

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 21, 2015

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: July 13, 2015

TO: Public Utility Commission

FROM: Marvin Hoffman *M.H.*

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

SUBJECT: IDAHO POWER: (Docket No. UP 327) Requests approval to purchase from PacifiCorp certain mining equipment.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the application by Idaho Power Company (Idaho Power or Company) for the purchase of a longwall mining system from PacifiCorp, subject to the following conditions:

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.
2. The final journal entry recording the transaction shall be submitted to the Commission within 60 days after the transaction closes.

ISSUE

With this application, the Company requests Commission approval to purchase longwall mining equipment, support equipment, and a backup generator from PacifiCorp.

BACKGROUND

The application was filed by the Company on June 19, 2015, concurrent with a separate application filed by PacifiCorp, which owns two thirds of Bridger Coal Company (BCC), for the sale of the mining equipment (Docket No. UP 328). Idaho Power owns the

remaining one-third of BCC. The Company has requested approval of this application before August 3, 2015.

BCC, which is jointly owned by the Company and PacifiCorp, has proposed to purchase the Joy Global Inc. longwall mining system (Joy). BCC mines and supplies coal to the Jim Bridger generating plant in Sweetwater County, Wyoming. The Jim Bridger plant, along with BCC, is owned by Idaho Power (one-third) and PacifiCorp (two-thirds).

At the Deer Creek mine, located in Emery County, Utah, coal is extracted using a longwall system purchased from Joy and placed into service in August 1998. PacifiCorp will be closing the Deer Creek mine in 2015,¹ making available for use at BCC a longwall mining system with a cutting height that better matches the coal seam thickness at BCC. The Joy longwall equipment is expected to be in use beginning in August 2015 and will result in a lower cost per MMBtu as compared to the DBT America, Inc. (DBT) longwall for this area of the underground mine. If the transaction is approved, BCC will use the Joy longwall in the underground areas that have the higher potential of lower coal seam height while the existing DBT longwall will be retained at BCC to be used in other districts of the mine.

The Company expects the purchase and utilization of the Joy longwall at BCC to result in lower overall cost of production at the Jim Bridger plant over time; the cost per MMBtu for fuel produced by the Joy longwall is projected to be less than the cost per MMBtu for fuel produced by the DBT longwall currently in use at BCC. Less coal will be produced by the Joy longwall; however, due to its lower ash content it will have the same total BTUs delivered to the Jim Bridger plant. In addition to Joy longwall, BCC is purchasing support mining equipment from Deer Creek along with a backup generator from the PacifiCorp's Cottonwood mine.

APPLICABLE LAWS AND STANDARD OF REVIEW

ORS 757.485 and OAR 860-027-0025 are the laws governing the purchase of utility property. ORS 757.485 provides, in relevant part, that a utility doing business in Oregon shall obtain the Commission's approval prior to purchasing property from any other public utility used to provide utility service. In support of a request for approval of a property sale, the utility must provide the information and documentation listed in OAR 860-027-0025.

OAR 860-027-0025(1)(l) requires the applicant to show that the property purchase will be consistent with the public interest. The Commission has interpreted the phrase

¹ See Commission Order No. 15-161 of Docket No. UM 1712.

“consistent with the public interest” to require a showing of “no harm to the public” in asset sale dockets. 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).

The Commission has reserved the right to review any or all financial aspects of a transaction in a general rate case or other proceeding, and may condition approval of a purchase or sale on receiving notice in advance of any substantive changes to the transfer of the property including any material change in price. See Docket No. UP 235, Order No. 06-651; Docket No. UP 57, Order No. 90-433.

ANALYSIS

Staff investigated the following issues:

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

Staff’s review of these issues included examination of the Company’s application, applicable laws, and the Company’s responses to 15 Staff data requests.

Scope and Terms of the Asset Purchase Agreement

The Sale and Purchase Agreement (Agreement) between BCC and PacifiCorp, included in the Company’s application as Attachment 1, does not appear to contain any unusual terms or conditions. The Agreement specifies that transportation costs are included in the purchase price, delivery of the property is the responsibility of the seller, and other standard sale and purchase agreement conditions. Also, Exhibit A of the Agreement details the specific longwall and support equipment included in the transaction. Exhibit B is the bill of sale, including the transportation costs.

Transfer Pricing

The Company determined market value of the assets by obtaining professional appraisals of the equipment. The Joy longwall was appraised by three independent appraisers, at a total cost of slightly less than \$30 thousand, which was borne by the seller, PacifiCorp. There was no appraisal fee charged by the five independent appraisers who provided appraisals for various pieces of the support equipment, nor by the two appraisers of the generator. Under the terms of the Agreement, the total purchase price of the Joy longwall is \$14.1 million; in addition, BCC will reimburse

PacifiCorp for the cost of refurbishment of the Joy longwall to the operating conditions of BCC as well as the transportation costs from the Deer Creek mine in Utah to BCC in Wyoming. The refurbishment and transportation costs are estimated at \$4.8 million for a total cost of \$18.9 million. Idaho Power is responsible for one-third of the cost, or \$6.3 million.

Additionally, BCC will purchase 12 pieces of underground mine support equipment no longer needed at the Deer Creek mine. The market value of the support equipment is approximately \$1.3 million, including sales tax and transportation costs; including the support equipment, Idaho Power's cost responsibility for the total purchase is estimated to be approximately \$6.7million.

Finally, in a separate agreement, BCC has agreed to purchase a generator from the Cottonwood mine, also an affiliate of PacifiCorp. The generator was appraised by the two independent appraisers at an agreed upon purchase price of \$21,750 and Idaho Power's share of the generator cost is \$7,250. Idaho Power also requests authorization of the generator purchase by August 3, 2015, for use at BCC.

Public Interest Compliance

As stated, the Commission customarily applies a no harm standard with regard to the public interest standard for property sales.

The Company expects the purchase and utilization of the Joy longwall at BCC to result in lower overall cost of production at the Jim Bridger plant over time. The cost per MMBtu for the fuel produced by the Joy longwall is projected to be less than the cost per MMBtu for fuel produced by the DBT longwall currently in use at BCC. These cost reduction benefits will flow to Idaho Power's customers in the form of reduced coal fuel expenses as compared to what would have otherwise existed.

For the purpose of determining to engage in this transaction, PacifiCorp did an analysis that took into account fueling the Jim Bridger Plant under two different scenarios, one using DBT and one using Joy. Staff reviewed the analysis and concluded that the significant savings in fuel costs generated by purchase and use of the Joy system demonstrate the prudence of the decision to enter into this transaction. Fuel costs are updated annually through the Company's fuel cost adjustment mechanism; therefore, lower fuel costs for the Company results in lower costs to customers, regardless of the timing of general rate cases.

Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all property purchases of the Company through general rate case filings. Staff's recommended conditions provide for documentation of this property purchase.

The Company has reviewed this memo and has no objections or concerns. Staff is also not aware of objections from any other parties. Note that a concurrent application has been filed by PacifiCorp for the sale of the equipment (Docket No. UP 328).

CONCLUSION

Based on the review of this application, Staff concludes:

1. The Agreement did not contain any unusual or restrictive terms or conditions;
2. The transfer pricing is fair and reasonable;
3. The transaction is in the public interest; and
4. Necessary records are available.

PROPOSED COMMISSION MOTION:

Approve Idaho Power's request to purchase Deer Creek Mine plant equipment from PacifiCorp subject to Staff's recommended conditions.