Office of the Secretary
Service Date
December 31, 2020

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN POWER'S APPLICATION TO INCREASE ITS RATES AND CHARGES IN IDAHO AND FOR APPROVAL OF PROPOSED ELECTRIC SERVICE SCHEDULES AND REGULATIONS	))))))	**CASE NO. PAC-E-20-03** **ORDER NO. 34884**

On March 26, 2020, Rocky Mountain Power ("Company"), a division of PacifiCorp, filed a Notice of Intent to file a General Rate Case. The Company later decided that, due to the impacts of the Covid-19 pandemic, it would instead develop a rate plan allowing it to delay filing a general rate case.

On May 28, 2020, the Company, Commission Staff, Bayer, Idaho Conservation League, Idaho Irrigation Pumper Association ("IIPA"), and PacifiCorp Idaho Industrial Customers (collectively, the "Parties") stipulated that the Company would delay filing a general rate case and instead apply for an accounting order (the "Settlement").

On July 2, 2020, the Company submitted this Application along with the Settlement and asked for: (1) an accounting order authorizing the Company to create a regulatory asset to transfer decommissioning and plant closure costs of Cholla Unit No. 4 ("Cholla") when it is retired; (2) approval of modifications to Phase II of the settlement stipulation to implement tax reform (the "Tax Stipulation") approved in Order No. 34431;[1] and (3) approval of ratemaking treatment for Pryor Mountain and Foote Creek I wind resources.

On July 20, 2020, the Commission issued a Notice of Application and Notice of Intervention Deadline setting a 21-day intervention deadline. Order No. 34731. IIPA timely intervened. Order No. 34743.

On November 30, 2020, the Commission issued a Notice of Modified Procedure establishing public comment and Company reply deadlines. Order No. 34847.

On December 16, 2020 Staff filed comments supporting the Settlement. No other public comments were received. The Company did not reply.

[1] *See* Case No. GNR-U-18-01.

THE SETTLEMENT

The Company represents the Settlement ensures its general rates will not change before January 1, 2022. In the Settlement, the Parties further agreed to support the Company's Application to request Commission authorization for:

1. A regulatory asset to transfer Cholla's net book balance upon closure of the plant by December 31, 2020. The regulatory asset will also include other closure-related decommissioning costs.

2. Modifications to the Phase II Settlement Stipulation in Case No. GNR-U-18-01, on ratemaking treatment for the 2017 Tax Cut and Jobs Act ("TCJA").[2] The Company may propose that the remaining balance from excess deferred income tax ("EDIT") savings from the TCJA be retained to buy-down Unit No. 4 and be deferred to offset the January 1, 2022 rate increase.

3. Ratemaking treatment for the Pryor Mountain and Foote Creek I wind resources to match costs and benefits with a cost cap amount each year at the benefit level. The Company may propose to include these resources in the Resource Tracking Mechanism/Energy Cost Adjustment Mechanism ("RTM/ECAM"), consistent with the terms of Case No. PAC-E-17-07.

4. There will be no change in the ECAM baseline net power cost of $26.90/ megawatt hour (on a sales basis) established in PAC-E-16-12, until the baseline is reset in the next general rate case.

5. The Company will make its results of operation and cost of service models developed in anticipation of filing a rate case on June 1, 2020, available to Parties and the Company will respond to Parties' reasonable data requests.

THE APPLICATION

The Company states it expects to retire Cholla by year-end 2020, earlier than the January 2023 timeframe set forth in the 2019 Integrated Resource Plan ("IRP").[3]

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[2] In its Application, the Company also refers to the Tax Cut and Jobs Act as the Tax Reform Act. This Order tracks the language used in the Company's Application.

[3] *See* Case No. PAC-E-19-16. The Company did additional economic analysis on the IRP and confirmed that closure at the end of 2020 is expected to generate more present-value benefits for customers relative to the continued operation of Cholla through April 2025.

The Company expects early retirement of Cholla to generate $96-$123 million in present-value benefits relative to any alternative where Cholla is operated through April 2025.[4] Early retirement will increase costs in 2020 and decrease costs between 2021 and 2025.[5]

When the Company acquired Cholla, it prepaid for firm transmission capabilities. The Company began amortizing prepaid transmission service costs over a 50-year life in 1997. Under early retirement, the Company expects to write off the unamortized balance of prepaid firm transmission capability.

Because the Company anticipated filing a general rate case with rates effective January 1, 2021 the Company removed Cholla from the 2018 Depreciation Study.[6] If the Commission approves the 2018 Depreciation Study, then depreciation of Cholla will end on December 31, 2020.[7] The Company has provided a $0.9 million offset to the regulatory asset balance for 2021 to account for the current annual depreciation expense in Idaho.

The Company requests approval to use tax benefits to buy-down the net plant balance and transfer the remaining balances for Cholla from respective Federal Energy Regulatory Commission ("FERC") accounts and record a regulatory asset in FERC Account 182.3 the date Cholla is removed from service.[8]

The Company will stop recovering estimated decommissioning costs when it stops depreciating Cholla. The Company estimates the cost of decommissioning and remediation will be about $47 million but is unsure when the site where Cholla is located will be retired, decommissioned, and remediated.[9]

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[4] Due to environmental compliance rulings, the Company is required to cease operations of Cholla or convert it to natural gas by April 30, 2025. The Company's most recent IRPs have indicated it would be economic to seek earlier retirement.

[5] Increased costs in 2020 are primarily associated with early termination payments of a safe harbor lease. The Company, although the legal owner of Cholla, for income tax purposes only, is treated as leasing portions of Cholla that are subject to a safe harbor lease. With early retirement the Company has estimated the potential safe harbor lease payments could be as high as $3.3 million. Early retirement of Cholla by December 31, 2020 will reduce net system costs through the assumed April 2025 retirement date. Over this period, projected generation from Cholla declines, and the value of energy net of fuel costs is insufficient to offset annual fixed operating costs according to the Company's Application.

[6] *See* Case No. PAC-E-18-08.

[7] The Commission issued a final order in the Company's depreciation study, Case No. PAC-E-18-08, on August 18, 2020. *See* Order No. 34754.

[8] Idaho's share of the regulatory asset would be based on the system generation allocation factor for calendar year 2019.

[9] Arizona Public Service Company owns Cholla Units 1 and 3 and operates the entire Cholla facility. The Company owns approximately 37 percent of Cholla's common facilities and 100 percent of Cholla.

The Company recommends using part of the EDIT benefits to buy-down or offset Cholla's unrecovered plant balances and closure costs.

In the Tax Stipulation, the Parties agreed the Company could propose changes to the 7-year amortization period for the unamortized portion of the non-protected property and non-property EDIT balance in the Company's next Idaho general rate case. In the Settlement, the Parties agreed the Company could propose modifications to the Tax Stipulation outside a general rate case.

The Company states a $24.3 million EDIT balance will be available for customers after the Company combines the amortization of protected property for 2018-2020[10] that has not been returned to customers with the unamortized non-protected EDIT balance.

The Company proposes to use about $15.9 million of the available $24.3 million EDIT balance to pay off Cholla's unrecovered balances. The Company would use the Cholla regulatory asset in FERC Account 182.3 to transfer the safe harbor lease payment and track actual decommissioning costs.

The Company also asks permission to stop refunding the tax savings from the ECAM in 2021 and use the remaining EDIT savings as of December 31, 2021—about $8.4 million—to mitigate the rate impact from the anticipated 2021 general rate case.[11]

The Company asks permission to include Pryor Mountain and Foote Creek I in the RTM authorized for other Company wind projects (*see* Order No. 34104), and to match the costs with the benefits the facilities produce.

The Company proposes to cap the costs for Pryor Mountain and Foote Creek I wind resources at the benefit levels passed back through the RTM or ECAM. Therefore, customers would not see a net cost for these projects through either mechanism. The Company would defer any net costs for possible future recovery in its next general rate case.

[10] The tax benefit received in the ECAM for the amortization of the protected EDIT balances was calculated using the Average Rate Assumption Method. The Company now uses the Reverse South Georgia Method ("RSGM") to amortize protected EDIT. The EDIT balance remains the same under either method, but the RSGM uses a shorter amortization period, which increases the amortization in 2018-2020, providing an additional benefit to customers in 2018-2020 period that has not been returned through the ECAM. See Order No. 34679.

[11] The current refund of $7.6 million in tax savings for Schedule 197 would continue until new rates are effective after the next general rate case.

THE COMMENTS

Staff filed the only comments and supported the Settlement. Staff reviewed the Company's Application and the Settlement. Staff concluded: (1) early retirement of Cholla in 2020 is reasonable and should provide a net economic benefit to Idaho customers; (2) the amounts the Company has requested to defer for the closure of Cholla are reasonable; (3) the Tax Stipulation should be modified to reserve the benefits to offset the Cholla closure costs in the next general rate case, and allow the Company to discontinue the amortization of the TCJA benefits in the ECAM; (4) the Pryor Mountain and Foote Creek I wind projects are likely to provide a net economic benefit to Idaho customers; and (5) Pryor Mountain and Foote Creek I wind projects should be included in the RTM. Staff will continue to evaluate the prudence of the Pryor Mountain and Foote Creek I wind projects as new information becomes available.

According to Staff's analysis, retiring Cholla in 2020 compared to retiring it in 2025 is reasonable and is likely to provide a net economic benefit to customers. Staff evaluated the economic analysis by reviewing the method, inputs, assumptions, and results. Staff believed the economic analysis performed by the Company was robust and the method and assumptions used in the analysis were reasonable.

Staff opined that the Company compared two options for retiring Cholla, evaluated the economics over an appropriate timeframe, and provided scenario analysis over a range of potential futures. The Company's analysis method compared the system costs for the 2019 IRP preferred portfolio retiring Cholla in April 2025 to retiring Cholla in December 2020. The analysis was evaluated over a timeframe covering 2019 through 2025. The analysis was also performed over three price-policy scenarios including medium natural gas price ("gas")/medium carbon dioxide price ("CO_2"), low gas/no CO_2, and high gas/no CO_2 to measure risk by determining how the portfolio without Cholla performs over a range of potential futures.

Staff thought that evaluating a December 2020 early retirement against an April 2025 retirement date was appropriate because the Company must stop operating Cholla or convert it to natural gas by April 30, 2025. Staff noted that the early retirement case included $3.3 million payment to prematurely end a safe harbor lease that the Company acquired when it bought Cholla. Under the early retirement scenario for Cholla, the Company must pay to terminate the lease early. By comparison, Staff stated that the Company's analysis showed the

Company's system would net $96-123 million in benefits if the Company retires Cholla in 2020 instead of in 2025.

The Company proposed to modify the Tax Stipulation so the Company can use tax benefits to pay off Cholla's unrecovered balance. The Company also requested authorization to cease refunding tax savings in the ECAM filing in 2021 and use any remaining EDIT savings to mitigate the rate impact from the next general rate case. Staff supported the Company's proposals to modify the Tax Stipulation.

Staff noted the Company will have about $24.3 million in tax reform benefits available as of December 31, 2020–enough to offset the $15.9 million unrecovered balances of Cholla. Staff agreed with the Company that modifying the Tax Stipulation to use the EDIT tax reform benefits to offset the Cholla balances would prevent future customers from paying for the unrecovered balances associated with a resource that is no longer available to them.

Staff believed the Pryor Mountain and Foote Creek I projects were resource investments based primarily on a time-limited economic opportunity and not reliability requirements. The projects are time-limited because they rely on production tax credits available for a limited time. According to Staff, the justification needs to be primarily based on economics—providing a net benefit to Idaho customers—because the resources are not needed to meet load until the Company's capacity deficiency date in 2028.

Staff evaluated the economic analysis of both projects. Staff reviewed the analysis method, input assumptions, and the results of the analysis. Staff believed that both projects would provide net benefits to Idaho customers.[12]

Staff believed it was appropriate to include these projects in the RTM because of the risk protection that the mechanism provides. Staff will evaluate the prudence of the Pryor Mountain and Foote Creek I wind projects with updated information in the next general rate case when the projects are in service and the final costs are known. Additionally, Staff noted that they will evaluate continuing the RTM for both projects during the next general rate case(s)— until the projects are needed to meet system reliability requirements—if cost risk remains an issue.

[12] During Staff's review of the 2028-2038 low gas/no CO2 case, it found an error in the Company's formula for extrapolation used by the Company. Staff recalculated the 2028-2038 period which derived a net benefit opposed to a net cost shown by the Company's calculation.

Staff noted all applicable provisions from the stipulation in Case No. PAC-E-17-07 should be applied to the Pryor Mountain and Foote Creek I projects since the projects are based primarily on a time-limited economic opportunity and not on the need of the resource to meet reliability requirements. The Company intends to follow paragraphs 10, 11,12, 14, 19, and 20 of the stipulation from Case No. PAC-E-17-07 when calculating the ratemaking treatment for the Pryor Mountain and Foote Creek I projects. Staff recommended that paragraphs 13 and 18 should also be included as part of ratemaking treatment for both projects.[13]

COMMISSION DECISION AND FINDINGS

The Company is an electrical corporation and a public utility. *See Idaho Code* §§ 61-119 and 61-129. The Commission has jurisdiction over the Company and the issues in this case under Title 61 of the Idaho Code, including *Idaho Code* §61-503.

The Commission considers settlement stipulations under Rules 271-277. IDAPA 31.01.01.271-277. When a settlement is presented to the Commission, the Commission will prescribe the procedures appropriate to the nature of the settlement to consider it. IDAPA 31.01.01.274. Further, proponents of a settlement must show that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. IDAPA 31.01.01.275. Finally, the Commission is not bound by settlement agreements. Instead, the Commission "will independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." IDAPA 31.01.01.276.

The Commission has reviewed the record, including the Company's Application, the Settlement, and Staff's comments. The Commission finds it is reasonable and in the public interest to approve the Company's Application and the Settlement.

The Commission finds the Settlement is reasonable, striking a fair balance that allows the Company to complete the early retirement of Cholla and postpone its planned 2020 general rate case. We commend the Company and Parties for their ability to pivot—quickly coming to a reasonable solution allowing the Company to continue to meet its obligations—

[13] Including paragraph 13 of the stipulation from Case No. PAC-E-17-07 will limit the capital cost in the RTM to the project cost estimates identified in this case. Paragraph 18 addresses production tax credits ("PTC"). PTCs are a significant source of benefits to Idaho customers. Staff maintains that including PTCs when calculating the ratemaking treatment of the Pryor Mountain and Foote Creek I projects will reduce the risk of the Company not completing the projects in time to fully qualify for PTCs.

while eliminating the possibility of potentially raising customers' rates in 2021 through the general rate case as initially anticipated.

We find it reasonable to allow the Company to establish a regulatory asset in FERC Account 182.3 to transfer and recover decommissioning and closure costs for Cholla when it is retired. We also find it reasonable to modify the Tax Stipulation approved in Case No. GNR-U-18-01 to allow for use of tax benefits to pay off the unrecovered plant balance of Cholla and to cease refunding tax savings through the ECAM in 2021. We further find it reasonable to include Foote Creek I and Pryor Mountain wind projects in the RTM. We expect Staff to evaluate the inclusion of Pryor Mountain and Foote Creek I wind projects in the next general rate case. We find it appropriate and just for the Company to incorporate paragraphs 13 and 18 from the PAC-E-17-07 stipulation when calculating ratemaking treatment for Foote Creek I and Pryor Mountain thereby limiting capital costs and maximizing the value of PTCs for the benefit of the Company's customers.

ORDER

IT IS HEREBY ORDERED the Company's Application and the Settlement are approved, as noted above, effective January 1, 2021.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order regarding any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of December 2020.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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