

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: September 11, 2018

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE June 1, 2018

DATE: August 23, 2018

TO: Public Utility Commission

FROM: Scott Gibbens *SG*

THROUGH: *J* Jason Eisdorfer and *JC* John Crider

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1853) Application for Deferred Accounting of Certain Costs Associated with the North Valmy Power Plant.

**STAFF RECOMMENDATION:**

The Public Utility Commission of Oregon (Commission) should approve Idaho Power Company's (Idaho Power or Company) application for approval of an accounting order authorizing Idaho Power to defer decommissioning revenues collected and decommissioning costs incurred associated with the North Valmy power plant pursuant to Order No. 17-235.

**DISCUSSION:**

Issue

Whether the Commission should reauthorize Idaho Power to defer, for future true-up, the decommissioning revenues collected and decommissioning costs incurred associated with the early retirement of Idaho Power's North Valmy Power Plant (North Valmy) pursuant to Order No. 17-235.

Applicable Law

Idaho Power submitted its deferral application on May 31, 2018, pursuant to ORS 757.210, ORS 757.259, OAR 860-027-0300, and Order No. 17-235. ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210. ORS 757.210 sets forth the law

regarding utility filings of any rate or schedule of rates stating or establishing a new rate or schedule of rates that are fair, just and reasonable. Order No. 17-235 issued by the Commission in Docket No. UE 316 approves the Company's request for authorization for deferred accounting of future decommissioning revenues and decommissioning costs incurred related to its North Valmy plant.<sup>1</sup> OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities.

### Discussion and Analysis

#### *Background*

In Docket No. UE 316, Idaho Power Recovery of Costs Associated with North Valmy Power Plant, the Commission reviewed the Company's application for authority to increase rates for electric service to recover costs associated with the early retirement of North Valmy units one and two. A component of these costs includes future decommissioning costs connected with early retirement of the units. As described in Order 17-235,<sup>2</sup> stipulating parties agreed to an automatic adjustment clause that includes a balancing account for the purpose of offsetting deferred decommissioning expenses incurred with decommissioning revenues collected. To implement the balancing account and deferral, stipulating parties agreed that Idaho Power would file a request for authorization for deferred accounting effective July 1, 2017 in conjunction with the filing of the UE 316 stipulation.

#### *Reason for Deferral*

As the Company's application states, on November 2, 2016, it filed an application, docketed as UE 316, requesting approval to accelerate the depreciation expense for Valmy Units one and two due to the early closure of these units by 2025. In Order No. 17-235, the Commission approved Idaho Power's request for authorization for deferred accounting for North Valmy's decommissioning revenues and decommissioning costs to facilitate the Company's recovery of future costs associated with early decommissioning of the plant. In the order, the Commission states, "Establishing the deferral ensures that there will be a prudence review of actual costs when the Company updates its decommissioning expenses annually by the end of February."<sup>3</sup> Also, the deferral is structured such that the company will recover no more and no less than actual costs until decommissioning activities are concluded.<sup>4</sup>

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<sup>1</sup> See Order No. 17-235, page 9.

<sup>2</sup> Ibid, Appendix A, page 7, c.

<sup>3</sup> Ibid, page 9.

<sup>4</sup> Ibid.

#### *Proposed Accounting*

As described in the Company's deferral application, prior to the approval of deferred accounting treatment, Idaho Power will record the revenues in FERC Accounts 440-444 (Operating Revenues), FERC Account 557 (Other Expenses), and FERC Accounts 500-598 (Operations and Maintenance Accounts). Upon approval, consistent with the UE 316 stipulation requirement for a balancing account, Idaho Power proposes to record the deferred costs and revenues in FERC Account 254 (Regulatory Liabilities). The net balance in Account 254 will earn interest equal to Idaho Power's current authorized rate of return (ROR) of 7.757 percent.<sup>5</sup> Once decommissioning activities have finished, the net balance in the balancing account will be recovered or refunded in customer rates, through a surcharge or credit, as appropriate.<sup>6</sup>

#### *Estimated Deferrals in Authorization Period*

Idaho Power estimates the Oregon jurisdictional share of the decommissioning costs in the deferral account at December 31, 2025 will be approximately \$1,870,000.

#### *Information Related to Future Amortization*

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e). Recovery of amounts will not be subject to an earnings test.
- Prudence Review – For amortization, a prudence review should be completed to verify prudence of the costs.
- Sharing – The Commission Order No. 17-235 did not mandate any sharing. Therefore Staff does not recommend any sharing of the cost being considered for deferral.
- Rate Spread/Design – The incremental revenue requirement will be recovered based on the marginal cost of generation approved in the Company's last general rate case. Demand and energy revenue will be increased by an equal percentage.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits the aggregated deferral amortizations during a 12-month period to no more than three percent of the

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<sup>5</sup> See Order No. 12-055, page 2.

<sup>6</sup> See Order No. 17-235, Appendix A, page 8.

utility's gross revenues for the preceding year. Subsection (8) permits the Commission to allow an overall average rate impact greater than three percent for an electric utility upon an earnings review that includes an estimate of the utility's cost of capital for the deferral period. The Commission also has the discretion to consider estimated changes in the electric utility's costs and revenues during the deferral period.

### Conclusion

Staff concludes that the Company's application to reauthorize deferral of the costs and revenues related to decommissioning North Valmy is consistent with ORS 757.259, and should be approved by the Commission.

The Company has reviewed this memo and has no edits or concerns.

### **PROPOSED COMMISSION MOTION:**

Approve Idaho Power's application to defer, for future true-up, the decommissioning revenues collected and decommissioning costs incurred associated with the early retirement of Idaho Power's North Valmy Power Plant (North Valmy) pursuant to Order No. 17-235.