

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. PAC-E-17-06
OF ROCKY MOUNTAIN POWER FOR)
BINDING RATEMAKING TREATMENT)
FOR WIND REPOWERING) ORDER NO. 33954
)

On July 3, 2017, PacifiCorp dba Rocky Mountain Power applied for approval of its plan to upgrade (or “repower”) its existing wind resources and approval of associated ratemaking treatment. The Company claimed that repowering its wind resources would increase production, reduce costs, and qualify for federal production tax credits (PTCs). The Company estimated upgrading the system would increase output by an average of 19% with no additional facilities. The Company estimated the project would cost about \$1.13 billion. Because of the large scale of the project, the Company is seeking Commission approval before starting the project.

The Commission issued a Notice of Application. Order No. 33821. The Commission granted intervention to Monsanto Company, PacifiCorp Idaho Industrial Customers (PIIC), and the Idaho Irrigation Pumpers Association, Inc. (IIPA). Order Nos. 33822, 33835, and 33846. The parties conferred and agreed upon a schedule for processing the case, which the Commission adopted. Order No. 33850. The parties then met several times to discuss settlement and ultimately settled the issues in the case. *See* Order No. 33927. Rocky Mountain Power filed the Settlement Stipulation with the Commission, and the Commission issued a Notice of Settlement and adopted a new schedule for processing the case under Modified Procedure. *See* Order No. 33939. Staff and Rocky Mountain Power timely filed comments to support the Stipulation. No other comments were received. The Commission now issues this Order approving the Stipulation, based on the record as it stands today. The Commission expects the Company to provide additional analysis as it becomes available, as discussed further below.

THE APPLICATION

The Company proposed to modernize most of its wind generation resources in Wyoming, Washington, and Oregon. Collectively, the facilities represent 999.1 megawatts (MW) of installed capacity (594 MW, Wyoming; 304.6 MW, Washington; and 100.5 MW, Oregon). Application at 4. Upgrades include new rotors with longer blades and new nacelles with higher-capacity generators. *Id.* The Company estimates these changes will cause an 11% to 35% increase in wind generation, for an average of 19%. *Id.* at 5.

Besides increased generation, the Company claimed repowering would allow for greater control over quality and voltage, allowing for greater reliability. *Id.* Additionally, the Company stated repowering would reduce future operating costs and extend the useful life of each plant by approximately 10 years, without the cost and complication of permitting and constructing new facilities. *Id.*

The Company explained that the cost-effectiveness of repowering is “driven in part by the fact that repowering requalifies the Company’s existing wind facilities for PTCs, which are set to expire 10 years from their original commercial operation date (expiration dates range from 2016 through 2020).” *Id.* To requalify for PTCs, the repowered facilities must meet the Internal Revenue Service’s (IRS) 80/20 test—the fair market value of the retained property (that is, the tower and foundation) must be no more than 20% of the facility’s total value after installation of the upgrade (the nacelle and rotor). *Id.* The Company explained it has designed the repowering project to meet this requirement.

The Company further explained its efforts to ensure the repowered facilities are eligible for all available PTCs. *Id.* at 6. The Company has agreed to buy necessary equipment from General Electric, Inc. and Vestas-American Wind Technology, Inc. *Id.* According to the Company, “these safe-harbor equipment purchases allow the repowered facilities to qualify for 100 percent of the value of available PTCs if they are commercially operational by the end of 2020.” *Id.* The Company estimated that to meet installation timelines, it will need Commission approval for the project by December 29, 2017, and requested such a processing timeline. *Id.*

The Company explained that its 2017 IRP (Case No. PAC-E-17-03) identified wind repowering as a least-cost, least-risk resource. *Id.* at 6-7. In addition, the Company conducted a “comprehensive economic analysis” of the project, which demonstrated it would provide \$41 million to \$589 million in customer benefits, depending on assumptions and scenarios. *Id.* at 7.

The Company requested binding ratemaking treatment under *Idaho Code* § 61-541. *Id.* at 8. It proposed to track repowered wind project expenses using a Resource Tracking Mechanism as a component of the Company’s Energy Cost Adjustment Mechanism (ECAM), until the costs and benefits are fully included in base rates. *Id.* at 12. The Company proposed that customers receive 100% of the benefit of incremental energy generated from the projects. *Id.* Once fully in base rates, only the incremental fluctuations associated with production and PTCs would continue to be tracked in the ECAM. *Id.* Further, the Company explained it intends to file new

depreciation rates in 2019, when it will reset the 30-year depreciable life of the repowered facilities. *Id.* This effectively extends the depreciable life of the facilities by 10 to 13 years. *Id.*

Finally, the Company asked to include the remaining book value of the replaced assets in accumulated depreciation reserve and to continue to recover these costs in rates. Larsen Direct at 2. According to the Company, “[t]he remaining original investment plus new capital additions will be depreciated using current depreciation rates until the Company’s next depreciation study.” *Id.* at 15.

In sum, the Company asked the Commission to issue an order (1) finding that the wind repowering project is prudent and in the public interest; (2) approving the proposed binding ratemaking treatment for the repowering project; and (3) approving the continued rate recovery of and on the replaced assets associated with the repowering project as described in the testimony of Company witness Mr. Larsen. Application at 13-14.

THE SETTLEMENT STIPULATION

The parties’ Stipulation is summarized as follows:

1. Overview

If approved, PacifiCorp would use its ECAM to recover the replacement of certain assets, new investment, incremental energy production, and wind repowering project PTCs through the Resource Tracking Mechanism. The Resource Tracking Mechanism and ECAM will capture the costs and benefits of the repowered wind facilities until they are recovered in base rates through a general rate case.

2. Resource Tracking Mechanism

Customers will receive 100% of the benefit of the incremental energy produced by the repowered facilities. Under the ECAM’s existing sharing bands, the Company credits customers with 90% of the benefits from incremental energy production and retains the remaining 10% for itself. The Resource Tracking Mechanism will return to customers the Company’s 10% associated with the wind repowering project, so that customers will receive 100% of the benefit of the incremental energy produced by the repowered facilities.

The Resource Tracking Mechanism calculation will use a pre-tax return on investment rate of 10.4%, or an after-tax return on investment rate of 6.45%. The Company will begin deferring the cost and benefits for each repowered facility in the first month after its in-service date. The Company has agreed to maintain a cap in the Resource Tracking Mechanism until its next general rate case where it may ask, if appropriate, to remove the cap.

3. *Change in Circumstances*

The parties agreed, if there is a significant change in circumstances, such as changes to the federal tax code, or a change in the projected costs or benefits to the project, that the parties may initiate a further review before the Company proceeds. The Stipulation also includes a “more favorable terms and conditions” clause allowing the parties to reconvene and amend the Stipulation, with Commission approval, if more favorable terms are reached in Utah or Wyoming.

4. *Signing Parties*

The Company, Commission Staff, Monsanto, the IIPA, and the PIIC signed the Stipulation and represent it is in the public interest and is fair, just, and reasonable.

THE COMMENTS

1. *Commission Staff*

Commission Staff supported the Stipulation. Staff Comments at 2. Staff reviewed the Application and Stipulation to determine whether the repowering project is prudent and to evaluate the Resource Tracking Mechanism.

Regarding the prudence review, Staff reviewed the Company’s economic analysis of the project, and believed the assumptions used in the analysis are reasonable and, in the case of natural gas price assumptions, may be conservative. *Id.* at 3, 5. Staff thus believed the Company’s economic analysis is reasonable. *Id.* at 3.

Staff also analyzed potential risks to the project that could increase costs or reduce benefits, and believed the Stipulation mitigates many of these risks. *Id.* While some risk remains, Staff believed it is acceptable. *Id.* Specifically, Staff identified a risk that the project may fail to qualify for PTCs under IRS rules. Staff believes the Stipulation mitigates this risk by stating that the Company bears the risk of losing PTCs if the project does not qualify. *Id.* at 4. Staff expects that if the project does not qualify, “the Company will calculate PTC benefits to be passed through the ECAM to ratepayers as if full PTC benefits are being realized for the ten years the Company is eligible.” *Id.* Staff further explained that the Company has designed the project and mitigated the risk of the project failing to qualify for PTCs. *Id.*

Staff also identified a risk that the federal corporate income tax rate may change, which could significantly reduce the revenue requirement benefit of the PTCs from the project. Staff believed the Stipulation mitigates this (and other) risks with a provision that if there is a material change in circumstances, including a change to federal tax laws or changes in projected costs or

benefits, the Company will make a filing with the Commission to allow for additional review and a determination whether the Company should proceed. *Id.* at 4-5.

Staff also described provisions of the Stipulation that mitigate other risks. For example, the Stipulation requires the Company to pass on to ratepayers all liquidated damages it receives from equipment suppliers in case the repowered equipment does not meet specified availability, performance, or installation schedule requirements. *Id.* at 4. As another example, the Stipulation's Resource Tracking Mechanism caps the Company's annual actual cost by the amount of annual benefits, thereby mitigating the risk that costs will exceed estimates and reduce net benefits. *Id.* Further, parties retain the ability to challenge the prudence of actual costs and benefits incurred with the project when the Company seeks recovery of the costs in a later proceeding. *Id.* at 8. In addition, the Company will provide a report of net power cost and PTC benefits associated with the project, which Staff explained would enable parties to challenge recovery of costs and benefits associated with the project. *Id.*

Staff also described natural gas price risk. If natural gas prices are less than the Company assumes, then the project's net benefits also will be less than estimated. *Id.* at 5-6. While the impact of lower natural gas prices could be large, Staff believes the natural gas price risk is low. *Id.* Staff compared the Company's natural gas price forecasts with those of the U.S. Energy Information Administration (EIA), and found that the Company's forecasts are "consistently lower" than the EIA's. *Id.* at 5. Staff thus believed the Company's forecasts are conservative, and explained that if actual gas prices are closer to EIA's forecasts, there will be more benefits than the Company has estimated. *Id.* Staff also noted that some of the risk mitigation provisions discussed above could mitigate the natural price risk. *Id.* at 6.

Staff discussed remaining risks—such as CO₂ costs and changed wind capacity factors—and believed the risks are low. *Id.* at 6-7.

Further, Staff supported the cost recovery provisions of the Stipulation. Staff supported the Resource Tracking Mechanism and explained it "will ensure an equitable match of project costs with project benefits until the project can be included in base rates." *Id.* at 8-9. Staff explained that the Resource Tracking Mechanism passes 100% of net power cost benefits to customers, while the ECAM would normally only pass 90% through due to customer sharing. *Id.* at 9.

Staff explained that the Stipulation includes an option to extend the Resource Tracking Mechanism—including the cost cap—past the next general rate case and to keep recovery of the

project separate from base rates. *Id.* Staff believed this option should be considered in the next rate case because it would allow customers to benefit from declining capital recovery costs. *Id.* The alternative—including the project in base rates—would hold project capital costs at test year amounts. *Id.*

Staff supported the pre-tax return on investment, 10.4%, agreed to in the Stipulation for calculating the resource tracking mechanism revenue requirement (which equates to an after-tax return on investment of 6.45%). *Id.* at 10-11. Staff also discussed its support of the Stipulation's provision to consider any future settlements reached in other jurisdictions and the provisions relating to the disposition of replaced assets. *Id.* at 11.

In sum, Staff supported the Stipulation and recommended the Commission approve it as filed. *Id.*

2. Rocky Mountain Power

The Company explained all parties negotiated the Stipulation in good faith. Company Comments at 4. The Company acknowledged that any project has risks, and described that the Stipulation has protections and off-ramps to protect customers and the Company from risks within the Company's control. *Id.*

The Company described the provision regarding material changes in circumstances. *Id.* The Company explained it has committed (in dockets in Utah and Wyoming) to provide an updated analysis of the project, incorporating the results of the final equipment selected, any contract terms, and the most current information regarding tax reform. *Id.* The Company committed to provide this analysis to this Commission and parties by February 7, 2018. *Id.* The Company explained that if this analysis results in a material change to the project, the Company would make a supplemental filing per the Stipulation to allow the Commission and parties an additional formal opportunity to review. *Id.* at 4-5.

Thus, the Company asked the Commission to approve the Stipulation as filed and issue an order: (1) finding the wind repowering project prudent and in the public interest; (2) approving the Resource Tracking Mechanism as described in the Stipulation; and (3) approving the continued rate recovery of and on the replaced assets associated with the wind repowering project. *Id.*

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-502 and 61-503. Under Rule 276 of the Commission's Rules of Procedure, a settlement proposal is not

binding, but must be reviewed and approved by the Commission as “fair, just, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” IDAPA 31.01.01.276.

After reviewing the Application, the Stipulation, and parties’ comments, the Commission adopts and approves the Stipulation. We find the wind-repowering project to be prudent and in the public interest, based on the record before us today. This finding, however, is contingent on the Company’s agreement, as reflected in paragraph 16 of the Stipulation and page 4 of the Company’s reply comments, to continue analyzing the project’s costs and benefits and report the results of its analysis to us by February 7, 2018. We expect the Company’s analysis to consider the effects of new federal tax legislation and any other updated assumptions that are relevant to whether the Stipulation remains in the public interest. We reserve the right to revisit our initial prudency finding after the Company files its report. *See Idaho Code* § 61-624 (empowering Commission to, at any time, alter or amend any order or decision made by it).

We approve the ratemaking treatment described in the Stipulation, including the Resource Tracking Mechanism as a component of the ECAM, to capture the costs and benefits of the repowered facilities until they can be incorporated into base rates. Our approval of the Resource Tracking Mechanism does not constitute approval of binding ratemaking treatment for the project under *Idaho Code* §61-541. The Resource Tracking Mechanism is an appropriate tool for cost recovery in this case, and we have approved similar tracking mechanisms before. *See* Order No. 32910 (Case No. PAC-E-13-04, approving a similar resource adder in Rocky Mountain Power’s ECAM to recover the Lake Side II generation facility at 100% until that facility is included in base rates); Order No. 33771 (Case No. IPC-E-16-24, approving a similar tracking mechanism for the North Valmy generation facility for Idaho Power); Order No. 32457 (Case No. IPC-E-11-18, approving a similar tracking mechanism for the Boardman generation facility for Idaho Power).

We thus find the Stipulation appropriately resolves the issues concerning the project. We further find that the Stipulation is a reasonable compromise of the contested issues and results from substantial negotiations in which all parties participated. We recognize the parties’ efforts and commend their cooperation in reaching agreement on the various and complex issues. By entering into the agreement, the parties resolve the contested issues, avoiding the expense, inconvenience, and uncertainty of further litigation. Further, we find that the Stipulation’s terms achieve an appropriate balance of competing interests.

We thus find that the Stipulation is just, fair and reasonable, in the public interest, and in accordance with the law and regulatory policy of this state, and we approve it without modification. IDAPA 31.01.01.275 and .276.

ORDER

IT IS HEREBY ORDERED that the parties' Stipulation concerning Rocky Mountain Power's Application is approved.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

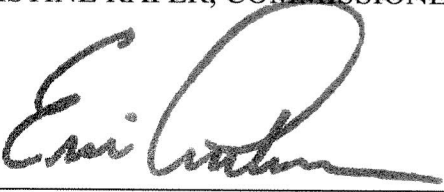
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of December 2017.



PAUL KJELLANDER, PRESIDENT

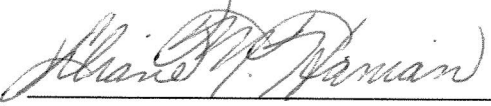


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

I:\Legal\LORDERS\PACE1706_cc1_final order.doc