

Matthew Larkin
Revenue Requirement Senior Manager
mlarkin@idahopower.com

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PUC.FilingCenter@puc.oregon.gov

RE: Docket No. UE 316
Recovery of Costs Associated with the North Valmy Power Plant
Idaho Power Company's Compliance Filing Regarding the Valmy Automatic
Adjustment Clause

Attention Filing Center:

Pursuant to the Stipulation adopted with Order No. 17-235, Idaho Power Company ("Idaho Power" or "Company") has completed its annual review of the Valmy Power Plant ("Valmy") incremental revenue requirement for 2023. The purpose of this filing is to provide the Commission with a description of adjustments, if any, made to the incremental recovery amount approved in Order No. 17-235 and subsequently updated with Order Nos. 18-199 and 19-341. As described in more detail below, Idaho Power is not proposing to adjust the incremental revenue requirement approved with Order Nos. 17-235, 18-199, and 19-341 and therefore does not request a rate change at this time.

Background

On November 2, 2016, Idaho Power filed an application in Docket No. UE 316, requesting that the Public Utility Commission of Oregon ("Commission") update the depreciation expense for Valmy Units 1 and 2 to reflect an end-of-life for those units of 2025 and authority to recover all Valmy-related costs by 2025. The Company's request aligned the expected remaining operating life of the plant with cost recovery, resulting in cost recovery from customers who are served by the plant. The parties to the case were able to settle all issues in Docket No. UE 316, and the Commission adopted the settlement in Order No. 17-235, including an agreement that Idaho Power will recover the Valmy costs through an automatic adjustment clause ("AAC"), as defined by ORS 757.210(1), with amounts adjusted annually. The AAC includes accelerated depreciation associated with Valmy investments through May 31, 2017, the return on undepreciated existing capital investments at Valmy until its end-of-life based upon the then currently authorized rate of return and estimated future decommissioning expenses. Idaho Power's annual updates should include updated projected decommissioning expenses and any change in Valmy's end-of-life, if necessary.

2017 Update. On February 28, 2018, Idaho Power filed Advice No. 18-02 in Docket No. UE 345, Modifications to the Valmy Incremental Revenue Requirement, its first update to the AAC. It requested approval to update the revenue requirement on Valmy investments to reflect the Company's accelerated exit from coal-fired operations of Valmy Unit 1 by year-end 2019 as acknowledged by Commission Order No. 18-176 as part of the Company's 2017 Integrated Resource Plan ("IRP") (Docket No. LC 68). The 19-month recovery of the revenue requirement on Valmy investments was the only update proposed; all other components remained constant. On May 24, 2018, the Commission approved Idaho Power's incremental revenue requirement increase of \$2,498,886 effective June 1, 2018, with Order No. 18-199. Using an updated sales forecast for the June 1, 2018, to May 31, 2019, time period, resulted in an overall increase of 4.51 percent for the Company's Oregon customers.

2018 Update. In compliance with Order No. 17-135, the 2018 update was filed with the Commission on February 28, 2019. Because there were no changes to the decommissioning cost estimate or the end-of-life dates for either unit, Idaho Power did not propose an update to the incremental revenue requirement approved with Order Nos. 17-235 and 18-199. However, on July 3, 2019, the Company filed a request seeking (1) approval or acknowledgement of the North Valmy Project Framework Agreement between NV Energy and Idaho Power dated as of February 22, 2019, ("Framework Agreement") and (2) authorizing the Company to adjust customer rates effective January 1, 2020, to reflect a decrease in the annual levelized revenue requirement of \$3.17 million, equating to an overall decrease of 5.62 percent. The Framework Agreement created a structure which did not exist under the original Valmy ownership and operating agreements, allowing for Idaho Power's cessation of participation in the Valmy plant or its units. Full collection of the levelized revenue requirement amount associated with Unit 1 coincided with the Company's exit from Unit 1 operations on December 31, 2019. The Commission approved the Company's request to remove Unit 1 revenue requirement amounts from customer rates with Order No. 19-341 issued on October 15, 2019, resulting in a \$3.17 million rate decrease effective January 1, 2020.

There have been no additional adjustments to the Valmy levelized revenue requirement included in customer rates since January 1, 2020.

Second Amended 2019 IRP. In October 2020, the Company filed its Second Amended 2019 IRP as part of Docket No. LC 74 in which the cost modeling utilized to evaluate all resource selections included, as part of its Action Plan, a 2022 exit date for Valmy Unit 2. However, Idaho Power indicated that while a 2022 exit date showed cost savings over the current 2025 exit date, more analysis was needed to support a final decision on the appropriate date. On August 4, 2021, Idaho Power filed its Valmy Unit 2 Exit Analysis, indicating that a year-end 2025 exit date for Valmy Unit 2 was in the best interest of customers from a cost and reliability perspective.

2021 IRP. On December 30, 2021, Idaho Power filed its 2021 IRP with the Commission. Portfolio analysis performed for the 2021 IRP further confirmed that the appropriate Valmy Unit 2 shutdown date is year-end 2025 as contained in the Company's updated Action Plan. The Commission acknowledged the Company's 2021 IRP with Order No. 23-004 issued on January 13, 2023.

2023 IRP. The Preferred Portfolio of Idaho Power's 2023 IRP, filed with the Commission on September 29, 2023, identifies the conversion of Valmy Units 1 and 2 from coal to natural gas as cost-effective resource additions. As a result, the Company has requested in Docket LC 84 the Commission acknowledge, as part of the 2023 IRP Near-Term Action Plan, the conversion of the Valmy units to natural gas by the summer of 2026. Idaho Power's request is pending with the Commission.

The 2023 Incremental Revenue Requirement Calculation

The revenue requirement calculation approved by Order No. 19-341 includes the costs of accelerating the depreciation of the remaining Valmy unit (Unit 2) and the decommissioning costs associated with the shutdown of the Valmy plant. The calculation includes the incremental change in depreciation expense and associated reserve resulting from the acceleration of depreciation of the Valmy Unit 2 plant accounts and the decommissioning and salvage costs. The costs are "levelized" by calculating the present value of each of the individual items and converting the values into an annuity or level payment stream from customers over the remaining life of Valmy. The annuity recognizes the time value of dollars collected from customers for future costs.

Revenue Requirement on Decommissioning and Salvage Costs. Idaho Power's initial estimate of the decommissioning and salvage costs was determined by applying the Company's 50 percent ownership percentage to the decommissioning study performed by URS Corporation and completed in 2012. Idaho Power continues to monitor and review cost estimates for decommissioning activities associated with the cessation of operations at Valmy and will modify the decommissioning costs and expected salvage in a future filing when revised estimates necessitate a change.

Revenue Requirement on Valmy Investments. As part of the Stipulation approved in Docket No. UE 316, Idaho Power agreed that costs associated with investments made at Valmy after May 31, 2017, will not be included until a separate ratemaking proceeding. While the Company's general rate proceeding is currently pending with the Commission, Docket UE 426, Idaho Power did not request to change recovery of costs associated with Valmy as part of that ratemaking proceeding. Idaho Power has not received approval of investments made at Valmy after May 31, 2017, in a separate ratemaking proceeding; therefore, no updates to the May 31, 2017, Valmy plant balances have been made.

Revenue Requirement and Tax Reform. Idaho Power's income tax expenses and deferred tax liabilities included in the Valmy levelized revenue requirement amounts and included in customer rates with Order No. 18-199, were calculated in accordance with the Internal Revenue Code of 1986. The U.S. Tax Cuts and Jobs Act ("Tax Act"), signed into law on December 22, 2017, amends sections of the 1986 code, most notably the reduction in the federal corporate income tax rate from 35 percent to 21 percent. The rate reduction associated with the effects of tax reform on the Valmy levelized revenue requirement resulting from provisions of the Tax Act was calculated and determined through the Commission's proceedings in Docket No. UM 1928, Idaho Power's application for deferred accounting as a result of the Tax Act. Therefore, these impacts are reflected in revenue requirement amounts approved in Docket No. UM 1928. In addition, as part of Docket No. UE 373, Idaho Power's request to update the Oregon jurisdictional Tax Act benefits included in customer rates effective June 1, 2020, the Company has included an adjustment to remove tax reform benefits associated with Unit 1 as cessation of operations and full collection of Unit 1 levelized revenue requirement amounts occurred on December 31, 2019.

Conclusion

Because there have been no changes to the decommissioning cost estimate and Valmy's end-of-life date for Unit 2 remains at 2025 at this time, the Company is not proposing changes to the Oregon jurisdictional incremental revenue requirement approved with Order Nos. 17-235, 18-199, and 19-341. If you have any questions regarding this filing, please call Courtney Waites, Regulatory Consultant at (208) 388-5612.

Sincerely,



Matthew Larkin
Revenue Requirement Senior Manager

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