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IDAHO PUBLIC
UTILITIES COMMISSION

Attorney for the Idaho Conservation League

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF IDAHO)
POWER COMPANY'S)
APPLICATION FOR AUTHORITY)
TO INCREASE ITS RATES FOR)
ELECTRIC SERVICE TO)
RECOVER COSTS ASSOCIATED)
WITH THE NORTH VALMY)
POWER PLANT)**

CASE NO. IPC-E-19-08

IDAHO CONSERVATION LEAGUE

COMMENTS

The Idaho Conservation League (ICL) submits the following comments regarding Idaho Power's four-part request to recover costs associated with the North Valmy coal plant. ICL's comments provide background and then addresses Idaho Power's request to (1) approve the North Valmy Framework Agreement; (2) find prudent costs incurred through 2018; (3) include forecasted costs through 2025 in the existing Valmy Settlement mechanism; and (4) adjust customer rates to address specific cost components.

Background

ICL has directly engaged in the future of the Valmy since 2011. In our comments on the 2011 Integrated Resource Plan (IRP), ICL recommended the Idaho Power conduct a unit by unit analysis of coal plants and alternative resources to determine the least-cost/least-risk portfolio for customers. In the 2013 IRP, we proposed a portfolio that retired Valmy Unit 1 in 2015 and Unit 2 in 2020. *2013 IRP at 93-94*. While that portfolio did not rise to the top, it did consider a coal-free future for Idaho Power - a future Idaho Power recently committed to achieve in order to maintain affordable and reliable service for customers.

In the 2015 IRP, ICL successfully advocated for important improvements to how Idaho Power considered the future of Valmy. Specifically, the 2015 IRP was a drastic improvement by identifying a system-wide load and resource balance with individual coal units retired at a variety

of dates. *2015 IRP at 97-98*. Important here, Portfolio 9 in the 2015 IRP included Idaho Power exiting Valmy Unit 1 in 2019 and Unit 2 in 2025 and had the lowest fixed and variable costs of all 23 portfolios. *Id. at 117, Table 9.3*. Along with being the lowest cost option for customers, Idaho Power also concluded that exiting the Valmy units in 2019 and 2025 respectively was “the least cost portfolio for the full set of 100 iterations” that comprised the quantitative risk assessment. *Id. at 123*. Despite early Valmy exit being the lowest-cost/least-risk option for customers, Idaho Power elected to pursue a path that kept both Valmy units open through 2025. The Commission, on December 23, 2015, directed Idaho Power “to more clearly explain to stakeholders why the Company chose Portfolio 6(b) and its 2025 closure of North Valmy Unit 1 as the preferred portfolio, and why the Company believes it is imprudent to select Portfolio 9 or another portfolio that would close Unit 1 in 2019.” *Order No. 33441 at 12*.

Thankfully, Idaho Power did not wait until the 2017 IRP to attempt to justify keeping Valmy open through 2025. By November of 2016, Idaho Power filed a depreciation docket seeking to adjust the accounting life for Valmy to 2025, IPC-E-16-24. Through negotiations, ICL and our partners at the Sierra Club secured a commitment for Idaho Power to exit the Valmy units in 2019 and 2025, inline with the true least-cost/least risk conclusion of the 2015 IRP. *Order No. 33771*. The Valmy Settlement and resulting Order created the accounting mechanisms and regulatory processes that led to this present docket. In this Settlement, Idaho Power agreed to “use prudent and 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.” *Id. at 3*. Idaho Power subsequently negotiated the North Valmy Project Framework Agreement with the plant co-owner NV Energy. As explained further below, ICL recommends the Commission approve this Agreement because it memorializes a prudent and commercially reasonable process to extract the Company and its customers from Valmy.

Regarding the viability of Valmy between 2019 and 2025, Idaho Power also committed to “conduct ongoing analysis to evaluate the economics of a Unit 2 retirement and submit the results as part of its Integrated Resource Plan.” *Settlement at 5, IPC-E-16-24*. The 2017 IRP did not assess the prudence of operating Valmy Unit 2 through 2025 as opposed to an earlier exit, although this is not surprising since the Company was simultaneously negotiating the Valmy

agreement with Idaho parties and conducting the IRP process.¹ Rather, in the 2017 IRP the Company just assumed Valmy Unit 2 would operate through 2025 and did not analyze alternative retirement dates in any of the 12 portfolios. *2017 IRP at 97-108*. Assuming a coal plant will continue to operate does not evaluate whether doing so is the least-cost/least-risk path for customers.

In the Valmy Settlement Idaho Power also committed to include in any application to adjust base rates a “Unit 2 closure validation study to evaluate the least cost/least risk closure date and potential inclusion of forecasted 2020-2025 incremental investments.” *Settlement at 7, IPC-E-16-24*. Idaho Power’s testimony here does not include a closure validation study; rather Mr. Harvey refers to the ongoing 2019 IRP and makes some general assumptions about the economics of Valmy. *Harvey Di at 20 -23*. ICL is deeply engaged in the 2019 IRP process, which has some substantial improvements over prior years but some continuing areas of concern. One area of concern is the confusing approach Idaho Power used to consider early exit of Unit 2. Idaho Power will file a completed 2019 IRP by June 30th. ICL recommends the Commission defer any decision on increasing customer rates to fund post-2019 Valmy spending until the Company completes this process.

Additional assessments of the prudence of prolonged Valmy Unit 2 operations is important because here Idaho Power seeks to raise customer rates for forecasted spending through 2025. *Application at 1*. As explained further below, ICL recommends the Commission defer any rate increase related to future spending on Unit 2 until Idaho Power completes the 2019 IRP and submits a Unit 2 closure validation study. ICL notes the track record from 2011 – 2019 is that each new IRP accelerates coal unit closures compared to the prior IRP assessment.

In the comments below ICL provides more detail to support our primary recommendations for the Commission to approve the North Valmy Project Framework Agreement, consider finding prudent costs incurred through 2019, and defer any decision to increase base rates to collect forecasted spending on Valmy beyond 2019.

¹ Valmy Settlement signed on May 3 2017; approved May 31, 2017. 2017 IRP filed June 30, 2017; accepted February 8, 2018.

1. Approve the North Valmy Project Framework Agreement between NV Energy and Idaho Power.

ICL recommends the Commission approve this Agreement because it memorializes prudent and commercially reasonable efforts to extract Idaho Power and its customers from the North Valmy plant operated by NV Energy. The settlement reached by ICL, PUC Staff, Idaho Power, and others in IPC-E-16-24 required the Company to negotiate a method to exit the Valmy plant before its co-owner and plant operator NV Energy desired. ICL acknowledges this agreement placed Idaho Power in a tough negotiating position. We commend the Company for reaching an agreement that contains key provisions to both protect customers' pocketbooks and quality of life. Those key provisions cover how the remaining Valmy owner must treat the exiting Valmy owner's share of the plant capacity, the fees paid by the exiting owner, and the allocation of decommissioning responsibilities among the co-owners.

It is indisputable that burning coal pollutes the air we breathe. While this Valmy Agreement does not close the Valmy plant, it does contain an important provision that will protect the clean air and stable climate Idahoans deserve. Section 3.1.4 of the Agreement states that when Idaho Power exits its participation in a Valmy unit, that portion of the unit capacity is not available for the remaining owner to use. *Harvey Di at 8*. This important provision will ensure cleaner air and mitigate the risk of the remaining partner causing future cost obligations for Idahoans. Idaho Power is obligated to pay 50% of common plant costs and any remediation costs attributable to its participation in the plant. Due to Idaho Power's current plan to gradually exit the plant between 2019 and 2025 it is important that the Agreement limits the ability for the remaining owner to operate the exiting owner's share of the plant in a manner that could increase common costs and remediation obligations. This term that makes the exiting owners share of capacity unavailable, and imposes a fee on the remaining owner if they cause inadvertent use of this capacity, will protect Idahoans' air and pocketbooks.

The second key provision of the Agreement addresses the fees paid and other cost obligations between the exiting and remaining Valmy owner. Mr. Harvey explains the exiting owner must pay an exit fee to the remaining owner if each party does not agree to retire the unit, as well as the shared costs that do not change when the exiting owner leaves. *Harvey Di at 8 - 9*. Because the fee is a confidential number, ICL will not disclose it here. We do support the approach used to calculate the exit fee whereby Idaho Power would pay for existing labor and

fixed operations and maintenance costs while avoiding operating expenses, fuel related costs, costs for capital additions, or any new fixed or variable costs. *Id. at 9*. ICL also recognizes Idaho Power will continue to pay “shared plant costs” that continue when Idaho Power exits one unit before the second unit. This is a reasonable approach considering Idaho Power is seeking to exit Unit 1 before the operating owner, NV Energy, plans to do the same. Importantly, if NV Energy changes course and also agrees to exit the plant inline with Idaho Power, the exit fee and shared cost fees expire. *Harvey Di at 12*.

The end of coal burning is not the end of the plant as the owners must meet decommissioning and remediation obligations imposed by regulators. While ICL does not know the extent or cost of these obligations, we acknowledge the framework agreement establishes a process to evaluate, approve, and audit actual costs. *Harvey Di at 16 – 20*. ICL also notes the Valmy Settlement in IPC-E-16-24 allowed for the collection of expected decommissioning costs now to prepare for this inevitable expense. *Larkin at 7*. By establishing a process to review, approve, and audit actual decommissioning costs, the Valmy Agreement ensures customers are likely to pay only the true costs for decommissioning. ICL provides further comments in section four below regarding the revenue related to decommissioning Idaho Power currently collects in rates.

ICL recommends the Commission approve this Agreement because it memorializes a prudent and commercially reasonable method for Idaho Power to exit the Valmy plant for the benefit of customers. Mr. Larkin testifies this Agreement will save customers \$17.2 million compared to continued operations of the plant by avoiding the need for incremental capital additions and operating expenses. *Larkin Di at 14*. ICL acknowledges Idaho Power faced a tough negotiating position since NV Energy currently expects to continue to operate this expensive coal plant. We appreciate Idaho Power’s effort to establish a framework that reduces costs for customers while providing both plant owners a viable path to unwind their partnership.

2. Consider finding that all actual Valmy investments through December 31, 2018, were prudently incurred.

ICL did not review each specific investment made through December 31, 2018. Rather we defer to the PUC Staff analysis and Commission’s judgment on the specifics of each project. ICL does note the Valmy Settlement Paragraph 13.a allows Idaho Power to seek recovery of

prudent investments made in 2017-2019. *Settlement at 6, IPC-E-16-24*. We provide further comments on each component of cost recovery in section four below. In general, ICL believes that projects necessary to meet legal obligations for environmental or worker safety are prudent while projects that have a useful life longer than the planned operation of any unit are not prudent.

3. Defer a decision to allow investments forecasted through December 31, 2025, at Valmy to be collected from customers today.

ICL recommends the Commission defer including these forecasted expenses in rates until Idaho Power submits a complete validation study on the optimal date to exit Valmy Unit 2. In the Valmy Settlement Idaho Power made two commitments regarding the prudence of continuing to participate in Valmy beyond 2019. In Paragraph 10 Idaho Power promised to “conduct ongoing analysis to evaluate the economics of a Unit 2 retirement and submit the results as part of its Integrated Resource Plan.” *Settlement at 5, IPC-E-16-24*. Further, in Paragraph 13.a Idaho Power promised to submit in any request to adjust base rates during 2019 a “Unit 2 closure validation study to evaluate the least cost/least risk closure date and potential inclusion of forecasted 2020-2025 incremental investments.” *Settlement at 7, IPC-E-16-24*. Because Idaho Power did not assess the validity of post-2019 participation in Valmy Unit 2 in the 2017 IRP, did not submit a complete closure validation study in this docket, and has not completed the analysis of future Valmy operations in the 2019 IRP, ICL recommends the Commission defer a decision on these investments for a later date.

Idaho Power did not validate the prudence of operating Valmy Unit 2 through 2025 in the 2017 IRP. None of the 12 portfolios Idaho Power considered in the 2017 IRP considered alternative retirement dates for Unit 2. *2017 IRP at 97-108*. Instead, the Company just assumed Unit 2 would operate through 2025 as part of the existing resource stack. Mr. Harvey claims that Appendix C to the 2017 IRP shows Unit 2 is a “necessary, although relatively infrequent, contributor to system reliability through 2025.” *Harvey Di at 23*. But the pages Mr. Harvey refers to are just summary tables showing the monthly load and resource balance in each year. *2017 IRP Appendix C at 42-48*. Those tables do not specifically mention how Unit 2 contributes to overall system needs. Those tables do not compare Unit 2 to other options to meet system

needs. An assumption is not an analysis. The 2017 IRP does not validate continued participation in Unit 2 is the least cost/least risk option for customers.

Idaho Power's roughly three-page Valmy Unit 2 closure analysis submitted here is inadequate to support imposing a rate increase on customers. Mr. Harvey testifies that due to the exit fee and shared costs Idaho Power would pay NV Energy for exiting Unit 2 before 2025 "it is unlikely there would be any economic benefit" of exiting early. *Harvey Di at 21*. Mr. Harvey does not provide any analysis to support this assumption, rather points to potential "benefits" to having this capacity "should its dispatch prove to be economically viable." *Harvey Di at 22*. Importantly, this justification does claim that Unit 2 is necessary to meet reliability needs or customer loads. And as we explain above, the 2017 IRP assumed and did not assess whether Unit 2 is needed for these possibly legitimate needs. Speculating about potential economic dispatch is a poor basis to impose rate increases on customers. Accordingly, the Commission should reject this justification to collect future Valmy costs today.

Mr. Harvey also points to the ongoing 2019 IRP as a source to justify the post-2019 participation in Unit 2. At first Mr. Harvey testifies that because the 2019 IRP is still in the development phase "a discussion of the results is premature." *Harvey Di at 20-21*. Later Mr. Harvey explains the Company will "continue to monitor the economics and include the analysis of results in its 2019 IRP, at a minimum." *Id. at 23*. ICL has been deeply engaged in the 2019 IRP and notes the process utilized this year, specifically using the Aurora Capacity Expansion function, is an important improvement. But this new process is complicated and deserves a full review by stakeholders and this Commission. In this docket, the PUC Staff submitted Production Request 9 asking the Company to explain how they assessed the continued operation of Unit 2 beyond 2019. ICL reviewed Idaho Power's Third Supplement Response to Staff Production Request 9. However, this response raises additional questions. Instead of relying on a hasty response to a single issue, ICL recommends the Commission defer judgment on the prudence of post-2019 Valmy operations until the Company completes the full IRP analysis and files the results June 30, 2019.

The Valmy Settlement Paragraph 13.b allows Idaho Power to seek recovery of these costs in the future, after the Company exits Unit 2. *Settlement at 7, IPC-E-16-24*. Instead of asking customers to pay these forecasted costs now, we recommend Idaho Power return at a later date to

seek recovery after the expenses are incurred and the prudence of continuing to operate Valmy is established.

4. Consider adjusting customer rates to recover prudent costs, offset by additional avoided O & M savings, to result in a negligible rate change for customers.

According to Exhibit 1 and Mr. Larkin's testimony, the incremental annual levelized revenue requirement of \$1.21 million that Idaho power requests has six components – A, B.1, B.2, C, D, and the Load Adjustment. For the reasons stated below, ICL recommends the Commission:

- Consider approving components A, B.1, C, and D.
- Defer approval of component B.2 until Idaho Power establishes the optimal end of life for Valmy Unit 2.
- Determine whether \$9,183 is a material difference between actual and forecasted revenue collections.

A – \$143,595. This amount is the annual revenue to collect, over the remaining depreciable life, the difference in the plant balance between the level approved in IPC-E-16-24 and the actual plant balance on the day the Valmy Settlement was approved by the Commission. *Larkin Di at 22-24.* Settlement Paragraph 13.c allows Idaho Power to seek recovery of this additional plant balance if the costs were prudently incurred. *Settlement at 8, IPC-E-16-24.* ICL defers to the PUC Staff analysis and the Commission's judgment on whether these higher than forecasted plant investments are prudent.

B.1. – \$38,396. This amount is the annual revenue to collect incremental spending on Unit 1 from 2017 through 2019 beyond the forecast of spending included in the revenue requirement provided in the Valmy Settlement. Settlement Paragraph 13.a.1 allows Idaho Power to seek recovery of this additional plant balance if the costs were prudently incurred. *Settlement at 6, IPC-E-16-24.* Mr. Harvey categorizes each project performed between August 1, 2016 and December 3, 2018 as necessary to meet either environmental, safety, or reliability needs. *Harvey Di at 25.* In general ICL supports this distinction as a reasonable method to identify spending that is required by law to meet environmental and workplace safety standards and spending related to prolonging the life of the plant. We note the reliability category is a grey area. ICL

defers to the PUC Staff analysis and Commission's judgment on whether these specific projects are necessary to maintain current reliability or have a useful life that extends beyond planned operation of the plant.

B.2 - \$1,211,394. This amount is reflects a confusing mix of "the revenue requirement on Unit 2 Valmy incremental investments after May 31, 2017, including the revenue requirement of Unit 1 beyond 2019." *Larkin Di at 24, 26.* Settlement Paragraphs 13.a.1 - 3 allow Idaho Power to seek recovery of 2017-2019 incremental costs at both Valmy units. *Settlement at 6-7, IPC-E-16-24.* For any forecasted costs for 2020-2025, Settlement Paragraph 13.a.4 requires a "Unit 2 closure validation study to evaluate the least cost/least risk closure date and potential inclusion of forecasted 2020-2025 incremental investments." *Id.* Because Idaho Power has not submitted a complete Unit 2 closure study, or completed further analysis of the optimal Unit 2 closure date in an IRP, ICL recommends the Commission defer recovery of these amounts. ICL notes the Settlement Paragraph 13.b allows Idaho Power to seek recovery of these costs in the future, after the Company exits Unit 2. *Id. at 7.* Deferring recovery of this forecasted spending on a plant with an uncertain future is in the public interest because it mitigates current rate increases while allowing Idaho Power a future opportunity to establish the prudence of, and actual cost of, these projects. ICL notes that deferring this component of the requested increase would avoid any material increase to customer rates in this docket.

C - \$0. This amount is not a request for additional revenue, rather just carries forward the forecasted decommissioning costs already included in customer rates. *Larkin Di at 29.* ICL takes no position on whether this amount is accurate or not. We note the Valmy Agreement establishes a process to evaluate, approve, and audit actual costs. *Harvey Di at 16 – 20.* Settlement Paragraph 14 allows Idaho Power to continue to collect decommissioning costs and other Asset Retirement Obligations with the goal of having the revenues collected fully offset costs at the time of decommissioning. *Settlement at 8, IPC-E-16-24.* This provision ensures the customers who take service from Valmy pay for the decommissioning costs and not future customers. We recommend the Commission reiterate that future customers should not pay for past decommissioning costs and that Idaho Power shareholders are obligated to make up any difference.

D – reduction of \$188,926. This amount represents additional non-fuel O&M savings to customers that result from exiting the Valmy plant. *Larkin Di at 29 – 32.* Settlement Paragraph 13.a.3 allows Idaho Power to adjust actual O&M savings to ensure customers see the entire benefit of exiting Valmy. *Settlement at 6, IPC-E-16-24.* This annual savings represents a total of \$52.36 million customers will avoid in O&M costs by exiting the Valmy plant. *Larkin Di at 30.* As Mr. Harvey’s Exhibit 1 shows, coal plants are complicated machines that wear out and fail requiring extensive annual spending. Exiting this old plant and replacing the services with new resources, like solar and market purchases that inherently require fair less O&M costs, benefits customers. ICL recommends the Commission approve this component that reduces rates for customers.

Load Variance - \$ 9,183. This amount reflects the impact of lower than forecasted sales volume during June 1, 2017 through December 31, 2018. *Larkin Di at 33 – 34.* Settlement Paragraph 15 allows Idaho Power to true up the levelized collection based on actual results “if material.” *Settlement at 8-9, IPC-E-16-24.* ICL also acknowledges Idaho Power has a right to seek recovery of actual costs. However, ICL notes that \$9,183 annually as a percentage of overall Idaho Power sales revenue does not seem material. We trust the Commission to make a judgment as to whether this is a material impact.

Conclusion

Since 2015, promptly exiting the Valmy plant has been the least-cost/least-risk path for customers. ICL commends Idaho Power for negotiating an agreement with NV Energy that allows for this to happen in a prudent and commercially reasonable fashion. We recommend the Commission approve the Valmy Agreement, consider adjusting rate to recover prudently incurred costs through 2019, and defer consideration on costs forecasted beyond 2019 until Idaho Power completes a Unit 2 closure validation study.

Respectfully submitted this 10th day of May 2019.



Benjamin J. Otto
Idaho Conservation League

CERTIFICATE OF SERVICE

I hereby certify that on this 10th day of May, 2019, I delivered true and correct copies of the foregoing COMMENTS to the following persons via the method of service noted:

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