

1 **Naughton Unit 3 CPCN Docket Summary**

2 As a result of the Company’s 2011 Wyoming general rate case Docket No.
3 20000-384-ER-10, the Company is obligated to participate in a pre-project
4 implementation certificate of public convenience and necessity (“CPCN”)
5 approval process and public review of certain planned major environmental
6 projects in the state of Wyoming via a “Stipulation and Agreement” effective on
7 June 6, 2011. The signatory parties to the Stipulation and Agreement included:
8 Rocky Mountain Power; the Wyoming Office of Consumer Advocate; Wyoming
9 Industrial Energy Consumers; QEP Field Services Company; Cimarex Energy
10 Company; Interwest Energy Alliance; AARP Wyoming; City of Casper,
11 Wyoming; Town of Mills, Wyoming; Town of Bar Nunn, Wyoming; Town of
12 Midwest, Wyoming; Natrona County, Wyoming; Granite Peak Development,
13 LLC; Kinder Morgan Interstate Gas Transmission LLC; Utility Workers Union of
14 America, Local 127; AFL-CIO; and Power River Basin Resource Council.

15 On September 16, 2011, the Company applied to the Public Service
16 Commission of Wyoming (“Commission”) for an Order granting a CPCN to
17 construct environmental compliance investments in a SCR and baghouse on
18 Naughton Unit 3. On April 9, 2012, the Company filed rebuttal testimony and
19 updated information in the proceeding, based on an updated analysis undertaken
20 in response to changing market conditions and testimony filed by interveners,
21 showing that the SCR and baghouse investments on Naughton Unit 3 are no
22 longer cost-effective and that the interest of the Company and its customers would
23 be best served by alternatively converting Naughton Unit 3 to a slow-start 100%

24 natural gas fueled peaking unit. The Company's updated analysis showed that the
25 natural gas conversion was the risk-adjusted, least-cost compliance alternative
26 when compared to the mandated SCR and baghouse (and other available options)
27 using updated economic model input assumptions, updated market information
28 and advancements in modeling methodology. The Wyoming Commission issued
29 an Order granting the Company's motion to withdraw its CPCN application for
30 SCR and baghouse on July 19, 2012.

31 In the Company's updated analysis, results from the System Optimizer
32 ("SO") Model base case optimized simulation selected the natural gas conversion
33 alternative, and in doing so, chose to avoid the SCR and baghouse project, and
34 other environmental upgrades planned for Naughton Unit 3. The present value
35 revenue requirement difference ("PVRR(d)") between the base case optimized
36 simulation and the change case simulation showed that the natural gas conversion
37 alternative was [REDACTED] favorable to the SCR and baghouse, and other
38 environmental upgrades required for Naughton Unit 3 to continue operating as a
39 coal-fueled facility. Additional sensitivity analysis around the base case analysis
40 showed that the asset life and on-going operating cost assumptions ranges do not
41 alter the updated base case results supporting natural gas conversion as the risk-
42 adjusted, least-cost alternative to the SCR and baghouse investment at Naughton
43 Unit 3. Key factors that changed in the Company's updated analysis included:

- 44 • Updates to the Company's base case natural gas price assumptions in response
45 to lower observed forward market price and lower longer term natural gas
46 price forecasts from third party experts.

- 47 • Updates and expansion of natural gas and carbon dioxide (“CO₂”) sensitivity
48 scenarios that are based upon a review of third party projections and that
49 included varying combinations of natural gas and CO₂ price assumptions.
- 50 • Updates to the SO Model that incorporated a comprehensive assumption
51 review process, aligning modeling assumptions with the Company’s 2012
52 business plan and addressing issues by interveners.

53 **SCR and Baghouse EPC Contract**

54 In parallel with the CPCN proceedings described above, the Company
55 competitively bid and negotiated an EPC contract associated with the SCR and
56 baghouse during the period of December 23, 2010 (request for proposal release
57 date) to December 8, 2011 (effective date of EPC contract). To comply with a
58 December 31, 2014 compliance obligation, and given the uncertain outcome the
59 CPCN proceeding at the time, the EPC contract was structured with a *limited*
60 notice to proceed (“LNTP”) concept and a *full* notice to proceed (“FNTP”)
61 authorization. The FNTP date was established as September 30, 2012. As a result
62 of the Company’s updated analysis in the CPCN proceeding, the EPC contract
63 was suspended on February 27, 2012, during the LNTP period and ultimately
64 terminated by the Company for convenience on December 31, 2012.

65 **Naughton Unit 3 Deferred Accounting Docket**

66 On May 3, 2012, the Company made application to the Public
67 Service Commission of Utah under Docket No. 12-035-80, for an accounting
68 order authorizing the Company to record a regulatory asset for the project
69 development and LNTP phase costs incurred in the amount of approximately ■■■

70 [REDACTED]. The costs were incurred in support of the anticipated project critical path
71 schedule and included cost items associated with internal project development
72 work; Owner's engineering consulting work; permitting applications and fees;
73 design basis technical studies; Rocky Mountain Power interconnection costs; and
74 early EPC contract detailed engineering, project execution planning and
75 subcontracted site assessments. In its application, the Company specifically
76 requested the Utah Commission to approve transfer of approximately [REDACTED]
77 out of FERC Account 107 (Construction Work in Progress or "CWIP") and
78 record a regulatory asset in FERC Account 182.3 (Other Regulatory Assets) that
79 would be amortized over two years starting in the Company's next general rate
80 case. The state of Utah's share of the regulatory asset would be established based
81 on the system generation ("SG") allocation factor, resulting in an allocated
82 amount of approximately \$3.4 million. The Company did not request a final
83 decision on rate recovery through its application in Docket No. 12-035-80 and
84 proposed rate recovery of the Regulatory Asset in its next general rate case, and
85 that amortization begin in that test period.

86 On August 7, 2012, the Company filed a settlement agreement and
87 associated motions in the 2012 Utah general rate with the Utah Commission. The
88 settlement agreement included a proposal to resolve the Naughton Unit 3 SCR
89 and baghouse project development and LNTP phase cost deferral Docket No. 12-
90 035-80. The Utah Commission issued an order on September 19, 2012, in a
91 consolidated 2011 general rate case and two deferred accounting cases for
92 decommissioning the Carbon plant and recovery of the Naughton Unit 3 SCR and

93 baghouse project development and LNTP phase costs. In the settlement
94 agreement, the parties agreed to defer and amortize the Naughton Unit 3 SCR and
95 baghouse project development and LNTP phase costs by September 1, 2014,
96 thereby providing full recovery to the Company prior to the effective date of new
97 rates resulting from the 2014 general rate case.