

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 17, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: November 13, 2017

TO: Public Utility Commission

FROM: Kathy Zarate *KZ*
JE *JE for JC*

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: IDAHO POWER COMPANY: (Docket No. UP 357) Requests Approval to Purchase of an Ash Analyzer from PacifiCorp.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve Idaho Power Company's (Idaho Power or Company) Application for an Order Authorizing the Approval of the Purchase of an Ash Analyzer from PacifiCorp, subject to the following conditions:

1. 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.
3. The Commission reserves the right to review, for reasonableness, financial aspects of this arrangement in any rate proceeding.

DISCUSSION:

Issue

Whether the Commission should approve Idaho Power's Application to purchase a ThermoFisher Elemental CrossBelt Analyzer from PacifiCorp.

Applicable Rule or Law

ORS 757.485 governs the purchase of property or stocks of one public utility by another public utility. The statute requires authorization from the Commission prior to the purchase, acquisition, or ownership of any stocks, bonds or property valued in excess of \$10,000 and used for utility purposes from one utility to another.

OAR 860-027-0025 sets forth the information required to support a request for the approval of a transaction pursuant to ORS 757.485. OAR 860-027-0025(1)(l) requires that the applicant provide the facts that underlie a demonstration that the proposed transaction will be consistent with the public interest. The Commission has interpreted the phrase "consistent with the public interest" as used in this rule to require a showing of "no harm to the public." See, e.g., *In re PacifiCorp*, OPUC Docket No. UP 168, Order No. 00-112 at 6 (Feb. 29, 2000); *In re Portland General Electric*, OPUC Docket No. UP 165, Order No. 99-730 at 7 (Nov. 29, 1999).

Finally, the Commission's authority, broadly speaking, is to obtain adequate service for customers at fair and reasonable rates while at the same time balancing the interests of the utility's investors. See ORS 756.040.

Analysis

Idaho Power filed its Application on October 26, 2017, requesting approval from the Commission for the purchase of the ThermoFisher Elemental CrossBelt Analyzer (EC Analyzer) from PacifiCorp.

Bridger Coal Company ("BCC"), a joint venture between Idaho Energy Resources Co. ("IERCo") and Pacific Minerals, Inc. ("Pacific Minerals"), mines and supplies coal to the Jim Bridger generating plant ("Jim Bridger plant"), located in Sweetwater County, Wyoming. Idaho Power is the parent of IERCo and PacifiCorp is the parent of Pacific Minerals. The Jim Bridger plant is owned by Idaho Power (one-third) and PacifiCorp (two-thirds). BCC is located in southwestern Wyoming and consists of two principal operating units: a surface operation and an underground operation. The coal from both operations is delivered to the Jim Bridger plant.

The Jim Bridger plant measures the ash content of the coal using a ThermoFisher Coal Quality Monitor analyzer ("CQM analyzer"). The CQM analyzer is located at the surface mine and provides real-time continuous data on total ash in the surface operation coal. In addition, BCC operates a Scantech Coal Scan over the belt coal analyzer ("SCS analyzer") at the underground mine.

Currently, the SCS analyzer is not reliable and cannot be recalibrated accurately due to a tonnage restriction on the North Wing conveyor. The SCS analyzer is failing to provide the accuracy for the Jim Bridger plant blending requirements, leaving shipments from the mine to the Jim Bridger plant vulnerable to being reduced and/or potentially de-rating generation at the plant. Due to the SCS analyzer's reliability issues, BCC is requesting to purchase, relocate and install the EC analyzer from the now closed Deer Creek mine, located in Emery County, Utah.

The Deer Creek mine utilized an EC analyzer in its operations prior to the closure of the mine. Since operations have ceased at Deer Creek, the EC analyzer has been sitting idle. The last EC analyzer unit was installed at Deer Creek in August 2013 at a cost of \$296,700 and was used until January 2015. After that it was not recalibrated again until July 31, 2017. BCC had spent approximately \$126,000 year-to-date on handling and shipping high ash from the underground mine to the Jim Bridger plant due to the lack of reliability in the current analyzer.

BCC solicited fair market value appraisals for the EC analyzer and selected two companies from a recommended list of appraisers. The two companies returned very similar fair market values for the EC analyzer based on its time in service. BCC views the average of the two appraisals, \$29,850, to be the fair market value. Additionally, the relocation and installation to the BCC mine is estimated to cost \$66,793, bringing total project costs to \$96,643, of which Idaho Power's share is \$32,214.

In review of the Company's application, Staff issued two data requests.

Staff investigated the following issues:

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

Terms and Conditions of the Agreement

Staff's review of the transaction did not identify any unusual or restrictive terms or conditions.

Transfer Pricing

BCC solicited two appraisals to determine fair market value for the EC analyzer. The two companies returned very similar fair market values for the EC analyzer based on its time in service. BCC views the average of the two appraisals, \$29,850, to be the fair market value. Under the proposal, BCC will purchase the EC analyzer from PacifiCorp at the fair market value, \$29,850. The relocation and installation to the BCC mine will cost an estimated \$66,793, bringing BCC's total cost of the EC analyzer project to \$96,643. Idaho Power's share of the cost is \$32,214 ($\$96,643 \times 33.33$ percent). In addition, the longevity of the unit is estimated at 10-15 years, assuming regular renewal of nuclear sources and normal maintenance and calibration.

Public Interest Compliance

Absent the EC analyzer, BCC leaves the coal shipments vulnerable to being reduced and/or de-rating generation at the plant. The installation of the EC analyzer will allow for early detection and flexibility in adjusting to coal quality variances.

The purchase of the EC analyzer is expected to reduce the cost of production at the Jim Bridger plant and will provide a more reliable and accurate coal supply resulting in lower overall costs to Idaho Power and its customers. In response to Staff's Data Request 2, the Company's estimated savings associated with the transaction for Idaho Power was equal to approximately \$72,000 per year. Inefficient handling of the existing ash analyzer has resulted in spending approximately \$126,000 through July 31, 2017.

Because customers are not harmed by this transaction, and the environment is benefited, Staff concludes that the transaction is in the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all property purchases and sales entered by the Company through general rate case filings. Staff's recommended conditions provide for documentation associated with this transaction.

Idaho Power has reviewed this memo and has not communicated any objections or concerns.

Conclusion

Based on the review of Idaho Power's Application, Staff concludes that the Commission should approve the Agreement, subject to the following conditions:

1. 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.
3. The Commission reserves the right to review, for reasonableness, financial aspects of this arrangement in any rate proceeding.

PROPOSED COMMISSION MOTION:

Approve Idaho Power Company's Application for an Order Authorizing the Approval of the Purchase of an Ash Analyzer from PacifiCorp (Application), subject to Staff's recommended conditions.