

ORDER NO. 17 235

ENTERED: JUN 30 2017

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 316

In the Matter of

IDAHO POWER COMPANY,

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

ORDER

DISPOSITION: STIPULATION ADOPTED

In this order, we adopt the stipulation between Idaho Power Company, Staff of the Public Utility Commission of Oregon, and the Oregon Citizens' Utility Board (CUB) to accelerate depreciation and recover costs associated with updating North Valmy power plant's expected end-of-life to 2025.

I. SUMMARY

The stipulation reflects the agreement of all parties to adopt an automatic adjustment clause and a deferral allowing Idaho Power to recover three types of costs associated with Valmy. First, the company will recover accelerated depreciation of investments that were in service as of May 31, 2017, shortening the depreciation schedule from 2031 for Unit 1 and 2035 for Unit 2 to 2025 for both units. Second, the company will recover the return on the undepreciated capital investments at Valmy until its end-of-life. Third, the company will recover an estimate of future decommissioning costs through a balancing account supported by a deferral. The stipulation provides for an increase in the company's Oregon revenue requirement of \$1,056,800 or 1.91 percent, effective July 1, 2017. Having reviewed the record, we accept and adopt the stipulation as in the public interest and a fair, just, and reasonable resolution of this case.

II. IDAHO POWER'S APPLICATION

Valmy is a coal-fired power plant near Winnemucca, Nevada, consisting of two units. Unit I went into service in 1981 and Unit 2 in 1985. Idaho Power and NV Energy each own 50 percent of the plant. NV Energy operates the plant and the two owners make joint decisions regarding environmental investments, plant retirement, or conversion. Idaho Power's share of the nameplate generating capacity is 284 megawatts (MW).

Idaho Power's 2012 depreciation study used 50-year lives for Valmy Units 1 and 2, resulting in a 2031 end-of-life for Unit 1 and a 2035 end-of-life for Unit 2. However, the company explains that in recent years Valmy has operated less frequently due to power prices that have decreased more than 35 percent since 2011. In recent years, Valmy has been used to meet load during peak cold and hot weather, with only a 15 percent dispatched capacity factor. The company expects that Valmy will not be needed in the future, because the planned Boardman to Hemingway transmission line will be able to relieve transmission constraints and deliver other resources to serve peak load.

Due to these economic and operational changes, NV Energy adopted a 2025 end-of-life date for the plant in its 2013 depreciation study, approved by the Public Utilities Commission of Nevada. Subsequently, Idaho Power's 2015 Integrated Resource Plan (IRP) included retirement of Valmy in 2025. Idaho Power explains that it and NV Energy continue working towards a mutually agreed upon closure date for Valmy, and Idaho Power believes December 31, 2025 is the most reasonable end-of-life assumption. Idaho Power adds that it cannot feasibly utilize Valmy without NV Energy.

On November 2, 2016, Idaho Power filed an application in this docket to accelerate the depreciation schedule for the Valmy plant to reflect an earlier shutdown year of 2025. Given the complexity associated with the acceleration of Valmy's depreciation schedule, the company felt that opening this proceeding separate from its general depreciation study in docket UM 1801 was appropriate.

In its filing, Idaho Power requested a balancing account for three types of costs. First, the company asked to recover accelerated depreciation for all existing Valmy plant investments to align the cost recovery period with the remaining 2025 shutdown date. Accelerated depreciation of the \$217 million Valmy plant balance results in an annual incremental revenue requirement increase of approximately \$976,000 on an Oregon jurisdictional basis.

Second, Idaho Power sought to recover a return on undepreciated capital investments at Valmy until its end-of-life. Idaho Power states that \$70 million in capital investment on a total system basis occurred between the 2011 test year used in its last rate case and this application. The company stated that the investments were proposed and managed by

NV Energy, with the two companies agreeing that the investments were necessary for either environmental compliance, the safe and economic operation of the plant, or for reliability purposes. Idaho Power lists the projects including dry sorbent injection (DSI) installation and coal pipe replacement on Unit 1, a scrubber upgrade on Unit 2, a coal crusher belt feeder and replacement of cooling towers, among others.

Third, Idaho Power sought to begin to recover decommissioning costs. The company estimated costs based on a decommissioning study of the plant. The total included in the Oregon-jurisdictional revenue requirement was \$80,330. The company explained that current, estimated decommissioning costs are accounted for as an Asset Retirement Obligation (ARO) that includes the costs to remove plant components, a 15 percent contingency estimate, and salvage proceeds. The company's current base rates do not include any recovery of ARO but the company records a regulatory asset following accounting standards. With the application, the company sought to begin collecting revenues to cover the existing ARO-related liabilities and non-ARO decommissioning costs.

Idaho Power proposed to track and collect the Valmy costs in the same manner it uses for Boardman costs. The company proposed a balancing account where it would track the monthly deviations between forecasted revenue collection and actual revenue collection and adjust rates annually. The company proposed to allocate the annual revenue requirement increase of \$1.06 million to all customer classes on an equal basis through Schedule 92, the schedule that also contains the Boardman rate.¹

Idaho Power stated that any incremental investments to maintain operations prior to decommissioning the plant are not exactly known, but that in 2018 and 2019 the units are scheduled for their last large outages to help ensure the units provide service through 2025. Idaho Power will seek rate recovery of future capital investments in future ratemaking proceedings.

III. RESPONSIVE TESTIMONY

CUB and Staff filed testimony supporting a 2025 end-of-life date for Valmy. CUB stated that it requested this change back in Idaho Power's 2013 IRP to align with NV Energy's plan for Valmy and that it supported Idaho Power's application here for a rate increase to recover the cost of the plant. CUB stated that depreciation schedules should always accurately reflect changes in the expected useful life of a resource. CUB believes that a change in depreciation schedule that increases revenue requirement should generally

¹ After its initial filing here, Idaho Power refiled its Schedule 92 to reflect the same automatic adjustment clause rate treatment stipulated to here. The Commission approved Adv. 17-04 at the May 30, 2017 Public Meeting.

trigger a rate case, but indicated that it was willing to make an exception for early closure of a coal plant and to avoid the risk of a higher rate increase from a rate case.

Regarding rate spread, CUB and Staff preferred a rate spread justified with a marginal cost of service study. Staff recommended an adjustment to spread the costs based on the company's last marginal cost of service study. CUB concluded that the company's proposal to allocate costs based on an equal cents per kilowatt hour (kWh) is reasonable for generation, but asked the company to reallocate the costs in its next rate case when it produces a new marginal cost of service study.

Staff stated that it is appropriate to approve the company's immediate recovery of costs ahead of a date-certain for shut-down as early closure of coal resources is in the public interest and because its analysis indicated that early shutdown of Valmy is the least cost-, least risk-option. Staff's analysis showed that power costs would have to be six times higher to make it economical to keep Valmy open after 2025. Staff did suggest an adjustment to Idaho Power's proposed depreciation expense by adding net salvage value back to the future depreciation expense.

Staff stated that it reviewed Idaho Power's \$70 million in capital investments and found them to be prudent. Staff analyzed Idaho Power's process for making investment decisions and found the analysis thorough and sound.

Staff did have concerns with Idaho Power's proposed balancing account mechanism. Staff questioned whether the true-up could constitute retroactive ratemaking and also questioned whether the company should or could use a deferral. As an alternative approach, Staff suggested an automatic adjustment clause for the depreciation expense and the return on capital costs. Staff explained that an automatic adjustment clause would set rates that are updated and adjusted annually on a forward-looking basis based on projections. For recovery of decommissioning costs, Staff recommended the Commission approve a deferral to be tracked in a separate account.

IV. THE STIPULATION

On June 12, 2017, Staff, CUB, and Idaho Power filed a stipulation resolving all issues associated with Idaho Power's request, agreeing to an increase in the Oregon-jurisdictional annual revenue requirement of \$1,056,800 effective July 1, 2017.² The stipulation provides for Idaho Power to recover the same costs as outlined in the initial application, albeit with an automatic adjustment clause with a deferral and balancing account for decommissioning costs only as suggested by Staff. The stipulation also

²Only eleven months of collection will occur prior to the next rate update on June 1, 2018, so the revenue requirement increase of \$1.056 million will be collected over the eleven-month period July 1, 2017 through May 31, 2018. Joint Explanatory Brief at 13 (Jun 12, 2017).

includes a new provision on Idaho Power's continued evaluation of the timing of the unit closures.

Staff and CUB agree that the company should recover the three types of costs discussed above and associated with early shutdown of Valmy: accelerated depreciation, return on undepreciated capital investments, and estimated future decommissioning costs. The parties agree that these amounts will be collected through base rates rather than the coal plant operating life adjustment—Schedule 92—as initially proposed.

For depreciation expense, the parties agree to an increase in annual depreciation expense from \$8.57 million to \$24.1 million on a total system basis. The stipulation does not contain Staff's proposal to increase the depreciation expense to include net salvage value of \$1.25 million. The parties agree that the depreciable life and the depreciation reflected in the stipulation is a reasonable basis for ratemaking.

For capital expenditures, the parties agree that approximately \$70 million in capital expenditures made on a total system basis between the company's last Oregon general rate case and May 31, 2017, were prudent and should be recovered in the automatic adjustment clause.

Regarding the date for the Valmy shutdown, the joint brief explains that Idaho Power performed a supplemental Valmy analysis after its initial filing that moves the company towards a 2019 Valmy Unit 1 shutdown date. The company's analysis shows \$33 million in savings compared to the 2025 shutdown date. Idaho Power agrees to continue to evaluate the Valmy retirement dates in its 2017 IRP, and the stipulation allows Idaho Power to request changes to customer rates as part of the annual update process to reflect any corresponding increase in depreciation expense related to a shorter depreciable life for one or both Valmy units.

Rates subject to the automatic adjustment clause will be collected through base rates rather than Schedule 92, as initially proposed. The amounts to be collected will be adjusted annually on a forward-looking basis based on Valmy's projected end-of-life and decommissioning costs tracked in a separate balancing account. Idaho Power will file annual updates by the end of February to be effective by June 1 of each year. At that time, parties may review for prudence the company's decommissioning expenses. The decommissioning study estimates Idaho Power's 50 percent share of decommissioning costs to be \$14.7 million in 2012 dollars.

The parties agree the decommissioning costs collected through the balancing account will be deferred and the actual decommissioning expenses will be tracked as a regulatory liability until decommissioning activities are concluded. To implement this, Idaho Power

asks the Commission to approve its concurrently filed request for authorization for deferred accounting.

The parties adopted Staff's suggestion on rate spread so that the incremental revenue requirement will be recovered based on the marginal cost of generation approved in the company's last general rate case. The parties agree to increase demand and energy revenue by an equal percentage, and agreed this will result in just and reasonable rates for each customer class.

The parties agree that all future Valmy capital investments will be addressed in a general rate case proceeding. This will allow parties to perform a prudence review of costs and alleviate Staff's and CUB's concerns over single-issue ratemaking.

V. DISCUSSION

Before we may adopt a stipulation, we must find that it is supported by competent evidence in the record, appropriately resolves the issues in the case, and results in just and reasonable rates.³ In this case, we have examined the stipulation, the supporting testimony, and the pertinent record. We conclude that the stipulation is supported by the record and the resulting rates are just and reasonable for resolution of the issues in this docket. The stipulation should be adopted in its entirety.

In support of our decision, we review the prudence of the capital investments made in Valmy since our last rate case, and our reasoning to adopt the stipulation to recover the return on these investments, as well as the increased depreciation rates, outside a general rate case. We also address the stipulation's recovery mechanism- the automatic adjustment clause with a deferral and balancing account for decommissioning costs only.

A. Prudence of Capital Investments

Idaho Power and Staff describe the process used for prudence review of the new capital investments in Valmy. Idaho Power states that, for all planned capital projects, it receives from the plant operator, NV Energy, a description of the project, the factors driving the need for the project, and a recommendation for the work to be performed. The company reviews the information for each project, as well as the corresponding business case (at a minimum, for all projects over \$1,000,000), at its annual budget meeting with NV Energy prior to any expenditures being made. Through these discussions, Idaho Power and NV Energy work together to establish and approve the capital investments to be made at the plant.

³ *In the Matter of Idaho Power Company Application for Authority to Implement Revised Depreciation Rates for Electric Plant-in-Service*, Docket No. UM 1801, Order No. 17-186 (May 25, 2017), corrected by Order No. 17-213 (June 8, 2017).

The stipulation relies on Staff's review of the capital investments. Staff is satisfied that the process was sufficient to determine prudence in investments. Staff also conducted its own review of each generation business case, and considered the justification for each project listed in the company's testimony, whether it was economic, reliability, safety, and/or environmental. Staff agrees with the company's analysis and found all investments prudent.

Staff's testimony did not explicitly discuss the timing of Idaho Power's capital investments in relation to Idaho Power's contemporaneous expectations for unit and plant end-of-life. However, Idaho Power explains that it committed to the most significant capital investments related to environmental compliance in context of the 2015 deadline for complying with the requirements of the Mercury and Air Toxics Standards regulation and the end-of-life expectations set forth in Idaho Power's 2013 coal study and IRP. We are persuaded that Idaho Power reasonably evaluated the economic, reliability, safety and/or environmental justification for each investment in light of the end-of-life date assumed at the time of the investment, and we find that the capital investments are prudent.

We note that we have not before allowed recovery of new capital investments outside of a general rate case, and we do so here with hesitation, in light of the unique circumstances of this case more fully described below. This includes, among other things, Oregon's small share of the new investments, which have been included in the plant balance approved by the Idaho Commission. Nonetheless, we do not favor the approval of new capital investments in rates outside of a general rate case and are unlikely to allow similar recovery in the future absent unusually compelling circumstances.

B. Depreciation Expense

We adopt the parties' proposal to allow recovery of increased depreciation expense. Although we generally disfavor such recovery outside a general rate case, we have previously allowed such recovery related to coal plants with shortened depreciable lives to commence accelerating the depreciation and avoid shorter payment terms and higher annual depreciation expenses.⁴ The company explains that by allowing it to accelerate depreciation of the Valmy plant balance, it will save customers \$103 million on a net present value basis.⁵ To capture these savings, we will allow the company to start accelerating depreciation as soon as possible, rather than waiting for a rate case. As the

⁴ *In the Matter of Portland General Electric Company, Establishes Schedule 146 Colstrip Power Plant Operating Life Adjustment to Implement into Rates*, Docket No. UE 317, Order No. 16-468 (Dec 7, 2017).

⁵ Idaho Power/203, Harvey/1.

parties state, this is consistent with inter-generational equity by recovering Valmy-related costs from customers who benefit from the plant.

We adopted a similar stipulation to allow Idaho Power to increase its depreciation expense for its 10 percent interest in Boardman, after Portland General Electric Company (PGE), the majority owner and operator of the plant, decided to close the facility in 2020.⁶ Here, we find there is efficiency in allowing the company to update assumptions on coal plant operating life to accurately reflect the most recent Commission-reviewed planning assumptions for Valmy. Idaho Power has explained how the power markets have changed in the last five years, with Idaho Power's off-system sales falling from \$24.56 to \$15.77 per megawatt (MW) in 2016, and the Valmy plant's dispatch factor dropping to only 15 percent.

We also support the recovery of increased depreciation expense rates here for many of the reasons we explained in our recent decision to adopt a change in Idaho Power's depreciation rates in the companion docket to this case, UM 1801.⁷ First, Idaho Power has not filed a general rate case since before we last approved new depreciation schedules. Thus, the timing mismatch between rate cases and depreciation schedules has now increased to more than five years.

Second, this action will synchronize Valmy end-of-life dates already adopted by Nevada and Idaho. Idaho Power explains the Nevada Public Utilities Commission adopted a 2025 end-of-life date for NV Energy's share of the Valmy plant in 2013.⁸ Recently, the Idaho Public Utility Commission adopted a stipulation for Idaho customers that is similar to the stipulation here.⁹ The Idaho Commission found its stipulation achieved an appropriate balance of competing interests, and set a reasonable framework for future prudence review. The Idaho Commission also noted the company's commitment to use commercially reasonable efforts to end its participation in the operation of Valmy Unit 1 by December 31, 2019, and Valmy Unit 2 by December 31, 2025. Given Idaho Power's small Oregon service area compared to its Idaho service area, we are frequently willing to make limited exceptions for Idaho Power to ensure consistency of regulatory oversight and minimize administrative and regulatory costs.

Finally, this stipulation has strong support of both CUB and Staff. CUB supports allowing the depreciation rates outside of a rate case because Idaho Power has not had a

⁶ *In the Matter of Idaho Power Company Application for Authority to Implement a Boardman Operating Life Adjustment Tariff for Electric Service to Customers in the State of Oregon*, Docket No. UE 239, Order No. 12-235 (Jun 26, 2012).

⁷ *In re Idaho Power*, Order No. 17-186 (May 25, 2017), corrected by Order No. 17-213 (Jun 9, 2017).

⁸ Idaho Power Application at 2 (Nov 2, 2016), also discussed at Idaho Power/100, Larkin/4-5.

⁹ Idaho Public Utilities Commission Order No. 33771, approving the Idaho jurisdictional revenue increase of \$13,285,285 for an overall increase of 1.17 percent.

rate case for several years. As CUB explains, although a general rate proceeding might reveal some cost reductions that could offset the increase in revenue requirement from Valmy, there might also be increases associated with general inflation such as salaries, health care, equipment, and construction costs that could lead to an even higher rate increase.

C. Recovery Mechanism

We allow the stipulation's recovery mechanisms, the automatic adjustment clause that includes the depreciation expense, and a balancing account and a deferral for the decommissioning costs. An automatic adjustment clause is a schedule that allows for rate increases or decreases or both, without a prior hearing.¹⁰ The mechanism here will be reviewed annually when Idaho Power adjusts its projections on a forward looking basis. The stipulation explains that Idaho Power will file its annual updates, beginning in 2018, by the last day of February for rates to be updated and effective by June 1 of each year. Idaho Power will update projected decommissioning expense and any change in Valmy's end-of-life, if necessary. We adopt the stipulation's automatic adjustment clause for Valmy and find this treatment is consistent with PGE's schedule for Colstrip, as well as Idaho Power's recently modified schedule for Boardman.¹¹

We also approve the company's request to defer future decommissioning revenues collected and decommissioning costs incurred. The parties have explained that revenues collected for decommissioning costs will be tracked and trued-up to actual costs in a balancing account, so the company will recover no more and no less than actual costs. A carrying charge equal to the authorized rate of return will be applied to these funds. After decommissioning, the balance will be recovered or refunded in rates. 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.

VI. ORDER

IT IS ORDERED that:

1. The stipulation between Idaho Power Company, Staff of the Public Utility Commission of Oregon, and the Oregon Citizens' Utility Board, attached as Appendix A, is adopted.
2. Idaho Power Company's request for authorization for deferred accounting effective July 1, 2017 for deferral of future decommissioning revenues collected and decommissioning costs incurred, is approved.

¹⁰ ORS 757.210 (1)(b).

¹¹ See *n 1* and *n 6*.

- Idaho Power Company must submit a compliance filing to update base rate tariff sheets resulting from the final order in this docket to be effective no earlier than July 1, 2017.

Made, entered, and effective JUN 30 2017.

Lisa D. Hardie /cp/

Lisa D. Hardie
Chair

Stephen M. Bloom /cp/

Stephen M. Bloom
Commissioner



Megan W. Decker /cp/

Megan W. Decker
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request *must* comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 316

In the Matter of

IDAHO POWER COMPANY

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

STIPULATION

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

PARTIES

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

BACKGROUND

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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
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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.

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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.

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STAFF

OREGON CITIZENS' UTILITY BOARD

By: Sammon

By: _____

Date: 6/19/17

Date: _____

IDAHO POWER

By: _____

Date: _____

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STAFF

OREGON CITIZENS' UTILITY BOARD

By: _____

By: /s/ Elizabeth Jones

Date: _____

Date: 6-9-2017 _____

IDAHO POWER

By: _____

Date: _____

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STAFF

OREGON CITIZENS' UTILITY BOARD


By: _____

By: _____

Date: _____

Date: _____

IDAHO POWER

By: 

Date: 6-12-17