CHRIS BURDIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0314
IDAHO BAR NO. 9810

Street Address for Express Mail:
11331 W CHINDEN BLVD, BLDG 8, SUITE 201-A
BOISE, ID 83714

Attorney for the Commission Staff

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A DETERMINATION VALIDATING THE NORTH VALMY POWER PLANT BALANCING ACCOUNT TRUE-UP	**CASE NO. IPC-E-22-05** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW, the Staff the Idaho Public Utilities Commission ("Staff"), by and through its Attorney of record, Chris Burdin, Deputy Attorney General, and submits the following comments.

BACKGROUND

On February 28, 2022, Idaho Power Company ("Company") applied to the Idaho Public Utilities Commission ("Commission") for an order: (1) finding that all actual North Valmy Power Plant ("Valmy") investments from January 1, 2019, through December 31, 2021, were prudently incurred; (2) validating that the Company has accurately quantified the Valmy balancing account true-up as a result of the inclusion of actual costs through December 31, 2021, and updated forecasted investments through December 31, 2025; and (3) confirming its request satisfies the annual reporting required by Commission Order No. 34349.

Valmy is a coal-fired power plant that consists of two units and is located near Winnemucca, Nevada. NV Energy co-owns the plant with the Company and is Valmy's operator. The Company exited coal-fired operations of Unit No. 1 on December 31, 2019.[1] The Company anticipates that it will exit from Valmy Unit No. 2 by the end of 2025.[2]

In Order No. 33771, and updated in Order No. 34349, the Commission approved a balancing account mechanism associated with the shutdown of Valmy which allows for full recovery of Valmy-related costs near the plant's end-of-life. The Commission also approved Valmy-related investments forecasted through December 31, 2025, to be included in the levelized revenue requirement mechanism. Order No. 34349 directed the Company to file annual reports detailing the amounts recorded to the Valmy balancing account, and to submit a filing to true-up the balancing account with forecast-to-actuals no later than February 28, 2022.

STAFF REVIEW

Staff has reviewed the Application, testimony, and responses to production requests. Based on its review, Staff recommends the amounts for the investments made between January 1, 2019, through December 31, 2021, as shown in Company Exhibit No. 2, be maintained in the balancing account, but without a determination of prudence at this time. Staff believes the Company accurately quantified the Valmy balancing account true-up, that the Company's filing satisfies the annual reporting requirement, and that a change in customer rates is not necessary.

The Valmy balancing account true-up with plant investment balances, actual Operation and Maintenance ("O&M") savings through December 31, 2021, as well as future investments and O&M savings through December 31, 2025, results in an annual levelized revenue requirement of $31.68 million on an Idaho jurisdictional level as shown in Table No. 1 below.

Table No. 1: Valmy Levelized Revenue Requirement		
Existing Capital Investments as of Dec. 31, 2021	$	32,282,687
Incremental Capital Investments through 2025	$	2,859,968
Decommissioning Costs	$	1,095,534
Non-Fuel O&M Savings	$	(4,454,106)
Load Variance Overcollection	$	(101,318)
Total Levelized Revenue Requirement	**$**	**31,682,765**

[1] Order No. 33983.
[2] Case No. IPC-E-21-43.

The $31.68 million levelized revenue requirement is an increase of $1.78 million over the levelized revenue requirement approved in Order No. 34349.

A. Balancing Account

The balancing account approved in Order No. 33771, is designed to smooth the revenue requirement impacts associated with the Company's early withdrawal from Valmy. The mechanism calculates the levelized annual revenue requirement associated with accelerated depreciation, a return on undepreciated capital investments, non-fuel O&M savings, and decommissioning costs. The levelized annual revenue requirement recovers estimated costs which will be trued up to include prudently incurred actual expenses. In Order No. 33771, the Commission approved a revenue requirement collection through 2028, three years longer than the proposed 2025 shutdown of the Valmy plant.

B. Levelized Annual Revenue Requirement

The levelized annual revenue requirement includes four components, as well as a true-up for load variance, which are shown in Company Exhibit No. 1 - Levelized Revenue Requirement for the Valmy Plant 2021 Annual Update. Component A is the revenue requirement associated with actual existing investment as of May 31, 2017. Component B is the revenue requirement of incremental investments after May 31, 2017. Component B consists of two subcomponents: 1) the revenue requirement of incremental investments at Unit No. 1 from June 1, 2017, through 2019, and 2) the revenue requirement of Valmy incremental investments beginning January 1, 2020. Component C is the revenue requirement associated with future decommissioning costs. Component D is the revenue requirement associated with O&M savings.

The Company is requesting that the Commission validate its quantification of the Valmy balancing account true-up and proposes that the difference in the annual revenue requirement remain in the balancing account to offset potential future differences. The Company will continue to file annual reports keeping the Commission appraised of changes to the Valmy levelized revenue requirement as actual investment and expenses become known.

Staff recommends that the $1.78 million difference in the annual revenue requirement remain in the balancing account. An adjustment to customer rates to recover the incremental annual levelized revenue requirement resulting from the true-up is not necessary. Staff believes the Application satisfies the annual reporting required by Commission Order No. 34349.

Although Order No. 34349 requires the Company's filing to include a rate change effective June 1, 2022, the Company is not requesting to adjust customer rates at this time. However, if the Commission determines that a rate change is appropriate, the Company's filing includes the necessary quantifications for the Commission to calculate a rate change resulting from the annual levelized revenue requirement. Were the Commission to authorize current rate recovery of the incremental amount of $1,784,343, rates would increase approximately 0.14 percent.

1. Prudence of Actual Investments

The Company requested approval for $4,657,437 of capital investments made to the North Valmy plant during the period from January 1, 2019, through December 31, 2021, as shown in Exhibit No. 2 of the Application. The amount represents the Company's share of capital investments made to the plant over this timeframe. The breakdown of capital investment includes $416,860 for Unit No. 1, $2,707,651 for Unit No. 2, and $1,532,927 for the Valmy common plant.

To determine prudence needed for the Company to begin recovery for its capital investments, Staff analyzed two types of prudence: decisional prudence and operational prudence. Decisional prudence of an investment is based on need, while operational prudence is based on whether the Company implemented the investment in a least-cost manner. As a result of its review, Staff concludes that the investments made at the North Valmy Plant during the 2019 through 2021 timeframe as shown in Exhibit No. 2, were needed to continue safe and reliable operation of the facility. As such, Staff recommends that the amounts for these investments be maintained in the balancing account. However, Staff cannot recommend that the investments were operationally prudent due to a lack of sufficient evidence documenting that the projects were done in a least-cost way. Staff further recommends the Company provide additional information needed by Staff within six months after the Commission's order in this case through a compliance filing. Staff recommends the Company meet with Staff prior to the Compliance filing to determine the information needs required to determine prudence of its capital investments. This is consistent with Order No. 35423: the Company meet with Staff to identify the "process by which the Company documents the decision-making aspect of its capital investments…[and] to develop a more comprehensive future documentation process."

To perform its analysis in this case, Staff first reviewed the Company's process with its operating partner, NV Energy, used to approve and manage projects between the two utilities. This allowed Staff to draw general conclusions about the prudence of the overall investment amount but lacks details sufficient for determining prudence of individual investments. As such, Staff performed a detailed analysis of ten projects that were either the highest cost projects or projects that had unusual circumstances. Detailed below are three of these projects, including the two highest cost projects.

a. 27574743 – VALMY 98482392 V2 Replace Turbine High Pressure/Intermediate Pressure Shell ("HP/IP Shell")

Valmy Unit 2 required major repairs to its HP/IP Shell at an approximate cost of $1.24 million to the Company. It was the highest cost investment made in the Valmy facility during the 2019 through 2021 timeframe. From a decisional prudence perspective, Staff determined that the project was needed because without the repair of the Unit No. 2 HP/IP Shell, the unit could not maintain safe and reliable operation.

Staff also analyzed the operational prudence of the project to determine if it was done at least cost. NV Energy approached the manufacturer of the steam turbine and requested several alternatives to repair the steam leaks that had developed in the HP/IP Shell. *See* Response to Staff Production Request No. 28. NV Energy performed a cost/benefit analysis on five different alternatives provided by the manufacturer and selected the option that would provide the most reliable operation and allow maintenance of the unit to prevent future similar repairs. Staff also requested information regarding budget cost overruns for the project. Based on the voluminous information provided, Staff was able to determine that there was one change in scope to the project that cost an additional $191,536. However, Staff was not able to determine how the actual cost of the overall project tracked to the original budget. At a minimum, Staff expected to receive a line-item budget and how actual costs tracked to the line items. Without this information, Staff was not able to determine how the overall project was either under or over budget and to determine if cost overages for individual line items were justified.

b. 27514784 – VALMY 98438396 VC Freeze Protection Heaters ("Freeze Protection")

During winter periods when the plant is not required to operate to meet load, the facility requires supplemental heating to keep the plant from freeze-related damage. Traditionally, NV Energy rented space heaters to prevent this type of damage. NV Energy determined that it was less expensive to purchase heaters instead of renting them for the remaining life of the plant. *See* Response to Staff Production Request No. 17. Based on the analysis provided, Staff believes that the *decision* to purchase the heaters was justified and it was a prudent investment.

The Company did provide budget-to-actual performance for this investment. The original budget for the project was $450,000. However, the actual project cost was over budget by $300,000, and the Company did not provide any detailed justification for the over budget amount.

c. 27545751 – VALMY 98466935 V1 Pulverizer D Roller Wheel Assembly ("Pulverizer Roller")

NV Energy needed to replace a defective roller in a Unit No. 1 coal pulverizer, which was discovered in April of 2019. *See* Responses to Staff Production Requests No. 18, 19, 20, and 21. Although Idaho Power was exiting Unit No. 1 at the end of the 2019 calendar year, because the defect was discovered and repair was required to maintain reliable service before exiting the plant, the Company was required to pay its share of the cost based on the Framework Agreement between the Company and NV Energy.[3] The Company is obligated to the provisions within the Framework Agreement, which was authorized by the Commission. Order No. 34349 at 4. Because of these reasons, Staff believes that the Company's decision to make the investment was prudent.

Relative to operational prudence, the Company did not provide budget-to-actual performance or any evidence that the project was conducted in a least-cost way. Staff recommends that this information be provided as part of the Company's applications when seeking prudence determinations of its capital investments.

2. Forecasted Investments and Decommissioning Costs

The Company includes forecasted capital investments and projected decommissioning costs in the balancing account in order to facilitate rate stability by including these costs and levelizing their impact. In this filing, the Company has updated the cost of forecasted capital investments for Valmy Unit No. 2 and common plant for the years 2022 through the end of year 2025. The Company did not adjust the forecasted decommissioning costs.

Staff reviewed the Company's forecast and believes the costs are within the bounds of the Framework Agreement and are reasonable given the Company's early exit plan. Staff recommends these adjusted costs be included in the balancing account, and the actual investments be reviewed for prudency and trued-up prior to being recovered in rates.

The Company is requesting Commission approval to include the incremental Idaho jurisdictional revenue requirement of $1,556,651 for actual and forecasted investments projected

[3] The Framework Agreement defines the cost and operational responsibilities between the Company and NV Energy reconciling exit dates scenarios between the two parties. *See* Response to Staff Production Request No. 1.

through December 31, 2025 in the balancing account. The Company has characterized these investments as necessary and routine capital expenditures needed to operate the facility safely and reliably through the end of its life.

Although the Valmy plant is nearing its end-of-life, investments are necessary to ensure that the plant remains operational. Under the Framework Agreement, because Idaho Power has exited participation in Unit No. 1 operations, the Company is no longer responsible for capital costs related to Unit 1. However, the Company is still responsible for common facility investments and Unit No. 2 investments until the last unit is exited. The latest forecast includes projects starting in 2022 through 2025 at a cost of $9.44 million, which is approximately $7.57 million higher than previously anticipated. Included in the estimate are projects associated with a server update, replacement of Unit No. 2 pulverizer roll wheels and other components due to normal wear and tear, and another production well replacement. The remaining investments are associated with the annual blanket projects for pumps, valves and motors, and routine infrastructure to maintain operations of the plant.

Staff verified that the Company's investments include expenditures for future plant maintenance outages as well as equipment replacement and upgrades for Unit No. 2 and common facilities to ensure reliable operation through the end of its life. Staff reviewed and will continue to review any planned investments that could be avoided given the facility's end of life. To ensure that any unnecessary future expenditures are minimized, Staff recommends the Company include any updates to forecasted expenditures as part of the annual reporting as circumstances change.

Forecasted decommissioning costs were not adjusted from the amounts included in the balancing account from the IPC-E-16-24 case. Staff continues to support the amount knowing that the amounts will be trued-up to prudently incurred actual costs when the facility is closed.

3. O&M Savings

Idaho Power has updated the revenue requirement associated with O&M savings to include actual Valmy-related non-fuel O&M savings from January 1, 2019, through December 31, 2021, and updated the forecast for non-fuel O&M savings from January 1, 2022, through December 31, 2025 as shown in Exhibit No. 1, Component D. O&M savings are $342,000 less than originally estimated. The updated Idaho jurisdictional revenue requirement for O&M savings is $4.45 million.

Staff audited a sample of Valmy O&M expenses. Based on the audit, Staff believes the update to actual O&M expenses is accurate. Staff believes the forecast of the O&M expenses through December 31, 2025, is reasonable.

4. Load Variance True-Up

The Load Variance true-up, as shown on Company Exhibit No. 1, is a result of comparing the forecasted load to the actual Idaho Jurisdictional Load. The Idaho Forecast Sales in kilowatt-hours is used to calculate the Levelized Revenue Requirement, and is trued up to the Idaho Actual Sales. The Company has computed the true-up from the collection of the levelized revenue requirement amount for the January 1, 2019, through December 31, 2021, period. Actual Idaho jurisdictional sales volumes were higher than forecasted sales, resulting in a total over collection, of $703,749. This produced an incremental $110,501 change in the amount, which is a benefit to customers. This over collection will be added to the load variance true up of $9,183 from June 1, 2019, resulting in a benefit to customers of $101,318 associated with the load variance true-up of the levelized revenue mechanism.

STAFF RECOMMENDATIONS

Staff recommends:

- the Commission find the amounts for the investments made between January 1, 2019, through December 31, 2021, as shown in Company Exhibit No. 2, be maintained in the balancing account, but without a determination of prudence at this time;
- the Commission validate that Idaho Power has accurately quantified the Valmy balancing account true-up as a result of the inclusion of actuals through December 31, 2021, and updated forecasted investment through December 31, 2025;
- the Commission confirm the Company's Application satisfies the annual reporting required by Commission Order No. 34349;
- the Commission confirm that although Order No. 34349 requires the Company's filing to include a rate change effective June 1, 2022, that customer rates not be adjusted at this time;
- the Company work with Staff to develop available documentation for actual expenses for audit and prudence review prior to a compliance filing; and
- the Commission direct the Company to provide the information needed by Staff within six months after the Commission's order in this case through a compliance filing after meeting with Staff to determine the information needs required to determine prudence of its capital investments.

Respectfully submitted this 22 day of June 2022.

Chris Burdin
Deputy Attorney General

Technical Staff: Kathy Stockton
Rick Keller
Robin Maupin

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF JUNE 2022, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-22-05, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

LISA NORDSTROM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: lnordstrom@idahopower.com
dockets@idahopower.com

MATT LARKIN
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: mlarkin@idahopower.com

Jo Nelson
SECRETARY