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Commission approves accounting treatment related to closure of Utah's Deer Creek mine

BOISE (June 2, 2015) – The Idaho Public Utilities Commission is approving an application by Rocky Mountain Power to set aside expenses related to the utility's decision to close a Utah coal mine for possible later recovery from customers.

The Deer Creek Mine near Huntington, Utah, is operated by Energy West Mining Company, a wholly-owned subsidiary of PacifiCorp, which does business in eastern Idaho as Rocky Mountain. The utility is seeking authority from the six states where it has customers to 1) incur costs for closing the mine; 2) withdraw from a contract it has with the United Mine Workers of American Pension Trust, which will incur a withdrawal liability; 3) sell the assets it has in the mine and; 4) enter into an agreements with Kentucky-based Bowie Resource Partners to provide replacement coal for the Huntington and Hunter plants in Utah that had been previously provided coal from the Deer Creek mine. Bowie trucks in coal to the Huntington plant from its mines in Utah's Carbon and Sevier counties.

The Idaho commission is required by state statute to approve any sale or purchase of property owned or to be owned by a utility it regulates. The commission is to determine whether the transaction is in the public interest, that rates will not be impacted and that a potential buyer has the bona fide intent and financial ability to operate and maintain the property in the public service.

The commission said the proposed sale is in the public interest because it mitigates the company's potential exposure to increasing pension and medical obligations to the mine's 182 employees and that the resulting cost for supplying electric service will be less going forward than it would have been without the transaction.

However, the commission denied the company's request to recover carrying charges before the next rate case. The commission also did not approve the company earning a return on expenses related to the mine's closure. Instead, the commission agreed to grant the company an accounting order that will allow it to defer costs related to the transaction for review by the commission after the company files its next rate case. A return on deferral during recovery may also be argued in the next rate case.

Included in the deferred account can be Idaho's portion (about 6 percent) of any loss on the sale of assets, construction work in process, closure costs and costs related to a retirees' medical obligation settlement. The commission denied the company's request to include carrying charges or a return on those costs because the plant is no longer "used and useful" to customers. Rocky Mountain said not allowing carrying charges and a return penalizes the company for a decision that benefits customers and puts the company in a position of financing the benefits of the transaction for customers over time. That ratemaking treatment limits the company's ability to fully recover costs and could dissuade utilities from undertaking similar actions in the future, Rocky Mountain Power said.

The commission said it "was not persuaded by Rocky Mountain's assertion that approval of a carrying charge is necessary to incentivize well-reasoned and cost-effective business decisions ..." Utilities should not to be "incentivized to act rationally in order to limit their losses," the commission said. Further, the commission said, delaying recovery of deferred items until after a rate case is filed "will enable the commission to fulfill its statutory duty to scrutinize and evaluate the actual costs of the transaction prior to making its decision regarding a reasonable return for those costs."

The PacifiCorp Idaho Industrial Customers and Monsanto opposed the application, stating it is too early to determine actual costs related to the closure until after a rate case is filed.

The mine, purchased in 1977, produces an average 3.5 million tons of coal annually. The mine had been the primary source of coal for the Huntington Power Plant in east-central Utah, which annually consumes about 2.9 million tons. It also supplied some coal to the Hunter Power Plant. The mine's depreciable life runs through 2019.

The mine's employees were represented by the United Mine Workers of America. Rocky Mountain said Energy West's health care costs and contributions to the pension trust were sharply increasing. Under the most recent labor settlement, Energy West was responsible for almost 100 percent of the health care costs, with employees paying a minimal co-payment and no premium cost-sharing. The deficit between the market value of the pension trust's assets and the present value of the vested benefits is about $5.5 billion.

In addition to labor issues, the mine is producing lower quality coal as it ages, which, in turn, reduces the volume of coal produced. As Energy West sought to develop additional areas of the mine's reserves, it discovered significant volumes of high-ash, high-sulfur coal, meaning much of it had to be transferred to a preparation plant nearby to be blended with lower-ash coals to meet coal quality specifications. More coal is available on the market, making it less advantageous to own coal mining assets, Rocky Mountain claimed.

The commission's order, along with all the documents related to the case, is available on the commission's website at www.puc.idaho.gov. Click on "Open Cases" under the "Electric" heading and scroll down to Case No. PAC-E-14-10.

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