations, the Company alternatively recommends that ratemaking treatment of the regulatory assets be determined in the next general rate case.

RESPONSE TO JOINT PARTIES' COMMENTS

I. The Evidence Shows the Transaction is in the Public Interest and Prudent, and There Is No Reason to Delay Such Finding; Moreover, Idaho Law Requires a Finding of Public Interest.

While the Joint Parties do not support a finding that the Transaction is prudent and in the public interest, the Joint Parties indicate they are not "challenging in this proceeding the prudence of the Company's actions with respect to *moving forward with the Transaction*."⁸ Despite this, they claim that "it is not necessary or desirable for the Commission to make a prudence finding in this proceeding, outside of a general rate case and prior to all of the Transaction costs being known."⁹ The Joint Parties' sole argument supporting this recommendation is that all of the Transaction costs are not yet known.¹⁰

This argument does not support the Joint Parties' recommendation that the Commission not make a prudence finding. First, the Joint Parties fail to explain how the Company can "*move forward*" with the Transaction without obtaining Commission approval pursuant to *Idaho Code* § 61-328. That provision *requires* a finding that the "transaction is consistent with the public interest." Second, the Company has provided evidence demonstrating that the Transaction results in over \$200 million of net benefits to customers as compared to the alternatives of the

⁸ Joint Comments of the Monsanto Company and the PacifiCorp Idaho Industrial Customers, Case No. PAC-E-14-10, p. 5 (April 23, 2015) (emphasis added).

⁹ *Id.* p. 5.

¹⁰ *Id.*

“Keep Case” (i.e., maintaining the status quo) and the “Market Case.”¹¹ The Company’s detailed analyses are reasonable and reliable and support the overall net benefits calculation.

To support the net benefits calculation, the Company provided work papers that account for the mine’s extensive infrastructure and estimated labor hours and subsequent workforce required to close the mine, along with other reasonable and reliable assumptions to determine projected costs. Any variations that may occur between the projected costs and actual costs will not make a discernable difference relative to the net benefits. Finally, because the Transaction includes conditions precedent requiring regulatory approval acceptable to the parties, there is no question that deferring approval will impede the Transaction.¹²

II. Deferral of Costs Is Not Single Issue Ratemaking.

The Company has requested approval of the Transaction and the ability to defer Transaction-related costs for later consideration and recovery in a general rate case. It has not requested approval to reset general rates or that a single-item surcharge be implemented to begin recovering the costs. The application for deferral, therefore, does not constitute single-item ratemaking. The deferral of costs is a normal tool available in the regulatory process to deal with unique situations like the one presented in this case. In addition, absent the Company’s request for deferral, the Transaction-related costs would flow through fuel expense as recognized or incurred and would impact the ECAM balances (although at a 90/10 sharing) and associated ECAM cost recovery process all in one year.

III. The “Depreciation Reserve Methodology” Is Punitive and Ignores the Significant Customer Benefits of the Transaction; In Any Event, the Cases Cited Do Not Support the Claim that the Commission Has Historically Relied on the Depreciation Reserve Methodology for Allocating *Losses* Associated with the Disposition of Utility Property.

¹¹ See Direct Testimony of Cindy A. Crane, p. 32, lines 6-9.

¹² See *id.*, p. 2, lines 21-23.

The Joint Parties' proposal to share the costs of the unrecovered mine investment, direct closure costs, UMWA medical settlement and the 1974 Pension Trust withdrawal payments based on the "Depreciation Reserve Methodology" is extremely punitive and ignores the significant customer benefit provided by the Transaction and should be rejected. In effect, the Joint Parties want 100% of the future benefits of the Transaction from the new CSA, but want the cost of achieving the benefits shared with the Company's owners.

In any event, the Joint Parties mischaracterize the cases they cite to support their contention that the Commission has historically used the depreciation reserve methodology to allocate *losses* related to the disposition of utility property. First, in Case No. PAC-E-99-2, the Commission specifically indicated that "the Company has not proposed nor do we make any rate base adjustment in this case *related to the loss* of Centralia as a Company-owned resource. We will address the regulatory and rate base adjustments for Centralia in the Company's next general rate case when removal of the resource can be viewed in context with all related revenue, expense, supply and operational ramifications."¹³ Similarly, the Commission in Case No. AVU-E-99-6 stated, in response to a proposal from Potlatch Corporation to remove Centralia from rate base immediately and to make related adjustments to the revenue requirement and rates of Avista: "[W]e find the Company and Staff arguments against this change to be persuasive. We will address the regulatory and rate base adjustments for Centralia in the Company's next general rate case when removal of the resource can be viewed in context with all related revenue, expense, supply and operational ramifications."¹⁴ The Commission findings in the cases cited by

¹³ See *In re the Application of PacifiCorp for an Order Approving the Sale of its Interest in (1) the Centralia Steam Electric Generating Plant, (2) the Rate Based Portion of its Centralia Coal Mine, and (3) Related Facilities; for a Determination of the Amount of and the Proper Ratemaking Treatment of the Gain Associated with the Sale; and (4) an EWG Determination*, Case No. PAC-E-99-2, Order 28296, at 8 (March 2000) (emphasis added).

¹⁴ See *In re the Application of Avista Corporation for Authority to Sell Its Interest in the Coal-Fired Centralia Power Plant*, Case No. AVU-E-99-6, Order 28297, at 8 (March 2000).

the Joint Parties dealt only and specifically with the use of the depreciation reserve methodology for allocating *gains*. Indeed, in one of those cases, the Commission explicitly found that it would not make findings related to the losses, contrary to what the Joint Parties claim.

The Joint Parties ignore the significant net benefits and savings to customers in the amount of over \$200 million. The Company adamantly disagrees with the Joint Parties' one-sided recommendation to take all of the benefits for customers while recommending that the Company absorb a significant portion of the unrecovered mine investment and/or costs incurred to facilitate the Transaction. This recommendation is inequitable and should be summarily rejected. Nevertheless, if the Commission adopts it, it should also adopt a sharing of the Transaction benefits by the same percentages offered by the Joint Parties.

IV. The Balances of the Deer Creek Mine and the Mining Assets Should Continue to Be Amortized Consistent with the Current Rate of Depreciation Reflected in Base Rates So that the Company May Fully Recover Its Unrecovered Investment During the Same Period It Would Have Recovered the Investment But for the Transaction.

It would be unreasonable and punitive for the Commission to order amortization periods for the recovery of the unrecovered investment in the Deer Creek Mine and the Mining Assets that are longer than the assets' current rate of depreciation reflected in base rates, as recommended by parties in this case – particularly if continued rate base treatment of the unrecovered investments at the Company's authorized rate of return is not assured. The Joint Parties recommend that these amounts be amortized over seven years if the depreciation reserve methodology is used to address the losses, i.e., the unrecovered investment, or nine years if the methodology is not used. Staff recommends that the amounts be amortized over five years from the time rates from the next general rate case are reset. However, if the Company were to do nothing (i.e., not close on the Transaction, keep the mine open and operating, etc.), the Company

would finish collecting its unrecovered investment in the Deer Creek Mine in 2019, consistent with the remaining life of those assets. The parties' proposals to extend the amortization period beyond that date ignores this fact and are unreasonable when viewed against this backdrop. Adopting their proposals would discourage utilities from taking advantage of beneficial opportunities for customers. Further, with their proposals they expect the Company's shareholders to finance the assets for longer amortization periods, even though the Transaction provides substantial benefits to customers, as compared to the status quo. Extending the amortization period simply provides more benefits to customers at the Company's expense. For these reasons, the Commission should reject contrary recommendations and approve the Company's proposal to amortize the Deer Creek Mine and the Mining Assets as set forth in its Application, including the Company's request for continued rate base treatment of the unrecovered investments throughout the recovery period.

V. Carrying Charges

- a. Allowing Carrying Charges on the Amounts for Unrecovered Investments that Flow Through the ECAM During the Period When Balances Are Awaiting Review and Collection Is Just and Reasonable.

The Commission should allow carrying charges on the amounts for unrecovered investments that would qualify as net power costs under the ECAM during the pending collection period. During the period in which these costs are awaiting collection after the year in which they are deferred to the ECAM, it is reasonable for the Company to collect the time value of money, at the rate the Company currently collects for all other balances in the ECAM. The Company is allowed to do so with all of its other net power costs that are also awaiting collection. The costs from the Transaction should be no different, in particular in situations, such as this one, where the Company's actions should be encouraged rather than discouraged.

b. Allowing Carrying Charges at the Company's Overall Rate of Return on Deferred Closure Costs during the Period When Balances Are Awaiting Review and Collection, as Well as During Collection, Is Just and Reasonable.

The Commission should allow carrying charges on amounts related to closure costs that will be deferred for later collection to the extent these costs have been funded as proposed in the Company's Application. The Joint Parties' proposal (as well as Staff as mentioned above) would limit the Company's ability to fully recover its costs to complete the Transaction. To fund the closure costs, the Company must incur financing costs. As the Company seeks to share 100 percent of the benefits of the Transaction with customers, it would be unreasonable to not allow the Company to fully recover the costs of completing the Transaction, including financing costs for the time value of money. This Transaction will result in significant benefits for Idaho customers. The Company should be allowed to accrue a carrying charge on costs incurred and funded to complete the Transaction at the Company's current rate of return.

The cases cited by the Joint Parties as precedent for approving deferred accounts with no carrying charge are very different from this case. In Case No. IPC-E-06-06, Idaho Power sought deferral of costs incurred to develop the Grid West Regional Transmission Organization, the development of which was unsuccessful. Here the Company has shown that the Transaction is, by far, the best of the alternatives related to the Deer Creek Mine and Mining Assets, and it will save customers hundreds of millions of dollars, relative to the "Market Case" and the "Keep Case" (both as defined in the Application). Neither the Staff nor the Joint Parties dispute this point. This situation is not, as suggested, an "attempt" to do something that *might* benefit Idaho customers. The Company's analysis shows that this Transaction is in customers' best interests because it will save customers hundreds of millions of dollars.

In Case No. IPC-E-091-21, Idaho Power sought deferral of costs related to the under-recovery of transmission revenues from legacy transmission agreements not recoverable through formula transmission rates. That situation is very different from this case. Faced with a ballooning pension trust liability, significantly higher operating and fueling costs at the Deer Creek Mine, and other difficult and potentially costly circumstances, the Company proactively sought the Transaction. The Company was diligent and methodical in its planning with regard to each of the components of the Transaction and was able to achieve a beneficial path forward, as its detailed analyses show. It would be punitive to deny the Company the ability to recover its financing costs for the Transaction under these circumstances. For these reasons, the Commission should allow the Company to accrue a carrying charge equal to the Company's overall rate of return or, in the alternative, at the Company's cost of debt, for all deferral balances during the period when the balances are awaiting review and collection, as well as rate base treatment of any unamortized balances during the collection period.

VI. Recovery of CWIP and PS&I Costs Is Reasonable Because the CWIP Includes Project Costs Incurred in the Normal Course of Business.

The Company disagrees with the Joint Parties' recommendations to deny recovery of CWIP and PS&I costs for several reasons. First, as noted, the components of the Transaction are a package that will provide significant benefits to customers. Second, the CWIP the Company is seeking to recover includes project costs incurred in the normal course of business, such as the costs necessary to maintain the mine's conveyor belts. The PS&I costs are related to drilling. All of these costs were necessarily incurred to support ongoing mine operations prior to a determination to close or sell the mine. As such, if the Company were not pursuing the Transaction, these projects would have been completed and the incurred costs would have been placed in plant-in-service and recovered in the normal course of business. It is unreasonable to

prevent the Company from an opportunity to recover costs it otherwise would incur (and which were unavoidable) merely because there was a later decision to close the mine. Furthermore, it is important to note that virtually no work was performed on these projects in 2014. The Company made the prudent decision to put these projects on hold while the union and Bowie Resource Partners LLC negotiations were occurring, rather than completing the projects and putting them in service, only to have a higher balance of unrecovered plant. Given this, the Company should not be penalized for having made the prudent decision to reduce costs. In addition to allowing an opportunity for future recovery of the CWIP and PS&I balances, the Commission should allow the Company to accrue a carrying charge on the CWIP regulatory balance at the Company's overall rate of return or, alternatively, at the Company's authorized cost of debt until it is included in base rates with rate base treatment upon the effective date of the next general rate case.

VII. Deferral of Supplemental Unemployment and Medical Benefits for Union Employees, Severance for Non-union Employees and the On-Going Labor and Other Closure Costs Is Necessary If the Commission Deems the Transaction to Be Prudent and in the Public Interest.

The Joint Parties' recommendation to deny the deferral of closure costs related to labor is unreasonable. If the Commission approves the Transaction as prudent and in the public interest, the Company must necessarily incur costs related to the labor required to close the Deer Creek Mine and triggering of the 1974 Pension Trust withdrawal, which was a significant driver of the Transaction. It is not unreasonable for these employees to receive supplemental unemployment, medical and severance benefits. Moreover, the Company is contractually obligated to provide the supplemental unemployment and medical benefits to union employees under the labor agreement. For parties to argue that these labor costs are "discretionary" and should therefore not be deferred is disingenuous. On the one hand, they acknowledge the "financial exposure to

ratepayers of failing to withdraw from the 1974 Pension Trust,” and yet, on the other hand, they recommend denial of the deferral of the very costs that must be incurred to close the Mine so that the Company can withdraw from the 1974 Pension Trust to limit the admitted financial exposure to customers.

As to the Joint Parties’ argument that these costs were not unforeseen, are not known and measurable, and do not have a material impact on the Company’s financial integrity, the Company was working throughout 2014 to negotiate a labor deal with the UMWA. The final labor settlement agreement was not reached until October 2014 and provided for release of the UMWA’s jurisdiction over the Preparation Plant. This was a necessary prerequisite to trigger withdrawal from the 1974 Pension Trust. The final union settlement on retiree medical benefits was not reached until December 8, 2014, and the Bowie documents were not executed until December 12, 2014. Although the Company was working toward completing the different components of the Transaction during 2014, it had no assurance that these would be successfully resolved or when that might occur.

If the Commission decides that the Transaction is prudent and in the public interest, the Company should be able to defer the costs necessary to close the Mine. The Joint Parties do not provide a good reason for the Commission to deny this request. This is a unique situation that provides significant savings and benefits to customers and should be encouraged not punished. For the foregoing reasons, the Commission should reject their recommendations to deny deferral of supplemental unemployment and medical benefits for union employees, severance for non-union employees and the on-going labor and other closure costs related to the Transaction.

VIII. Deferral of the Pension Withdrawal Liability Is Not Only Required, But Is Necessary to Avoid an Immediate Expense that Would Otherwise Be Recoverable through the ECAM.

In their comments, the Joint Parties also claim that deferral of the Pension Withdrawal Liability is unnecessary and that, in any event, the liability recovered by the Company should be limited to the perpetuity value to ratepayers of the annual withdrawal payments at the current authorized rate of return, which they calculate to be █████ million. The Joint Parties claim the Company should simply continue paying the approximate \$3 million annual payments in perpetuity and only be able to defer a portion of the actual liability. In making these arguments, the Joint Parties misunderstand what the Company proposes, and their recommendations would, rather than benefitting customers, result in more cost to customers.

As already noted, the closure of the Transaction necessitates a finding as to the deferred accounting of the related costs, balances, and losses, and *Idaho Code* § 61-524 gives the Commission broad discretion in this regard to ensure that the proposed deferred accounting is appropriate and in the public interest. Here, the Company's proposal is clearly in the public interest and the most prudent course of action.

By withdrawing from the 1974 Pension Trust, the Company will be responsible to either pay the annual liability payments in the approximate amount of \$3.0 million per year, in perpetuity, or negotiate a prepayment of the annual amount in a lump sum. In either case, if the Pension Liability is not deferred as the Company proposes (and treated as a regulatory asset), the Company would immediately have to record the full liability as a fuel expense on its books, and that expense would be captured in the ECAM and thus reimbursed by customers albeit subject to the sharing band. As such, under the Joint Parties' approach, customers would immediately face increased rates to account for this liability, rather than having the issue deferred and amortized.

The Company's proposal, by contrast, is to defer the liability and continue paying the \$3 million annual payments until the earlier of (1) the Company negotiating a prepayment of the

annual installments in a lump sum at a favorable value to customers or (2) the plan terminates and the liability and associated regulatory asset can be finally quantified. At that point, the Company would adjust its liability to reflect the amount that is owed and would begin amortizing the regulatory asset. Rates would then reflect recovery of the amortization and rate base treatment of the portion of the unamortized balance funded by the Company.

Further, the Joint Parties' calculation of the Pension Withdrawal Liability is incorrect. Accounting rules require the Company to reflect the full amount of the liability. At the time of the filing the Company's Application, the withdrawal liability was estimated to be [REDACTED] million. As Staff noted, GAAP rules require that this amount be recorded at its present value using a risk-free rate.¹⁵ At the time of filing the Company's Application, the present value of the withdrawal liability using the 30-year treasury rate of 3.0844 percent (the rate projected for November 30, 2014) was approximately \$ [REDACTED] million.¹⁶ If the Commission were to adopt the Joint Parties' approach, which undervalues the full extent of the withdrawal liability and does not comply with accounting principles, the Company would have to immediately book the difference between the amount suggested by the Joint Parties and the full liability amount as expense. Since the pension costs are fuel-related, they would be captured in the ECAM and customers would be responsible for 90 percent of the full liability in one year, causing significant customer rate impact. Thus, the Company's proposal to defer the loss resulting from the Pension Withdrawal Liability and continue recovery of the annual payments should be approved.

IX. The Joint Parties' Recommendations Related to the Return on Mining Assets and the Fuel Inventory, as set forth in (a) and (b) Below, are Exercises of Single-Issue Ratemaking and Should Be Rejected.

¹⁵ Comments of the Commission Staff, Case No. PAC-E-14-10, p. 7, n.1 (April 24, 2015).

¹⁶ *Id.*

The Company's Application seeks approval of several deferrals to account for estimated costs, balances, and losses that it will incur, to be trued-up when actuals are known, as a result of entering into the Transaction. The Company's proposal does not result in changes to current rates and preserves the ability to address the costs associated with the Transaction in a future ratemaking proceeding. To the contrary, the Joint Parties make recommendations that are exercises of single issue ratemaking and harmful to the Company.

- a. Requiring a Reduction of the Transaction Costs that will Flow through the ECAM in an Amount Equal to the Idaho-Allocated Return on the Mining Assets Already Reflected in Rates until It Is Removed from Rates in the Next General Rate Case Is Arbitrary and Asymmetrical and Should Be Rejected.

First, the Joint Parties recommend an immediate reduction of estimated costs that would flow through the ECAM equal to the Idaho-allocated return on the mining assets that the Company is currently collecting through rates. This is single-issue ratemaking and should be rejected. As the Joint Parties state in their comments “[S]ingle-issue ratemaking ignores the multitude of other factors that otherwise influence rates, some of which could, if properly considered, move rates in the opposite direction from the single-issue change.”¹⁷ Considering some costs or revenues in isolation, as the Joint Parties recommend for the return on mining assets here, might cause a commission to order a reduction to costs a utility is currently collecting without recognizing counterbalancing savings in other areas or to the utility's overall earnings level relative to its authorized rate of return.

- b. Recognizing the Projected Earnings on the Reduction in Fuel Inventory in the Deferral and Crediting them Against the Inventory Write-Off, and Requiring the Excess to Be Credited Against the Remaining Regulatory Assets Is Single-Issue Ratemaking and Should Be Rejected.

¹⁷ Joint Comments of the Monsanto Company and the PacifiCorp Idaho Industrial Customers, Case No. PAC-E-14-10 (April 23, 2015), p. 5.

Second, in exchange for the deferral of certain inventory write-offs the Company will have as a result of the Transaction, the Joint Parties recommend that the reduction in fuel inventory also be deferred and credited against the inventory write-off, and that any excess be credited against the remaining regulatory assets. This too is single-issue ratemaking and should be rejected for the same reasons cited above.

Fluctuations in inventory levels and plant in-service balances are normal. Idaho's allocated rate base has increased over \$85 million since rates were last adjusted. Singling out the return on the Deer Creek unrecovered plant and fuel inventory while completely ignoring all other capital investments made by the Company since rates were last set is single-issue ratemaking.

The Transaction is a unique and beneficial opportunity for customers that merits unique treatment. As shown, the Transaction generates over \$200 million of reduced costs, i.e., savings for customers. The Company only seeks equitable and reasonable treatment that will not negatively impact the Company's earnings, and that will allow the Company to recover all investment and costs incurred to deliver these customer savings. The Joint Parties' recommendations regarding the return on mining assets and the fuel inventory are asymmetrical and financially harmful to the Company. It would discourage utilities from taking advantage of opportunities that could potentially deliver substantial benefits and savings to customers. For these reasons, the Commission should reject the Joint Parties' recommendation and leave the ratemaking treatment of the return on the mining assets and the reduction of fuel inventory until the next general rate case.

X. The Company Does Not Oppose the Joint Parties' Recommendations Regarding the Joint-Ownership, Royalty Costs, Waiver of Sharing Bands in the ECAM and Retiree Medical Obligation.

The Joint Parties have made recommendations in their Joint Comments that the Company does not oppose.

First, the Joint Parties argue that, because other third parties who own interests in Hunter Units 1 and 2 would receive some benefit from the Transaction, the Company's recovery should be reduced to reflect the portion of the assets required to serve the non-Company-owned portion of the Hunter Plant. The Company does not oppose this recommendation. Contrary to the Joint Parties' suggestion, the Company always intended for its recovery to be adjusted to reflect the portion of the Transaction costs that are allocable to non-Company ownership interests. Indeed, as the Joint Parties note, the Company addressed this issue in discovery in this matter, acknowledging that this adjustment would result in a 3.73% reduction in specified amounts.¹⁸ The Joint Parties have stated that they "believe this adjustment is reasonable."¹⁹

Second, in their comments, the Joint Parties recommend that, given some uncertainty in the exact amount of the royalty costs associated with the mine closure, the Commission should require that the final recovery of these costs should be based on the royalties actually charged, rather than estimates. The Company is not seeking to recover the estimated royalty amounts; the intent has always been to only recover the actual amounts incurred when those amounts are finally determined.²⁰

Third, in its Application, the Company is seeking to have the depreciation and operating expenses of the mine and the mining assets (which are currently included in net power costs), together with the costs and benefits of a replacement coal supply, be subject to the ECAM

¹⁸ Joint Comments of the Monsanto Company and the PacifiCorp Idaho Industrial Customers, Case No. PAC-E-14-10, p. 21.

¹⁹ *Id.*

²⁰ The Company opposes the Joint Parties' recommendation to cap the royalty payments. Their recommendation is based on a misunderstanding of the agreed upon terms in the Wyoming stipulation. The limitation agreed to in Wyoming pertains only to those areas of the mine for which abandonment royalties were deemed by the Company as ██████ of being incurred and thus ██████ costs for these royalties were included in the Company's Application.

without application of the 90/10 sharing band. In their comments, the Joint Parties propose a “one-time, non-precedential exception that would grant RMP’s request to flow the change in coal supply costs associated with the Transaction through the ECAM without the 90/10 sharing mechanism, as well as the amortization expense associated with the Deer Creek Mine and the Mining Assets.”²¹ The Company does not oppose this recommendation.

Finally, the Joint Parties note that the Company has requested deferral of approximately \$■ million for Retiree Medical Obligations, \$■ million for an income tax regulatory asset, and \$■ million for unrecovered asset retirement obligation costs. The Joint Parties do not oppose the Company’s proposed deferral of the Retiree Medical Obligations or the unrecovered ARO costs. They recommend, however, that the proposed income tax regulatory asset deferral be approved “to the extent it offsets what would otherwise be a duplicate tax benefit to customers, and RMP maintains in its Response to Monsanto Data Request 2.5.”²² The Company does not oppose this recommendation.

CONCLUSION

The Company has demonstrated that the Transaction is prudent and in the public interest and the evidence fully supports that conclusion. As such, the Commission should approve the Transaction, determine that it is prudent and in the public interest and authorize accounting orders allowing the Company to defer costs, balances and losses related to the Transaction. In addition, with the exception of the matters the parties agree upon, and given the unique nature of the Transaction and the work and diligence undertaken by the Company to secure substantial net benefits and savings for customers that resulted from these efforts, the Commission should reject the Staff’s and the Joint Parties’ recommendations discussed above because they are (1) punitive,

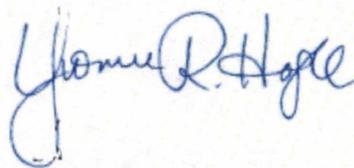
²¹ *Id.*, p. 23.

²² *Id.*, p. 27.

asymmetrical, and employ single-item ratemaking that would not allow the Company a reasonable opportunity to recover the costs incurred to facilitate this Transaction, (2) not consistent with the fact that the Transaction is in the public interest and the best alternative available for the Company to pursue, and (3) not consistent with accounting and regulatory principles.

DATED this May 15, 2015.

RESPECTFULLY SUBMITTED,
ROCKY MOUNTAIN POWER

A handwritten signature in blue ink, appearing to read "Yvonne R. Hogle". The signature is written in a cursive style with a large initial "Y".

R. Jeff Richards
Yvonne R. Hogle

CERTIFICATE OF SERVICE

I hereby certify that on this 15th of May, 2015, I caused to be served, via e-mail and overnight delivery, a true and correct copy of the foregoing document in PAC-E-14-10 to the following:

James R. Smith (E-mail only)
Monsanto Company
P.O. Box 816
Soda Springs, Idaho 83276
jim.r.smith@monsanto.com

Randall C. Budge (C)
Racine, Olson, Nye, Budge & Bailey,
Chartered
201 E. Center
P.O. Box 1391
Pocatello, ID 83204-1391
rcb@racinelaw.net

Brad Mullins (C)
333 SW Taylor Street, Suite 400
Portland, OR 97204
brmullins@mwanalytics.com

Ted Weston
Rocky Mountain Power
201 S. Main Street, Suite 2300
Salt Lake City, Utah 84111
Ted.weston@pacificorp.com

Ronald L. Williams (C)
Williams Bradbury, P.C.
1015 W. Hays St.
Boise ID, 83702
ron@williamsbradbury.com

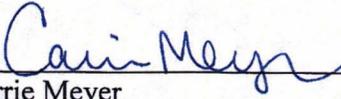
Data Request Response Center
PacifiCorp
825 NE Multnomah Street, Suite 2000
Portland, Oregon 97232
datarequest@pacificorp.com

Yvonne Hogle
Rocky Mountain Power
201 S. Main Street, Suite 2400
Salt Lake City, Utah 84111
Yvonne.hogle@pacificorp.com

Val Steiner (E-mail only)
Agrium Us Inc., Arlu-West Industries
3010 Conda Rd
Soda Springs, ID 83276-5301
val.steiner@agrium.com

Jim Duke (E-mail only)
Idahoan Foods
357 Constitution Way
Idaho Falls, ID 83742
jduke@idahoan.com

Neil Price
Idaho Public Utilities Commission
Neil.price@puc.idaho.gov



Carrie Meyer
Supervisor, Regulatory Operations