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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 JIM BRIDGER POWER PLANT	)	**CASE NO. IPC-E-21-17** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Chris Burdin, Deputy Attorney General, submits the following comments.

BACKGROUND

The Jim Bridger Power Plant ("Bridger") is located near Rock Springs, Wyoming and consists of four generating units. *Amended Application at 3.* PacifiCorp owns two-thirds of the facility and is its operator, while Idaho Power Company ("Company") owns the other one-third. *Id.* The Company and PacifiCorp ("Co-Owners") work jointly to make decisions regarding Bridger including required investments and the proposed retirement of Bridger. *Id.* Bridger is connected to the Borah West transmission path west of the Borah Substation near American Falls, Idaho. *Id.* The Company's one-third share of energy flows west over this path. *Id.* The Idaho-Wyoming path ("Bridger West") consists of three 345 kV transmission lines. *Id.* at 4. The Company owns 800 MW of the 2,400 MW east-to-west capacity which feeds into the Borah West path when power is moving east to west from Bridger. *Id.*

PROCEDURAL HISTORY

On June 3, 2021, the Company applied to the Commission for authorization to accelerate the depreciation schedule for Bridger to allow the plant to be fully depreciated and recovered by December 31, 2030. *Application* at 1.

Clean Energy Opportunities for Idaho, City of Boise City, Industrial Customers of Idaho Power, Idaho Conservation League, Micron Technology, and Sierra Club all intervened in this matter. Order Nos. 35094, 35102, and 35119.

On November 17, 2021, the Commission suspended the procedural schedule and discovery until the Company filed an update or requested to set the procedural schedule once more information was known, but no later than December 31, 2021. Order No. 35222. The Commission also suspended the effective date for 30 days and 5 months, or until May 31, 2022, unless the Commission issued an earlier order accepting, rejecting, or modifying the Company's Application. *Id.*

On December 30, 2021, the Company filed a letter ("Update") with the Commission stating that it filed its 2021 Integrated Resource Plan ("IRP") with a preferred portfolio that also identified the cessation of coal-fired generation in Bridger Units 1 and 2 in 2023 with a natural gas conversion of those units in 2024. *Update* at 1. The Company also stated that the Environmental Protection Agency ("EPA") had not yet formally acted on PacifiCorp's proposed alternative regional haze compliance plan for Bridger Units 1 and 2. *Id.* at 2. The current PacifiCorp plan would require emission controls by December 31, 2021, for Unit 2 and December 31, 2022, for Unit 1. *Id.* The Company stated that on December 27, 2021, Wyoming Governor Mark Gordon issued a temporary emergency suspension extending the compliance date of Unit 2 through April 30, 2022, to give more time for the EPA to act on the Wyoming State Implementation Plan ("SIP"). *Id.* The EPA remains in discussions with PacifiCorp regarding this issue. *Id.*

On February 16, 2022, the Company filed an Amended Application and requested the Commission issue an order authorizing the Company to: (1) accelerate the depreciation schedule for all coal-related Bridger investments to allow for full depreciation and recovery by December 31, 2030, (2) establish a balancing account, and the necessary regulatory accounting, to track the incremental costs and benefits associated with the Company's cessation of participation in coal-fired operations at Bridger, and (3) adjust customer rates to recover the associated incremental annual levelized revenue requirement of $27.13 million, which would result in an overall rate increase of 2.12 percent. *Id.* at 1.

The Company requested that its proposed rates take effect June 1, 2022. *Id.* The Company also requested that the Commission set a public comment deadline of April 29, 2022, a simultaneous reply comment deadline of May 13, 2022, and a Company reply deadline of May 18, 2022. *Id.* at 11.

THE APPLICATION

The Company represented that it has made numerous investments into Bridger to ensure environmental compliance and routine maintenance and repairs are completed. *Id.* at 4. The Company requested a prudence determination on the incremental Bridger coal-related investments from January 1, 2012, through December 31, 2020.[1] *Id.* The Company represented that its investments for environmental compliance make up nearly 50 percent of the total Bridger investments made since January 1, 2012. *Id.* at 5. The Company also represented that it funded 15 investments greater than $1 million for operational maintenance costs. *See Id.*

The Company represented that changing conditions have resulted in earlier than expected exit from participation in Bridger operations. *Id.* The Company's 2019 IRP proposed Bridger exits in 2022, 2026, 2028, and 2030.[2] *Id.* at 5-6. The Company's 2021 IRP[3] included the conversion of Bridger Units 1 and 2 from coal to natural gas by the summer of 2024 with a 2034 exit date, and the exit of coal-fired operations in Units 3 and 4 by year-end 2025 and 2028. *Id.* at 6. The Company claimed that the 2021 IRP indicates that an earlier exit from coal-fired generation at Bridger would be more economical. *Id.* The Company stated that a depreciable life of year-end 2030 for all Bridger Units is appropriate "as it [would] help minimize revenue requirement impacts to customers." *Id.* The Company estimated that it would exit coal-fired operations of Bridger completely by 2028. *Id.*

The Company estimated that Bridger would require incremental coal-related investments to maintain operations prior to the decommissioning of the facility. *Id.* However, because the specific timing and exact amounts of future investments are unknown, the Company proposed that the Commission establish a balancing account to allow flexibility for the recovery of the remaining

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[1] *See* Case No. IPC-E-11-08.
[2] *See* Case No. IPC-E-19-19.
[3] *See* Case No. IPC-E-21-43.

Bridger investment revenue requirement. *Id.* at 6-7. The Company stated that under the balancing account approach,

> the Company replaces the base rate revenue recovery associated with [the Company's] existing coal-related investment in Bridger with a levelized revenue requirement and tracks it in the Bridger balancing account, smoothing revenue requirement impacts associated with the exit of Bridger coal-fired operations and allowing for full recovery of Bridger coal-related costs near the time [the Company] ceases participation in coal-fired operations.

Id. at 7. The Company represented that this approach aligns the cost recovery period with the Company's remaining participation in coal-fired operations more closely and ensures that Customers would "pay no more or no less than the actual coal-related O&M and capital coal-related costs of the Bridger plant beginning June 1, 2022." *Id.* The Company further believed that the balancing account approach would accelerate depreciation expenses related to its Bridger-related investments. *Id.* The Company proposed that the Commission track the coal-related investment return and associated depreciation expenses, as well as the decommissioning costs, through the balancing account. *Id.*

The Company requested an accounting order that allows the Company to make necessary accounting entries, including a regulatory asset account that would match Generally Accepted Accounting Principles ("GAAP") revenue recognition with actual monthly patterns of coal-related revenue requirement. *Id.* at 8. The Company stated that regulatory accounts would be required to adjust the financial statement impacts resulting from Bridger-related GAAP accounting and income tax results. *Id.*

The Company requested recovery of the coal-related levelized revenue requirement that includes costs of accelerating the depreciation of Bridger, the return associated with coal-related capital investments net of accumulated depreciation forecasted through the Company's participation in Bridger, interim decommissioning costs associated with Bridger, and O&M savings associated with non-fuel coal-related O&M reductions. *Id.* The Company totaled these costs to $27,127,333. The Company submitted the following table to present the differences between each component as quantified in the Company's initial request and the amounts that reflected Bridger's investment levelized revenue requirement:

	June 2021 Request	February 2022 Amended Request	% Change
Plant Investment	**$73,470,945**	**$52,121,340**	**(29.1)**
Interim Decomm. Costs	**$59,318**	**$64,449**	**8.6**
O&M Savings	**($5,736,719)**	**($4,391,349)**	**(23.5)**
Levelized Rev. Req.	**$67,793,544**	**$47,794,440**	**(29.5)**
Rev. Req. in Rates	**($36,96,815)**	**($20,667,107)**	**(44.1)**
Net Change	**$30,825,729**	**$27,127,333**	**(12.0)**

The Company proposed to allocate the increase related to Bridger's balancing account using the jurisdictional separating study method. *Id.* at 9. The Company requested that the incremental revenue requirement increase of $27.13 million be recovered from all customer classes through a uniform percentage increase to all base rate components except the service charge. *Id.*

The Company represented that it would submit to the Commission its annual adjustment mechanism filings, the Fixed Cost Adjustment ("FCA") and Power Cost Adjustment ("PCA") on March 15, 2022, and April 15, 2022, respectively. In the Company's FCA filing, the Company would request the incremental revenue requirement of approximately $27.13 million; the Company stated that it would include a set of proposed tariff sheets specifying the proposed rates in its filing. *Id.* at 9-10.

STAFF REVIEW

Staff reviewed the Company's Application and Amended Application and all discovery responses. Based on its review, Staff recommends the Commission find that capital investments through 2020 for the Jim Bridger power plant were prudently incurred. Staff further recommends approval of the accelerated depreciation rates and the establishment of a balancing account, and necessary regulatory accounting, to track any variation from the 2020 revenue requirement. Staff does not support a change in rates at this time. Staff's comments below provide an explanation of its positions.

1. Prudence of Capital Investments

Staff believes the investments made to the Jim Bridger Power Plant during the period from January 1, 2012, through December 31, 2020, are reasonably prudent, but it is unclear whether the Company was adequately involved with the plant co-owner and operating partner, PacifiCorp, to assure these projects were implemented in a least-cost manner. Staff utilized a four-prong approach in its review to ensure that the prudence of the Company's investments were examined in detail on the highest cost projects while providing a broad review of total plant investment. Staff performed: (1) a detailed examination of all projects over $1 million to ensure that these projects were necessary and least cost; (2) an analysis of the total investment amount normalized by the capacity of each unit to ensure the unit and overall amount of plant investment are comparable; (3) a review of any project cost overruns that might indicate that the projects were not implemented in a cost-effective manner; and (4) an examination of the Company's due diligence efforts with PacifiCorp to assure these projects were implemented in a least-cost manner.

a. Capital Investment Need of Projects over $1 million

Staff reviewed the list of projects provided by the Company in Exhibit No. 3 totaling $266.3 million. The two primary drivers of capital investments in the Bridger facility from 2012 through 2020 were to meet environmental compliance and to maintain unit reliability. The Company provided justification and project descriptions for each of the twenty-four capital investments that cost over $1 million for the Company's share of the investment. Of these investments, 9 were needed to meet regulatory compliance ($122.9 million) and 15 were needed to maintain unit reliability ($45.6 million).

The two largest investments were the Unit 3 and Unit 4 Selective Catalytic Reduction ("SCR") systems constructed to comply with Federal Regional Haze Regulations costing the Company $112.1 million in total. The largest investment for plant reliability was $13.5 million for the upgrade of the two low pressure steam turbines for Unit 2 to improve the unit's efficiency. In total, Staff performed a detailed review of $168.5 million of the Company's $266.3 million in investments during this period included for recovery. Staff believes that the justification of need for all of these projects was reasonable.

b. Unit Comparison

Staff performed a comparison of the Company's share of Bridger unit investments, normalized by each unit's nominal net capacity to ensure the overall amount of investment was consistent between units. Because of the relatively small differences in the construction and age of each unit, Staff was able to verify that the total investment for each unit was comparable when adjusting for the capacity of each unit and the additional SCR investments made to Units 3 and 4.

Staff compared the relative differences in the number of projects and Company investment by plant area/unit as seen in the table below.

Table No. 1

AREA DESCRIPTION	NOMINAL NET CAPACITY	AREA PROJECT COUNT	AREA PROJECT COSTS	AVERAGE PROJECT COST PER MW
COMMON PLANT	-	405	$43,429,474	-
UNIT #1	177 MW	108	$22,261,717	$125,772
UNIT #2	180 MW	94	$36,742,959	$204,128
UNIT #3	174 MW	126	$79,734,598	$458,245
UNIT #4	175 MW	113	$84,101,381	$480,579
TOTAL PLANT	706 MW	846[4]	$266,270,128	$377,153

When examining the average project cost per mega-watt ("MW"), Units 3 and 4 were significantly higher than Units 1 and 2. This can be attributed to the installation of SCRs on Unit 3 in 2015 and Unit 4 in 2016. The SCR system investment cost for Units 3 and 4 totaled $53.6 million and $58.5 million, respectively.[5] By removing the SCR cost from the comparison, the average project cost per MW dropped to $150,212 and $146,203 for Unit 3 and 4, respectively. These costs are consistent with the amounts for Units 1 and 2. The Company also identified 405 common plant projects totaling $43.4 million indicating a $107,233 average cost per project for the Company over this period. Staff analysis indicates the unit costs are comparable and overall plant investments are justified.

c. Project Cost Overruns

Staff identified plant projects exceeding $1 million in value where actual project costs exceeded the original budget appropriations amount. The Company identified 19 projects totaling $68.3 million where actual investment cost exceeded the original appropriations by more than 10 percent. The cost overrun for these projects totaled $14.5 million with an average overrun of 21 percent and a range of between 10 and 39 percent. Staff reviewed the Company's explanations describing why the projects exceeded the approved budget and concluded that the cost overruns were justified.

[4] The difference in the project count identified in the Application is attributed to several projects where costs were spread across one or more units or to the common plant.

[5] The values of $53.6 million for Unit #3 and $58.5 million for Unit 4 are a filtered reference from Exhibit No. 3, which differs from page 21 of Adelman's Direct Testimony that shows $62.92 million for Unit 3 and $66.91 million for Unit 4.

d. Company Plant Oversight

The Company has an obligation to its customers to provide adequate oversight of all investment in plants managed by it operating partners and ensuring that projects are implemented at least-cost to customers. This becomes imperative as Bridger nears retirement and the economic exit dates are currently not aligned in the IRP of both utilities. *See* Table No. 2 *infra*. Staff is concerned that the Company's interests may not be adequately represented while making investment decisions, which is especially concerning as the Company exits its interests in generating units and as units are eventually retired. In addition, Staff has historically had issues with tracing evidence related to the Company's due diligence efforts in managing its operating partner's investments in co-owned plants.[6] Staff recommends that the Company establish a formalized process to document the circumstances, the Company's justifications, and the final decisions made for these types of investment decisions.

Documentation shows that the Company is involved in the decision-making process for project need and budget tracking, but it relies heavily on its operating partner and co-owner PacifiCorp for project management, project implementation, and project construction.

PacifiCorp analyzes and proposes the need for capital projects and annually provides a 3-year short-term and 10-year long range forecast of capital projects to the Company.[7] During mid-year budget review meetings, the co-owners assess the proposed projects contained within a capital plan. The plant operator also provides details of the project, its need, and any consequence if the project is not completed. The Company also participates with the co-owner in quarterly ownership meetings, where each current year capital budget is reviewed and discussed, along with any proposed adjustments to the remaining project work. During these meetings, Staff expects the Company to be actively involved in reflecting its differing view of project investment need given the different exit/retirement dates between the two Companies. However, the Company has provided little documentation to date showing how it was involved in these meetings and how its needs differ from the managing partner.

[6] See Mike Louis, Di, IPC-E-13-16, p. 32; Staff Comments, IPC-E-19-08, p. 9; Staff Comments, IPC-E-19-32, pp. 6-8.
[7] Company response to Staff Production Request No. 25.

Given the significant dollar amount requested by the Company for recovery and the $740 million[8] total investment made by the Company over the life of the plant, Staff believes that additional oversight by the Company is warranted. This added oversight is especially needed as the plant draws closer to retirement. Staff believes direct oversight should include more frequent onsite inspection of capital projects with field reports documenting project activity and progress. This oversight would be in addition to the Company's involvement for determining capital project need, budgeting, and verification of payment. Without increased oversight there is less certainty that capital investments made at the plant will be completed at a least-cost to customers.

2. New Depreciation Rates

Staff believes it is reasonable for the Company to identify December 31, 2030, as the end of the depreciable life of coal assets for Bridger. Based on the Company's 2021 IRP, Staff recognizes that the conversion of Units 1 and 2 to natural gas will extend the economic life of common plant and capital investments needed for natural gas operation to the end of 2034. The complexity of staggered individual unit closures at the end of 2023 for Units 1 and 2 as coal generators and their conversion to natural gas in 2024, 2025 for Unit 3, and 2028 for Unit 4 reasonably supports a 2030 date as the depreciable life for all coal assets at Bridger minimizing the impact to ratepayers.

Although the Company has identified each unit's exit date for Bridger in the 2021 IRP, it has not developed contractual terms necessary to allow for the potential earlier exit of a Bridger unit by one of its co-owners. Larkin, Supp DI page 5. The terms of an earlier exit by one of the co-owners may shift the economics of a unit closure date. In the latest IRPs for both utilities, the difference in the unit exit dates are as much as 12 years for Unit 3 and 9 years for Unit 4 as seen in the table below.

[8] Idaho Power Company Depreciation Study Jim Bridger Plant dated December 31, 2020.

Table No. 2

JIM BRIDGER POWER PLANT	IDAHO POWER 2021 IRP EXIT YEAR	PACIFICORP 2021 IRP EXIT YEAR	DIFFERENCE IN YEARS
UNIT 1 (GAS CONVERSION 2024)	2034	2037	-3
UNIT 2 (GAS CONVERSION 2024)	2034	2037	-3
UNIT 3	2025	2037	-12
UNIT 4	2028	2037	-9
COMMON PLANT	2034	2037	-3

Depending on the structure of an exit agreement, the utility desiring to exit early may be responsible to invest capital to maintain unit reliability and regulatory compliance for the remaining co-owner while not receiving any benefit. Given that the co-owners have not defined the contractual terms for exiting a unit, these additional costs are currently unknown and likely not included in the cost of Bridger in the Company's IRP. This adds uncertainty that could change the exit dates when these costs are included. Until these costs are considered in future IRPs, the Company may need to adjust the depreciable life of coal assets for Bridger. Staff recommends that the Company include costs identified in an exit agreement with PacifiCorp as soon as practical and include these costs in future IRPs to eliminate it as a source of error in its IRP analysis. Depending on changes to the exit dates in the IRP, the Company should also re-evaluate the depreciable life of Bridger and file changes with the Commission if warranted.

3. Balancing Account

Staff believes that a balancing account is appropriate to track any difference in the annual revenue requirement for the coal-related assets at Bridger. With a prudency determination through 2020, as recommended in this case, Staff believes that the 2020 revenue requirement should be used as the base, and any differences from the 2020 revenue requirement should be recorded in the balancing account year. The revenue requirement includes operations costs, depreciation costs, and the return on net plant in service. However, the balance in the deferral, both positive and negative, should not be subject to any carrying charges or return. The fact that the Company is authorized recovery of these amounts should be sufficient, as without this authority to create a balancing account, the Company would not be able to recover these amounts short of annual general rate cases. In addition, with return on net plant in service already being included in the calculation of revenue requirement and recorded in the balancing account, to include another return in the deferral balance would be allowing the Company to earn additional return on its investment.

Staff believes it is appropriate for capital investments to be reviewed for prudency at regular intervals. Considering the large uncertainties in the future of Bridger, Staff recommends the Commission order the Company to submit reports to the Commission referencing projected expenditures for Bridger after every Integrated Resource Plan is acknowledged.

4. Rate Changes

Staff does not recommend any changes to the Company's rates in this case. There are several uncertainties surrounding the future of Bridger. It remains possible that Units 1 and 2 could both be forced to close by the end of 2022. They could also potentially operate until 2028 and beyond. In addition, Idaho Power does not have an agreement with its operating partner to exit the plant early. Staff does not support including estimates in rates when the future is this uncertain.

The lack of immediate recovery should not harm the Company financially. According to the IdaCorp 2021 Annual Report, the Company earned a 9.2% Return on Equity ("ROE") in 2021. In the confidential response to Production Request No. 3, the Company used an estimated future test year to calculate the impact of having the proposed rate increase denied. The Company's analysis showed that it would have a very small impact to their ROE. Staff believes this will not significantly impact the Company's current financial position. However, if the Company believes the small reduction to its ROE will cause a financial impact, it can file a general rate case to address its financial standing. The Company's last general rate case was filed in 2011 and since that time the Company has been able to maintain its financial standing without the need to adjust base rates. Staff believes at this point in time the balancing account will capture any differences in revenue requirement and ensure the Company recovers no more and no less than the actual costs of associated with the closure of Bridger.

STAFF RECOMMENDATIONS

Staff recommends that the Commission:

- Determine that the capital investments in Jim Bridger through 2020 are prudently incurred.
- Order the Company to establish a formalized process to document the circumstances, the Company's justifications, and the final decisions made for capital investments in its partner plants.
- Establish the accelerated depreciation rates proposed in the Company's Application which fully depreciate the coal assets of the Jim Bridger Power Plant by December 31, 2030.
- Authorize the use of a balancing account, and necessary regulatory accounting, to record differences between the 2020 revenue requirement and actual revenue requirement for the coal related assets at the Jim Bridger Power Plant.
- Reject the Company's request to change rates at this time.

Respectfully submitted this 27th day of April 2022.

Chris Burdin
Deputy Attorney General

Technical Staff: Joe Terry
Rick Keller
Kevin Keyt

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 27TH DAY OF APRIL 2022, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-21-17, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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