



WENDY MCINDOO
Direct (503) 290-3627
wendy@mrg-law.com

June 12, 2017

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-1088

Re: UE 316 – In the Matter of the Application of IDAHO POWER for Authority to Increase Its Rates for Electric Service to Recover Costs Associated with the North Valmy Power Plant

Attention Filing Center:

Attached for filing in the above-captioned docket is the Stipulation. The Joint Explanatory Brief is being filed concurrently in this docket.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo
Office Manager

Attachment

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UE 316**

4 In the Matter of

5 IDAHO POWER COMPANY

6 Application for Authority to Increase Rates
7 for Electric Service to Recover Costs
8 Associated with the North Valmy Power
Plant.

STIPULATION

9
10 This Stipulation resolves all issues among the parties to Idaho Power Company's
11 ("Idaho Power" or "Company") Application for Authority to Increase its Rates for Electric
12 Service to Recover Costs Associated with the North Valmy Power Plant ("Application"). The
13 Stipulation reflects the agreement of all parties to the docket for the adoption of an automatic
14 adjustment clause ("AAC") authorizing Idaho Power to recover accelerated depreciation,
15 return on undepreciated capital investments, and decommissioning costs associated with the
16 early closure of the North Valmy power plant ("Valmy"). The parties agree that the initial rate
17 change associated with this Stipulation will be effective July 1, 2017.

18 **PARTIES**

19 1. The parties to this Stipulation are Staff of the Public Utility Commission of Oregon
20 ("Staff"), the Oregon Citizens' Utility Board ("CUB"), and Idaho Power (together, the "Stipulating
21 Parties").

BACKGROUND

A. The Valmy Plant

2. Valmy is a two-unit coal-fired electric generation plant located near Winnemucca, Nevada. Idaho Power owns fifty percent of the total plant output, or 284 megawatts (MW)¹; NV Energy owns the other fifty percent and is the operator of the plant. Idaho Power and NV Energy work jointly to make decisions regarding any environmental investment, plant retirement, or conversion.

3. Idaho Power is required to file an updated depreciation study within five years of the Company's previous depreciation study pursuant to OAR 860-027-0350(2). Consequently, Idaho Power simultaneously filed cases to revise its general plant-in-service depreciation rates in Docket No. UM 1801 and its depreciation rates specific to Valmy in this docket. The Company's most recent depreciation update went into effect on June 1, 2012, and reflected the continued plant life for Valmy of 50 years for each unit, resulting in a retirement year of 2031 for Unit 1 and 2035 for Unit 2.²

4. In 2013, the Public Utilities Commission of Nevada ("PUCN") approved a 2025 end-of-life date for both Unit 1 and Unit 2 for NV Energy, Idaho Power's co-owner in Valmy.³ Likewise, in its most recent depreciation study filed with the PUCN on June 6, 2016, NV Energy used the same end-of-life date for both units.⁴ Although no agreement has yet been reached between Idaho Power and NV Energy to shutdown one or both units, the 2025 end-of-life date currently utilized by NV Energy provides an indication that Valmy will not be operational beyond 2025.⁵

¹ For planning purposes, Idaho Power uses the net dependable capability of 262 MW.

² *In re Idaho Power Company*, OPUC Docket No. UM 1576, Order No. 12-296 (July 20, 2012).

³ Docket No. 13-06002, Modified Final Order (Jan. 29, 2014).

⁴ Docket No. 16-06008.

⁵ NV Energy was ordered by the PUCN to conduct and submit a Valmy Life Span Analysis Process study by December 2017. See PUCN Docket No. 16-07001 at 62-63, 86.

1 5. Because of the changing economics of plant operation and the 2025 Valmy closure
2 date identified in Idaho Power's 2015 Integrated Resource Plan ("IRP"), accepted for filing in
3 Order No. 16-160, Idaho Power anticipates that it will not be economical to operate the Valmy
4 plant beyond year-end 2025, and the plant is no longer expected to be utilized after that date.

5 **B. Idaho Power's Filing and Procedural Background**

6 6. On November 2, 2016, Idaho Power filed its Application in this docket. In the
7 Application, Idaho Power requested that the Commission update the depreciation expense for
8 Valmy Units 1 and 2 to reflect an end-of-life for those units of 2025, and further requested
9 authority to recover all Valmy-related costs by 2025, to align the expected remaining operating
10 life of the plant with cost recovery, resulting in cost recovery from customers who are served by
11 the plant.

12 7. Idaho Power's Application proposed to recover three types of Valmy-related costs
13 through a balancing account:

- 14 a. the accelerated depreciation associated with existing Valmy plant
15 investments through May 31, 2017;
- 16 b. the return on the undepreciated capital investments at Valmy until its end-
17 of-life; and
- 18 c. decommissioning costs related to the Valmy shutdown.

19 Idaho Power proposed to track decommissioning costs and revenues related to Valmy's
20 closure in the balancing account in order to ensure that the Company would recover no more
21 and no less than the actual costs associated with Valmy's 2025 end-of-life.

22 8. The Oregon jurisdictional incremental annual revenue requirement the Company
23 proposed to recover was \$1,056,800, for an overall increase of 1.91 percent.

24 9. On November 2, 2016, Idaho Power also filed an application to institute revised
25 depreciation rates for its plant-in-service (except the Valmy plant which was addressed in this
26

1 docket and the Boardman plant which was addressed in UE 239) and to adjust Oregon base
2 rates accordingly. That case was docketed as UM 1801.

3 10. CUB intervened in this docket on November 7, 2016.

4 11. On December 21, 2016, Staff requested, on behalf of all parties, that this docket
5 be consolidated with UM 1801, explaining that issues related to rate recovery could overlap in
6 the two cases. In addition, the parties proposed separate schedules for the two cases. The
7 request for consolidation and the proposed schedules were granted in the ALJ Ruling dated
8 December 23, 2016.

9 12. Both Staff and CUB served, and the Company responded to, numerous data
10 requests in this docket.

11 13. A Staff Workshop was held on January 17, 2017.

12 14. Idaho Power filed Supplemental Testimony regarding its 2016 earnings as
13 calculated in the Results of Operations report filed simultaneously on March 24, 2017.

14 15. Staff and CUB filed Reply Testimony on May 4, 2017.

15 16. Settlement Conferences were held on March 28, 2017 and May 11, 2017. Over
16 the two settlement conferences, the Stipulating Parties agreed to settle all issues in this case.

17 **C. Subsequent to Idaho Power's Filing**

18 17. After the Company's initial filing, Idaho Power performed a supplemental Valmy
19 shutdown analysis. When last evaluated in the Company's 2015 IRP, the Company's P9
20 portfolio identified the retirement of Valmy Unit 1 in 2019 and retirement of Unit 2 in 2025 as the
21 lowest cost and least risk option on a quantitative basis. However, several key factors created
22 uncertainty that prompted the Company to choose the higher cost P6(b) portfolio with retirement
23 of both Valmy units in 2025, including: (1) consideration of Valmy and Jim Bridger coal unit early
24 retirement, (2) the Environmental Protection Agency's proposed Clean Air Act Section 111(d)
25 regulation, (3) 320 MW of solar projects contracted under the Public Utility Regulatory Policies
26 Act of 1978 that were as yet unbuilt, and (4) the timing of the Boardman to Hemingway

1 transmission line. Idaho Power believes that these risks have largely diminished in the two
2 years since completion of the 2015 IRP, and the Company's updated quantitative analysis
3 continues to reflect significant cost savings related to a 2019 Valmy Unit 1 shutdown with greater
4 assurance that it would not negatively impact system reliability. The Company has quantified a
5 present value reduction in total system-level revenue requirements over time of \$33 million
6 associated with a 2019 Valmy Unit 1 shutdown date as compared to the 2015 IRP assumption
7 that Valmy Unit 1 would operate through 2025. As such, the Company has incorporated the
8 2019 Valmy Unit 1 shutdown date assumption into its portfolio planning process that will be
9 reflected in the upcoming 2017 IRP. Idaho Power will work to reach an agreement with Valmy
10 co-owner NV Energy to amend the North Valmy ownership and operating agreement to provide
11 that North Valmy Unit 1 shall permanently cease burning coal on or before December 31, 2019.
12 The Company anticipates filing its 2017 IRP on June 30, 2017. Staff's settlement of the issues
13 in this proceeding does not indicate a waiver of its right to evaluate a proposed change in the
14 retirement date of Valmy Units 1 and 2 in a future planning or ratemaking proceeding.

15 **AGREEMENT**

16 **A. Prudence of Accelerated Depreciation**

17 18. The Stipulating Parties agree that the 2025 closure expectation for Valmy reflects
18 prudent planning based on Idaho Power's most recently acknowledged IRP, is in the best
19 interest of the Company's customers and that Idaho Power should therefore be allowed to
20 recover the prudently-incurred costs associated with the early closure of that plant, including
21 accelerated depreciation.

22 **B. Depreciation Expense**

23 19. The Stipulating Parties agree that Idaho Power's requested increase in annual
24 depreciation expense for Valmy from \$8.57 million on a total system basis to \$24.1 million on a
25 total system basis, is reasonable.

26

1 20. Historically, Idaho Power's depreciation rates include net salvage estimates that
2 are based upon analyses of historical cost of removal and salvage data, expectations with
3 respect to future removal requirements and markets for equipment and materials. Idaho
4 Power's net salvage values include only interim cost of removal and salvage estimates, and do
5 not include any terminal cost of removal or salvage estimates. No decommissioning studies or
6 estimates are prepared as part of Idaho Power's depreciation study and filing processes. To
7 include estimates of terminal cost of removal and salvage as part of a depreciation filing, a
8 decommissioning study would be necessary, for which Idaho Power has not historically
9 completed as part of its depreciation studies and filings.

10 21. Idaho Power records the variance between the interim net salvage estimates
11 accrued as part of its depreciation expense entries and the actual interim net salvage activity
12 experienced during a period as an adjustment to FERC account 108 (Accumulated Provision
13 for Depreciation and Amortization of Electric Utility Plant) and a regulatory deferral account as
14 required by OPUC Order No. 04-585. Upon retirement of the related assets and determination
15 of actual removal costs, any differences between actual removal costs and projected removal
16 costs are trued-up. The offsetting entry to eliminate the regulatory account activity associated
17 with these assets will be to FERC account 108, effectively adjusting rate base for any under or
18 over collected net salvage.

19 **C. Prudence of Capital Expenditures**

20 22. The Stipulating Parties agree that the approximately \$70 million in capital
21 expenditures made on a total system basis between the Company's last Oregon general rate
22 case and May 31, 2017, were prudent and should be recovered pursuant to the AAC discussed
23 below.

24 **D. Continued Evaluation of Unit Closures**

25 23. Idaho Power will conduct ongoing analyses to evaluate the economics of an
26 earlier retirement and may request changes to customer rates as part of the annual update

1 process to reflect any corresponding increases in depreciation expense related to a shorter
2 depreciable life for one or both Valmy units.

3 **E. Automatic Adjustment Clause**

4 24. The Stipulating Parties agree that Idaho Power will recover the following expenses
5 and investment associated with Valmy through an AAC:

- 6 a. accelerated depreciation associated with existing Valmy plant
7 investments through May 31, 2017;
- 8 b. the return on the undepreciated existing capital investments at Valmy until
9 its end-of-life based upon the then currently authorized rate of return; and
- 10 c. estimated future decommissioning expenses.

11 25. Due to the agreed-upon rate spread and billing system constraints, the Stipulating
12 Parties agree that the AAC amounts described in paragraph 24 will be collected from customers
13 through base rates rather than Schedule 92.

14 26. Amounts to be collected through the AAC will be adjusted annually on a forward-
15 looking basis, based on updated projected decommissioning expense and any change in
16 Valmy's end-of-life, if necessary. Idaho Power will file its annual updates, beginning in 2018,
17 by the last day of February for rates to be updated and effective by June 1 of each year. The
18 2012 URS Corporation decommissioning study relied upon by the Company estimates Idaho
19 Power's 50 percent ownership share of decommissioning costs to be \$14.697 million in 2012
20 US dollars.

21 **F. Regulatory Accounting**

22 27. Balancing Account. The Stipulating Parties agree that revenues collected through
23 the AAC for estimated future decommissioning expense, as well as offsetting actual
24 decommissioning expense, will be deferred and tracked in a Regulatory Asset (Account 182.3)
25 or Regulatory Liability (Account 254) account until decommissioning activities are concluded,
26

1 subject to a true up as described in paragraph 28. Amounts in the balancing account will receive
2 a carrying charge equal to Idaho Power's current authorized rate of return.

3 28. The Stipulating Parties agree that, after decommissioning activities are concluded,
4 amounts in the balancing account, either positive or negative, will be recovered or refunded in
5 customer rates, through a surcharge or credit, as appropriate.

6 29. The Stipulating Parties agree that, to implement the decommissioning balancing
7 account described in paragraphs 26-28, the Commission should approve a deferral of future
8 decommissioning revenues collected and decommissioning costs incurred. Idaho Power will
9 file a request for authorization for deferred accounting effective July 1, 2017, concurrent with
10 the filing of this Stipulation. Idaho Power will request annual renewals of the deferral to be
11 effective June 1 of each subsequent year until decommissioning activities are concluded.

12 30. The Stipulating Parties agree that, after the Company begins incurring
13 decommissioning expenses, it will present such expenses for a prudence review and
14 determination to the Commission on an annual basis by the last day of February.

15 31. The Stipulating Parties agree that to implement the accounting described in
16 paragraphs 26-28, Idaho Power will be required to establish various regulatory accounts that
17 will allow for the matching of Generally Accepted Accounting Principles ("GAAP") revenue
18 recognition with the actual monthly pattern of the Valmy revenue requirement from 2017 through
19 2025 and decommissioning expenses post-2025. These adjustments will allow the Company
20 to match revenues with the costs that it is incurring over the next eight years.

21 32. Income Tax Accounting. Income tax calculations based on the terms of the
22 Stipulation reflect the new recovery period through 2025 and maintain compliance with the
23 Internal Revenue Code ("IRC") normalization rules for accelerated depreciation. Because the
24 Company does not currently track accumulated deferred income taxes ("ADIT") and reversing
25 flow-through difference by specific plant, such as Valmy, the Company used a tax accounting
26 system generated estimated amount of ADIT for the numbers included in the 2011 test year for

1 Valmy, as well as for the beginning balance of ADIT for revenue requirement computations in
2 the original filing and this Stipulation. The Stipulating Parties agree that acceptance of the
3 income tax calculations in this Stipulation also requires recognition that the balance of ADIT and
4 reversing flow through related to the thermal plant tax accounting group, after removing Valmy,
5 will be used in future rate proceedings for the other thermal plants (mainly the Jim Bridger plant),
6 including general rate cases.

7 33. While the actual target shutdown date may be as early as the end of 2019 for
8 Valmy Unit 1 and the end of 2025 for Valmy Unit 2, the Stipulating Parties agree to treat the
9 shutdown date of both units as the end of 2025 for ratemaking purposes. Because GAAP and
10 IRC rules, including normalization, will require the Company to make income tax filings and
11 accounting entries consistent with the service lives that actually occur rather than the
12 assumption on which the revenue requirement is based, the Stipulating Parties support
13 authorization of regulatory accounts to adjust the financial statement impacts resulting from the
14 timing of Valmy-related depreciation and income tax and GAAP results as compared to the
15 2025 ratemaking assumption.

16 34. Asset Retirement Obligations. The Stipulating Parties agree that Idaho Power's
17 Valmy-related Asset Retirement Obligation ("ARO") balances will continue to be accounted for
18 using the accounting treatment required by Order No. 04-585, such that the recorded Valmy-
19 related ARO liabilities will be fully offset by the related regulatory assets at the time of
20 decommissioning. Revenues collected as a result of the AAC and contained in the balancing
21 account, including future adjustments due to changes in decommissioning estimates and actual
22 costs, will cover the estimated asset retirement costs and decommissioning.

23 **G. Oregon Jurisdictional Revenue Requirement**

24 35. The Stipulating Parties agree to an Oregon jurisdictional revenue requirement
25 increase of \$1,056,800 effective July 1, 2017, to be recovered through the AAC as described in
26 paragraphs 24-26 above. The Stipulating Parties acknowledge that only eleven months of

1 collection will occur prior to the next rate update on June 1, 2018. Therefore, the revenue
2 requirement increase of \$1,056,800 will be collected over the eleven-month period, July 1, 2017
3 through May 31, 2018.

4 36. The Stipulating Parties agree that in future general rate case proceedings, the
5 levelized revenue requirement and corresponding revenue collection subject to the Valmy AAC
6 will be calculated consistently with the computational methodology agreed to in this Stipulation
7 and will not be included in the Company's rate case test year revenue requirement.

8 **H. Rate Spread**

9 37. The Stipulating Parties agree that the incremental revenue requirement associated
10 with the AAC should be recovered from customers based on the marginal cost of generation
11 consistent with Staff's proposed rate spread methodology⁶ and consistent with the methodology
12 approved in the Company's last general rate case.

13 **I. Future Electric Plant-in-Service Adjustments**

14 38. The Stipulating Parties agree that all future Valmy electric plant-in-service
15 investments or other adjustments to FERC Account 101 will be addressed in a general rate
16 case proceeding.

17 **J. General Terms**

18 39. The Stipulating Parties agree that the rate increase resulting from the Stipulation
19 results in rates that are fair, just, and reasonable.

20 40. The Stipulating Parties agree to submit this Stipulation to the Commission and
21 request that the Commission approve the Stipulation as presented.

22 41. This Stipulation will be offered into the record of this proceeding as evidence
23 pursuant to OAR 860-001-0350(7). The Stipulating Parties agree to support this Stipulation
24 throughout this proceeding and in any appeal, (if necessary) provide witnesses to sponsor this
25

26 ⁶ Staff/300, St. Brown/8, Staff Option 2.

1 Stipulation at the hearing, and recommend that the Commission issue an order adopting the
2 settlements contained herein.

3 42. If this Stipulation is challenged, the Stipulating Parties agree that they will continue
4 to support the Commission's adoption of the terms of this Stipulation. The Stipulating Parties
5 agree to cooperate in cross-examination and put on such a case as they deem appropriate to
6 respond fully to the issues presented, which may include raising issues that are incorporated in
7 the settlements embodied in this Stipulation.

8 43. The Stipulating Parties have negotiated this Stipulation as an integrated document.
9 If the Commission rejects all or any material part of this Stipulation, or adds any material
10 condition to any final order that is not consistent with this Stipulation, each Stipulating Party
11 reserves its right, pursuant to OAR 860-001-0350(9), to present evidence and argument on the
12 record in support of the Stipulation or to withdraw from the Stipulation. Stipulating Parties shall
13 be entitled to seek rehearing or reconsideration pursuant to OAR 860-001-0720 in any manner
14 that is consistent with the agreement embodied in this Stipulation.

15 44. By entering into this Stipulation, no Stipulating Party shall be deemed to have
16 approved, admitted, or consented to the facts, principles, methods, or theories employed by any
17 other Stipulating Party in arriving at the terms of this Stipulation, other than those specifically
18 identified in the body of this Stipulation. No Stipulating Party shall be deemed to have agreed
19 that any provision of this Stipulation is appropriate for resolving issues in any other proceeding,
20 except as specifically identified in this Stipulation.

21 45. This Stipulation may be executed in counterparts and each signed counterpart
22 shall constitute an original document.

23 46. This Stipulation is entered into by each Stipulating Party on the date entered below
24 such Stipulating Party's signature.

25

26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

STAFF

OREGON CITIZENS' UTILITY BOARD

By: Sumner

By: _____

Date: 6/9/17

Date: _____

IDAHO POWER

By: _____

Date: _____

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

STAFF

OREGON CITIZENS' UTILITY BOARD

By: _____

By: /s/ Elizabeth Jones

Date: _____

Date: 6-9-2017 _____

IDAHO POWER

By: _____

Date: _____

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

STAFF

OREGON CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

IDAHO POWER

By: 

Date: 6-12-17