



*Case No: IPC-E-16-32*

*Order No. 34031*

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## **Commission approves settlement agreement allowing Idaho Power to include Hells Canyon relicensing costs in customer rates at a later date**

**BOISE (April 16, 2018)** – State regulators have approved a settlement agreement in a case involving the relicensing of Idaho Power’s largest hydropower complex.

The settlement allows approximately \$216.5 million in expenditures related to the relicensing of the Hells Canyon Complex to be designated as prudently incurred and eligible for inclusion in customer rates at a later date.

That is a decrease of almost \$5 million from Idaho Power’s initial request to the Idaho Public Utilities Commission, filed in late 2016.

The Commission issued its order on April 13, 2018. An errata issued April 16 corrected typographical errors in the original order but did not change its substance.

The Hells Canyon Complex (HCC) consists of the Brownlee, Oxbow and Hells Canyon dams and is capable of providing 1,167 megawatts of energy. That is approximately 70 percent of Idaho Power’s annual hydroelectric generation and 30 percent of the company’s total generating capacity.

While the Commission is charged with determining whether efforts to relicense the plant can be included in customer rates, the licensing process falls under the jurisdiction of the Federal Energy Regulatory Commission (FERC).

Idaho Power began its efforts to relicense Hells Canyon in 1991. The complex has been operating under annual licenses since its previous 50-year license expired in 2005.

Idaho Power sought the prudence determination before the relicensing effort was complete, and in advance of a general rate case, primarily because company representatives and key subject matter

experts who have been working on the relicensing process for almost three decades are on the verge of retirement but also because a prudency review outside of a general rate case allowed Commission staff to focus solely on the “extensive data” associated with HCC relicensing costs incurred over nearly three decades.

The relicensing process has been slower than expected due to the fact that more than 100 species with endangered, threatened or protective status are present in and around the HCC.

As a result, Hells Canyon must comply with various provisions of the Wilderness and Wild and Scenic Rivers Act, the National Historic Preservation Act, the National Environmental Policy Act, the Endangered Species Act and Clean Water Act.

The company does not expect a decision from FERC on a new long-term license until 2021, at the earliest, but the Commission expressed optimism that FERC will see the value of the HCC to Idaho Power’s customers and issue the license at its earliest convenience.

“We are optimistic that, after the extensive efforts undertaken by the utility, interested parties, multiple state agencies and several state commissions, FERC will allow the relicensing process to finally come to a successful conclusion,” the Commission said. “Customers have benefited from the dam complex for decades and, since the license expired in 2005, customers have continued to benefit despite the fact that relicensing expenditures are not presently recovered in rates.”

The decades-long effort to relicense HCC led to complications that significantly prolonged and complicated Commission staff’s prudency review. Most notable was a lack of proper documentation of “a significant amount of expenses,” the Commission said in its order, noting that the company conducted an extensive audit process that was verified by Commission staff.

Commission staff also conducted a separate comprehensive audit.

Staff’s audit led to adjustments for transactions that lacked an invoice or were not adequately documented, adjustments that should have been categorized as general operating costs rather than capitalized and the exclusion of transactions that have been traditionally removed from the revenue requirement on which rates are determined. Staff’s audit also included a review of prior staff audits, to verify expenses related to labor, materials, purchased services and overhead.

“In sum, we find that the extensive audit captures only expenditures that were made as part of the HCC relicensing process, and eliminates dubious or questionable expenditures, or those that lack independent verifiable support,” the Commission said, adding that it expected Idaho Power to “review and revise this policy and not repeat this mistake again.”

The settlement agreement approved by the Commission was the result of settlement talks held in late 2017.

All parties to the case - Idaho Power representatives, Commission staff, Idaho Conservation League, Idaho Irrigation Pumpers Association and Industrial Customers of Idaho Power (ICIP) – participated in the settlement talks and agreed that the costs were prudent.

ICIP declined to sign the settlement agreement, however, contending that there was no legal basis for the company to seek, or for the Commission to grant, a prudency finding before HCC is relicensed.

Instead, the organization asked the Commission to make “a prudence finding that is EXPLICITLY contingent upon a future Commission’s finding that (a fully relicensed HCC) is a prudent investment,” is used and useful, and providing service to future ratepayers in Idaho Power’s system.

The Commission rejected ICIP’s assertion.

“Rather, we find this Commission has ample authority to determine prudency now, and that now is the appropriate time to make that judgment,” the Commission said. “HCC has been used and useful for the entire time under consideration. It is the largest single component of the company’s generation portfolio, and customers have benefited from the relicensing efforts.”

As part of the settlement agreement, Idaho Power agreed to take steps to ease the prudency review of future HCC relicensing expenses by, in part, filing its next request for prudence determination on relicensing costs incurred after Dec. 31, 2015 no later than five years after the date of the order in this case.

The prudence review in this case began in December 2016, when Idaho Power asked the Commission to designate \$220,845,830 in relicensing-related expenses through Dec. 31, 2015 as prudently incurred.

The settlement approved by the Commission calls for \$213,606,878 in direct relicensing expenses, and \$2,897,267 in costs tied to a settlement agreement the company reached in 2003 with Oregon’s Baker County to mitigate the economic impact of the HCC dams on the surrounding communities.

The settlement calls for the establishment of a regulatory asset for expenditures related to the Baker County settlement agreement that were incurred through Dec. 31, 2015, and for the inclusion of additional amounts in the regulatory asset to be reviewed for prudence in a future proceeding.

Idaho Power has been recovering from customers a portion of expenses related to HCC relicensing for almost a decade, after a 2009 Commission order authorized the collection of approximately \$6.5 million annually as Allowance for Funds Used During Construction (AFUDC).

As of Dec. 31, 2015, customers had paid nearly \$59 million. The settlement agreement calls for the company to continue to collect, and separately track, AFUDC costs from customers.

If FERC issues the license in 2021, the company projects relicensing-related expenses to range from \$350 million to \$400 million.

Even with the relicensing costs, Idaho Power contends, and the Commission agrees, that the continued operation of the Hells Canyon Complex is a cost-effective resource for its customers.

Assuming relicensing costs of \$400 million, Idaho Power estimates the capital cost for the HCC to be \$358 per kilowatt. By comparison, the estimated capital cost for a combined cycle natural gas combustion turbine is \$1,145 per kilowatt, according to the company.

“We accept and approve the Settlement of the Parties, and find its terms to be just, fair, and reasonable, in the public interest, and in accordance with the law,” the Commission said.

Idaho Power’s application and exhibits related to the case are available on the commission’s website. Click on “Open Cases” under the “Electric” heading and scroll down to Case No. IPC\_E-16-32. Or go [here](#).