

ITEM NO. CAB

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 1, 2015**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: November 12, 2015

TO: Public Utility Commission

FROM: Linnea Wittekind *LW*

THROUGH: Jason Eisdorfer *JE* and Marc Hellman *MH*

SUBJECT: IDAHO POWER COMPANY: (Docket No. UP 326) Requests Approval of a Long Term Contract with Siemens Energy, Inc. Including the Transfer and Sale of Certain Assets.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the application by Idaho Power (Company) authorizing a long term program (LTP) contract with Siemens Energy, Inc. (Siemens) including the transfer and sale of certain assets. Concurrent with this Application, Idaho Power is requesting approval of the Company's proposed accounting treatment of costs associated with the LTP contract in Docket No. UM 1741.

1. The Company shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.

ISSUE

Idaho Power has entered into a long-term contract with Siemens Energy, Inc., under which Siemens Energy will maintain Idaho Power's three natural gas-fired generating facilities. As part of the agreement, Idaho Power is selling its spare parts to Siemens Energy. Staff addresses in this memo whether Idaho Power's sale of spare parts is in the public interest and concludes that it is.

Idaho Power filed this application on June 5, 2015, pursuant to ORS 757.480 and OAR 860-027-0025. This statute and rule govern the sale or lease of utility property. ORS 757.480 provides, in relevant part, that a utility shall obtain the Commission's approval prior to selling property, if valued at more than \$100,000, used to provide utility service. OAR 860-027-0025(1)(l) requires the applicant to show that the property sale will be consistent with the public interest. The Commission has interpreted the phrase "consistent with the public interest" to require a showing of "no harm to the public." See, e.g. *In the Matter of the Application of PacifiCorp*, Order No. 00-112 at 6 (2000); *In the Matter of the Application of Portland General Electric*, Order No. 99-730 at 7 (1999).

DISCUSSION:

Idaho Power owns and operates three natural gas-fired facilities; Langley Gulch combined cycle combustion turbine (CCCT), Danskin simple cycle combustion turbine (SCCT), and Bennett Mountain SCCT. The Langley Gulch plant consists of one 180 megawatt (MW) Siemens combustion turbine and one 96 MW Siemens reheat steam turbine and is located south of New Plymouth in Payette County, Idaho. Located northwest of Mountain Home, Idaho, the Danskin facility consists of one 169 MW Siemens and two 44 MW Siemens-Westinghouse combustion turbines. The Bennett Mountain plant is located east of the Danskin plant in Mountain Home, Idaho and consists of one 162 MW Siemens-Westinghouse SCCT.

Idaho Power's combustion turbines are subject to required maintenance outages at the original equipment manufacturer's (OEM) recommended intervals based upon each plant's primary mode of operation. The OEM for Idaho Power is Siemens. Currently, each maintenance outage has been contracted to Siemens for service on a case-by-case basis.

Under the Company's self-management of its gas plants, Idaho Power's current practice is to purchase parts from Siemens in advance of an outage, which according to the Company allows for adequate time for delivery and possession of the parts prior to commencement of the outage. During an outage, existing parts are removed and the replacement parts are installed, resulting in what Idaho Power says are shorter outage windows and earlier plant availability. The removed parts are sent to Siemens' service shop where they are inspected and repaired. Once refurbished, the parts are returned to the Company, capitalized, and ready for use again. According to Idaho Power, this has been the most cost-effective approach to maintain the Company's gas fleet.

With the LTP Contract, the Company has no need for its current inventory of spare parts. Under the contract Siemens will provide all parts necessary for maintenance and

repair of Idaho Power's gas fleet. Under the terms of the LTP Contract, Siemens will take title of the Company's spare parts and is expected to remove the spare parts from Idaho Power's facilities soon after approval of the LTP Contract. In consideration of the transfer of the spare parts to Siemens, the contract price has been reduced to reflect Idaho Power's net book value of the spare parts.

As of December 31, 2014, the net book value of the spare parts that will be transferred to Siemens is approximately \$1.0 million on an Oregon-allocated basis. Staff's analysis of this application included review of the Company's current application, review of the LTP Contract, discussion with Staff's counsel and Company attorneys, and two data requests.

Issues

Staff investigated the following issues:

1. Scope and Terms of the Asset Purchase Agreement
2. Transfer Pricing and Allocation of Gain
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

Scope and Terms of the Asset Purchase Agreement

Staff's review of the LTP Contract included in the Company's filing as Confidential Attachment A, as well as additional information provided in response to data requests, did not identify any unusual or restrictive terms or conditions. The LTP Contract contains the details of the transaction, as well as the accompanying terms and conditions.

Allocation of Gain

The total amount of the LTP Contract is confidential. Idaho Power is saving roughly 30 percent by entering into the LTP Contract versus continuing to self-manage its gas plants. Idaho Power was able to reduce the LTP Contract by \$1 million on an Oregon allocated basis by including spare parts in the transaction.

The parts are being sold at net book value. Normally, there could be a gain from the sale of property when the market value of property sold is higher than net book. The standard for property sales is to use market value; however, in this case, due to negotiations with Siemens regarding the LTP Contract pricing, Siemens agreed to take back ownership of the spare parts in exchange for reduced contract pricing which is a benefit to customers. Additionally, according to the Company, the demand for these specific spare parts is limited as the parts are no longer the latest technology and have a limited buyer pool, thus reducing the market value. In Staff's view, the \$1 million

specific spare parts is limited as the parts are no longer the latest technology and have a limited buyer pool, thus reducing the market value. In Staff's view, the \$1 million reduction in the contract amount is greater than the potential gain in the sale of the spare parts at market prices.

Public Interest Compliance

The proposed sale of spare parts and the corresponding LTP Contract will not harm customers. In addition to the LTP Contract being more cost effective over self-management, Idaho Power will receive a discount on program parts consisting of major combustion turbine parts that are the latest technology.

According to Idaho Power, leveraging Siemens' pool of regional inventory, outage resources, and technical expertise will result in lower overall costs to Idaho Power and its customers. Because customers are not harmed by this transaction, Staff concludes that the sale is in the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all property sales of the Company through general rate case filings.

PROPOSED COMMISSION MOTION:

Idaho Power's application for approval to sell certain property and services to Siemens Energy, Inc., subject to Staff's recommended condition.