

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UE 316**

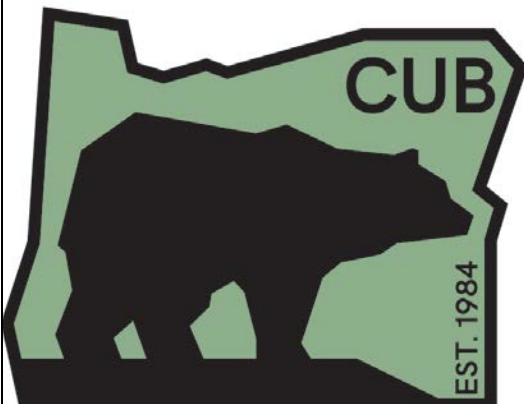
In the Matter of)
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IDAHO POWER COMPANY,)
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Request to Increase Rates for Electric)
Service to Recover Costs Associated with)
Valmy Power Plant.)
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REPLY TESTIMONY
OF THE
OREGON CITIZENS' UTILITY BOARD

May 4, 2017



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My name is Bob Jenks, and I am the Executive Director of the Oregon Citizens' Utility Board ("CUB"). My qualifications are listed in CUB Exhibit 101.

I. INTRODUCTION

CUB supports Idaho Power Company's ("Idaho Power" or the "Company") application to update the depreciation life of the North Valmy Coal Plant, including its request to increase rates to recover the cost of that plant.

II. UPDATING THE DEPRECIATION LIFE

In April 2013, NV Energy announced that it intended to close both of the North Valmy coal units. Although NV Energy and Idaho Power are both co-owners with 50% share of the units, NV Energy is the sole operator of the units. NV Energy announced that it planned to close both units by 2025. CUB has criticized Idaho Power for not updating the expected useful life of the North Valmy coal units, even when it seems clear that the plant's operator and the state of Nevada, where North Valmy is located, both

expected closure by 2025. In our opening comments in Idaho Power's 2013 Integrated Resource Plan, CUB stated:

CUB is concerned with this discrepancy. While Idaho Power may not agree with NV Energy's decision [to close the units], NV Energy is currently the operating partner for the plants. Idaho Power's IRP does not explain what the Company's options are if it decides that NV Energy's decision is not in the best interest of customers. Laws in Oregon (Emission Performance Standards),¹ Washington, and California limit the ability of utilities to purchase additional ownership of coal plants, and this limits which parties can take NV Energy's place. Ignoring NV Energy's decision when selecting the preferred portfolio implies that Idaho Power has other choices, but the IRP does not explain those choices.

NV Energy's announcement happened recently, so it may be that Idaho Power needs more time to evaluate this issue, but Idaho Power does not discuss how it will evaluate its options and what the timeline is for making a decision. Idaho Power's 50% (284 MW) ownership of two coal units is a significant resource.²

In January, 2014, as part of our final comments in LC 58, CUB stated:

CUB remains concerned about the possibility of an early retirement of North Valmy. Though the Company explains that the discrepancy in closure dates for the North Valmy plant is a result of "establishing depreciable lives for accounting and ratemaking purposes and do[es] not represent agreed upon decommissioning dates between NV Energy and Idaho Power," CUB believes that the preferred portfolio the Company has selected should at least account for the risk of a closure date earlier than the Company has expected. The NV Energy closure dates that Idaho Power lists in its Reply Comments are 2021 and 2025. Though the Company continues to assure stakeholders that this is not the true decommissioning date, CUB's research reveals otherwise. For example, an NREL study cites North Valmy's Units 1 as being retired in 2022....The Company has not provided an explanation as to why a number of sources have listed an early closure date.³

In its 2015 IRP, Idaho Power addressed North Valmy in its action plan:

¹ S.B. 242, 77th Or. Leg. Assem., Reg. Sess. (Or. 2013). *available at*: <https://olis.leg.state.or.us/liz/2013R1/Measures/Text/SB242/Enrolled>.

² *In re Idaho Power Company's 2013 Integrated Resource Plan*, OPUC Docket No. LC 58, CUB Opening Comments at 7.

³ *In re Idaho Power Company's 2013 Integrated Resource Plan*, OPUC Docket No. LC 58, CUB Final Comments at 7.

Continue to work with NV Energy to synchronize depreciation dates and determine if a date can be established to cease coal-fired operations.⁴

CUB was critical of Idaho Power in 2013 and 2014 for not updating the expected useful life of North Valmy after public announcements released in Nevada stated that it would close. CUB's concern, expressed in comments in Idaho Power's IRP, was whether the Company was forecasting power supply that was unlikely to be actually operating. A clear consequence of CUB's concern was the need for Idaho Power to update the depreciation schedule to be consistent with the new expected useful life. Depreciation schedules should always accurately reflect changes in the expected useful life of a resource. CUB appreciates the Company's effort to adjust its North Valmy depreciation schedule in a manner that aligns with the expected useful life.

CUB also supports the ratemaking adjustments in this case. Generally, CUB believes that a general rate case is necessary to make significant changes in depreciation schedules. When an updated depreciation schedule increases revenue requirement, it is best practice to ensure that there have not been other adjustments to revenue requirement that will offset the increase. However, CUB is willing to make an exception in this case for the following reasons.

First, utilities made decisions to invest in coal plants decades ago and before the reality of climate change, and subsequent regulatory and economic risk, was apparent. CUB believes that continuing to invest capital in coal plants is an economic risk to customers. For example, there is cap-and-trade legislation being considered in the Oregon legislature that would increase the cost of coal generation to Oregon customers. Closing the North Valmy units reduces the economic risk of coal to Idaho Power

⁴ *In re Idaho Power Company's 2015 Integrated Resource Plan*, OPUC Docket No. LC 63 (Jun. 30, 2015).

customers. From CUB's standpoint, allowing a little flexibility in our approach to depreciation is a reasonable trade-off for the reduction in risk.

Second, Oregon has allowed similar treatment in the circumstance of a coal plant retirement. The PUC allowed Portland General Electric and Idaho Power⁵ to update depreciation lives of Boardman after setting a firm shut down date⁶ and Colstrip after HB 1547 passed last year.⁷

Third, Idaho Power has not had a rate case for several years. While it is certainly possible that there are some cost reductions that could offset the increase in revenue requirement associated with North Valmy, there will also be increases associated with general inflation in terms of salaries, health care, equipment, and construction costs. From CUB's experience, updating costs in a general rate case will likely lead to an even higher rate increase.

III. RATE SPREAD

In general rate cases, Oregon utilities functionalize rate spread based on the marginal cost study, and distribution costs are allocated based on distribution marginal costs. Similarly, generation is allocated based on generation marginal costs. When recovering costs associated with a generation plant, it is important that the costs are not recovered on an equal percent across all bills. Residential and small business customers have significantly higher rates than larger industrial customers, because these classes use more distribution facilities. Functionalizing rate spread avoids the problem of residential

⁵ OPUC Order No. 12-235.

⁶ OPUC Order No. 11-242.

⁷ Available at: <http://edocs.puc.state.or.us/efdocs/UBA/adv391uba16140.pdf>.

and small business customers receiving a higher share of generation costs based on their use of the distribution system.

In this case we do not have an updated marginal cost study. Idaho Power proposes to allocate costs based on an equal cents/kwh.⁸ While the Company's proposal does not incorporate all elements of a marginal cost of service study (*e.g.*, line losses), CUB believes that this is a reasonable proxy for generation marginal cost allocation. By applying it on an equal cents/kwh, customers are paying the costs based on their portion of energy sales.

However, when Idaho Power files its next general rate case and produces a new marginal cost of service study, the Company should reallocate the costs based on the results of that study.

IV. CONCLUSION

CUB supports Idaho Power's application to accelerate the depreciation lives of the North Valmy coal units, including seeking recovery of the updated revenue requirement, and applying it to customer classes based on an equal cents/kwh basis.

⁸ *In re Idaho Power's Request to Increase Rates for Electric Service to Recover Costs Associated with Valmy Power Plant*, OPUC Docket No. UE 316 at 1, Attachment 3.

WITNESS QUALIFICATION STATEMENT

NAME: Bob Jenks

EMPLOYER: Citizens' Utility Board of Oregon

TITLE: Executive Director

ADDRESS: 610 SW Broadway, Suite 400
Portland, OR 97205

EDUCATION: Bachelor of Science, Economics
Willamette University, Salem, OR

EXPERIENCE: Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 172, UE 173, UE 207, UE 208, UE 210, UE 233, UE 246, UE 283, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, UM 1209, UM 1355, UM 1635, UM 1633, and UM 1654. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates.

Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.

MEMBERSHIP: National Association of State Utility Consumer Advocates
Board of Directors, OSPIRG Citizen Lobby
Telecommunications Policy Committee, Consumer Federation of America
Electricity Policy Committee, Consumer Federation of America
Board of Directors (Public Interest Representative), NEEA