

Application of Rocky Mountain Power to Increase the Deferred EBA Rate through the Energy Balancing Account Mechanism	<u>DOCKET NO. 19-035-01</u> <u>ORDER APPROVING RATES AND GRANTING UNOPPOSED MOTION TO VACATE ORDERS</u>
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ISSUED: March 4, 2020

The Public Service Commission (PSC) approves a decrease to the 2019 Energy Balancing Account (EBA) of \$22,230, representing the unopposed FAS 106 allocation factor adjustment.

A. BACKGROUND AND PROCEDURAL HISTORY

On March 15, 2019, Rocky Mountain Power (RMP) filed an application (“Application”) with the Public Service Commission of Utah (PSC) for authority to increase rates in Electric Service Schedule No. 94 (“Schedule 94”), Energy Balancing Account (EBA). In the Application, RMP proposed to recover approximately \$23.9 million in total deferred EBA costs incurred in calendar year 2018, on an interim basis, effective May 1, 2019 (“2019 EBA”). This proposed increase results in an approximate 1.1 percent overall increase in the Schedule 94 rate.

On April 26, 2019, the PSC issued an Order (“April Order”) in this docket approving RMP’s \$23.9 million increase on an interim basis subject to the results of the Division of Public Utility’s (DPU) audit and hearings regarding the audit results. On May 29, 2019, the PSC issued an Order on Joint Petition for Review or Rehearing (“May Order”), denying a request by the Office of Consumer Services (OCS) and the Utah Association of Energy Users to review and reverse the April 26, 2019 Order.

On June 27, 2019, the Utah Supreme Court issued its opinion in *Utah Office of Consumer Services, et al. v. Public Service Commission of Utah, et al.*, 2019 UT 26 (“Opinion”) restricting the use of interim rates in the EBA. In response, on July 30, 2019, the PSC approved a proposal by RMP to set Schedule 94 collection rates to zero, effective August 1, 2019.¹

On November 14, 2019, DPU filed its 2019 EBA Audit Report for the period of January 1 through December 31, 2018 and accompanying testimony and exhibits (“Audit Report”). On December 17, 2019, RMP filed direct testimony. On January 8, 2020, DPU filed rebuttal testimony, and on January 22, 2020, RMP filed surrebuttal testimony.

On January 28, 2020, the OCS filed an Unopposed Motion to Vacate Orders (“Motion”). The Motion requests the PSC vacate the portions of its April 26, 2019 and May 29, 2019 orders that were reversed in the Opinion.

The PSC held a hearing on February 4, 2020 to consider DPU’s Audit Report at which counsel for RMP and DPU appeared. Witnesses from DPU and RMP presented evidence. At hearing, DPU withdrew a proposed EBA adjustment related to the Lakeside Plant, RMP proposed a procedural schedule for a compliance filing associated with this docket,² and the PSC stated its intent to include its determination on the Motion as part of this order.

B. DPU AUDIT REPORT AND UNOPPOSED ADJUSTMENTS

DPU concludes the costs presented in the EBA are accurate and tie to RMP’s supporting information, with the exception of its FAS 106-related adjustment discussed below. In addition,

¹ See *Tariff Approval Letter from the Public Service Commission*, issued July 30, 2019 in this docket.

² At the hearing RMP stated that on August 1, 2019, it discontinued collecting the interim rates approved in the PSC’s April 26, 2019 Order. RMP proposed to file within seven days of the PSC’s order a Compliance Filing to present the Schedule 94 rates necessary to recover the remaining balance over a 12 month period. RMP also proposed a 14-day review period before the new rates become effective.

DPU states there is no reason to challenge the California Independent System Operator's Energy Imbalance Market (EIM) participant benefit estimation methodology or its findings that RMP's participation in the EIM provides benefits to RMP customers.

Based on its audit, DPU recommends a reduction to RMP's proposed 2018 EBA deferred amount related to the correction of the jurisdictional allocation factor associated with the incremental non-fuel FAS 106 savings and replacement power costs and associated interest for two outages DPU deems imprudent.³

Using an updated jurisdictional allocation factor applied to the non-fuel FAS 106 savings amount, DPU proposes an adjustment of -\$22,320 which includes an interest adjustment of \$1,089. RMP agrees with DPU's FAS 106 Adjustment. No other party disputes the FAS 106 Adjustment.

We find DPU's FAS 106 Adjustment of -\$22,320, as agreed to by RMP, is necessary to properly allocate this EBA-related account; therefore, we adopt and approve this adjustment. With this adjustment, based on DPU's Audit Report and in the absence of any opposition, we find the costs presented in the 2018 EBA are accurate.

C. DISPUTED OUTAGE ADJUSTMENTS

DPU investigated 14 significant⁴ forced, maintenance, and extended planned outages at RMP's thermal plants which it believes warranted scrutiny. Of these outages, DPU recommends reducing EBA costs for two outages discussed below reflecting the replacement power costs

³ DPU initially recommended replacement power cost adjustments at RMP's Dave Johnston, Blundell, and Lakeside 1 plants, but withdrew the proposed adjustment for Lakeside 1 at the February 4, 2020 hearing.

⁴ DPU defines a significant outage as one greater than 72 hours in duration.

related to each outage. RMP disagrees with the two adjustments; however, RMP does not disagree with DPU's method of calculating replacement power costs. The disputed outages are discussed below, along with the date the outage commenced and the recommended system-wide net power cost adjustment without interest.

1. Dave Johnston Unit 1, April 20, 2018

Event: Unit 1 was brought offline due to a major oil fire occurring at the unit's turbine bearing.

a. Positions of the Parties

According to DPU on April 20, 2018 a malfunction of Dave Johnston Unit 1's pressurized Lube Oil (LO) system fed a fire that was impossible to extinguish. As a result, the unit was tripped causing a corresponding immediate shutdown of the unit's LO system while the turbine was coasting down. The LO system shutdown caused damage to the unit's turbine bearings. The resulting outage necessitated the purchase of replacement power.

DPU testified RMP's Root Cause Analysis (RCA) shows that while a number of potential scenarios were investigated, the RCA could not identify a specific root cause of the outage due to the catastrophic nature of the event. DPU maintains the RCA also listed several additional observations and deficiencies surrounding the outage. DPU asserts that collectively, these issues point to a lack of stringent oversight and focus by RMP. DPU asserts that, if not directly attributable to the root cause of the outage, these deficiencies likely contributed to the initial cause and the ultimate duration of this outage.

DPU further asserts that given that it is incumbent upon RMP to demonstrate the prudence of its actions, and since there is no official root cause for the outage, there is no way a prudence determination can be made; therefore, allocating the replacement power costs resulting

from the event to customers is not reasonable. DPU recommends the PSC disallow RMP's replacement power costs for this outage.

RMP agrees that the root cause of the LO system failure was never confirmed, in spite of what RMP characterizes as an in-depth RCA conducted by an expert, N-Tec Services Inc. ("N-Tec"). N-Tec's founder testified regarding this RCA. During his career he has been a certified industrial specialist for power generation facilities and specialized in inspecting steam boilers and investigating the root causes of steam boiler operational failures. With 39 years of experience in this field, N-Tec's witness testified the N-Tec investigation identified eight probable scenarios that could have led to the Unit 1 failure. N-Tec's investigation concluded that none of the scenarios, by itself, was the root cause. The N-Tec witness also testified that the most plausible cause was the combination of a previous bearing modification by the original equipment manufacturer ("OEM") and operating conditions that allowed the LO to flow out due to potential wear of the bearing seals over time.⁵

b. Findings of Fact, Conclusions of Law, and Decision

The RMP records N-TEC examined show RMP became aware in 2008 of the OEM bearing modification made in 1969 following an upset condition resulting in bearing damage. 2008 was the year of Unit 1's last full maintenance outage. At that time RMP elected not to change the bearing to one with standard LO drain ports because the modified bearing had been operating without issue for nearly forty years, although the reason for the original modification was not described in RMP's records.

⁵ See February 4, 2020 Hr'g Tr.at 37:22–41:24.

Because the fire destroyed the bearing seals, their condition at the time of the failure could not be determined. The N-Tec witness testified, however, that had the seals been leaking before the fire, typically oil residue would accumulate on the turbine pedestal. N-Tec found no evidence of such residue. Moreover, according to N-Tec the maintenance records did not show any signs of leaks or any other degradation of the LO system that might have alerted RMP to a potential problem.

Under these circumstances, we find the facts adequately establish the prudence of RMP's actions both in operating and maintaining the plant in question and in striving to understand, to the extent practicable, the root cause of the outage. Furthermore, we find no credible support for the linkage DPU tries to establish between the six items listed in Section 8.0 of the N-Tec report as "Additional Observations" and the Unit 1 outage. Referring to the six items, DPU asserts "that collectively they point to a lack of stringent oversight and focus by [RMP], which likely contributed to both the initial cause and ultimate duration of this outage."⁶ But that assertion is directly contradicted by the author of the N-Tec report. He testified: "The Additional Observations Section of the report is intended to list items noted during the investigation process that are not related to the root cause of the event but which, if addressed, could enhance plant operations and practices."⁷ He also said: "I disagree that the observations directly attributed to the root cause or to the duration of the outage."⁸ Importantly, he further testified: "Based on my experience, the investigation did not reveal any proof that the Dave Johnson personnel, their

⁶ February 4, 2020 Hr'g Tr. at 57:23-58:1.

⁷ Surrebuttal Testimony of Neal E. Grabow filed January 22, 2020 at 3:47-49.

⁸ February 4, 2020 Hr'g Tr. at 42:22-24.

actions or inactions, caused the event, nor any conditions identified that would support their actions were imprudent.”⁹ Accordingly, DPU’s testimony does not dissuade us from relying on the N-Tec report and testimony and finding RMP’s actions in question to be prudent.

Consequently, we conclude that the replacement power costs associated with the April 20, 2018 outage at Dave Johnston Unit 1 were prudently incurred and that no adjustment is warranted.

2. Blundell Unit 2, December 26, 2018

Event: Unit 2 was brought offline due to due to an over-speed event that caused damage to the generator and turbines.

a. Positions of the Parties

According to DPU’s review of the RCA for this event, the apparent cause of the incident was the failure of Blundell Unit 2’s main turbine valves to close prior to the breaker opening when the unit was taken offline. DPU states this failure of the turbine valves to close was the result of missing control logic in the unit’s control system requiring all main turbine valves to be closed prior to opening of the unit’s main breaker. This precipitated the over-speed event which ultimately damaged the generator unit. DPU asserts this explanation is corroborated by a third-party consultant tasked with reviewing the system’s control logic. DPU states this consultant found that the unit’s computer code was not written to close stuck valves or valves not operating properly. DPU asserts that this review determined that the control logic remained unchanged since the unit’s commissioning in 2007 and that the contractor RMP selected to commission the unit failed to account for the stuck valve contingency. DPU asserts that prudence requires that

⁹ February 4, 2020 Hr’g Tr. at 43:4-8.

control logic account for such situations and argues that this event was predictable and avoidable.

DPU asserts the RCA for this event was not made available until December 2019, a year after the event, which did not allow for any analysis to be incorporated into its Audit Report. As a result, DPU recommends a finding of imprudence because RMP failed to provide any timely documentation demonstrating the prudence of its actions concerning this event.

RMP testified Blundell Unit 2 is a geothermal plant that uses a turbine with isopentane as the primary drive medium. This technology was new to RMP when the plant was commissioned in 2007. To mitigate risks RMP entered into an engineering, construction, and procurement (“EPC”) contract with CEntry, a firm with substantial relevant experience in constructing and operating this type of plant. Both CEntry and an experienced subcontractor that was the equipment manufacturer prepared and carried out the plant’s testing and commissioning protocol in October 2007. This protocol included the standard overspeed trip test the OEM follows for isopentane installations. All of the various trip tests showed the equipment to be operating correctly. RMP asserts that the validation and testing of the specific trip scenario that occurred at Blundell was not contemplated by RMP’s contractors who were the best qualified to develop the commissioning plan. RMP argues that through the EPC contract, it acted prudently by hiring expert contractors to ensure control logic functionality was appropriate and thoroughly tested during the commissioning process. Importantly, the manufacturer has never experienced the type of control logic failure that occurred at the Blundell plant either before or since the failure, and

its commissioning protocol remains the same.¹⁰ In RMP's view DPU seeks to apply a prudence standard that would require RMP to consider and test for every possible failure scenario no matter how obscure.¹¹ RMP asserts that DPU's position is unrealistic, unreasonable and requires RMP be held to a perfection standard.

RMP also disputes DPU's criticism of the length of time between the incident and completion of the RCA. RMP testified the initial RCA completed by a third party was inconclusive. RMP persevered and hired a different firm to perform an entirely new RCA and the new firm identified the control logic gap prior to the delivery and installation of Blundell's replacement equipment.

b. Findings of Fact, Conclusions of Law, and Decision

There is no evidence in the record suggesting that RMP overlooked or disregarded a specification requiring that the EPC contractor include validation and testing for the known types of breaker trip scenarios in the commissioning of Blundell Unit 2. No evidence has been provided showing that the unit's commissioning plan was flawed, contrary to industry practice, or that the testing for the over-speed function failed to operate as expected. We find that RMP's actions concerning the construction, commissioning, and operation of the plant were prudent, that the event was unanticipated and unforeseeable, and that ultimate discovery of the event's root cause required an in-depth investigation by multiple third-party experts and was not unduly delayed. We conclude that the replacement power costs associated with the December 26, 2018 outage at Blundell Unit 2 were prudently incurred; therefore, no adjustment is warranted.

¹⁰See Surrebuttal Testimony of Dana M. Ralston filed January 22, 2020 at 5:88-90.

¹¹ February 4, 2020 Hr'g Tr. at 17:11-13.

D. ORDER GRANTING UNOPPOSED MOTION

All parties agree that the portions of our April and May Orders approving interim rates must be vacated to conform to the Utah Supreme Court decision referenced above. Accordingly, we grant the unopposed motion and vacate all parts of those orders that implement interim rate changes.

E. ORDER

Based on the findings and conclusions expressed above,

- 1) We approve DPU's proposed FAS 106 reduction of \$22,320 on a Utah allocated basis.
- 2) We approve RMP's collection of \$23,855,032 in total deferred 2019 EBA costs.
- 3) We approve RMP's recommendation to collect the remaining balances in the 2019 EBA over a 12-month period and direct RMP to file a Compliance Filing within seven days of the date of this order identifying the final EBA rates necessary to collect the remaining balances in the 2019 EBA.

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DATED at Salt Lake City, Utah, March 04, 2020.

/s/ Thad LeVar, Chair

/s/ David R. Clark, Commissioner

/s/ Jordan A. White, Commissioner

Attest:

/s/ Gary L. Widerburg
PSC Secretary
DW#312335

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the PSC within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the PSC does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the PSC's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on March 4, 2020, a true and correct copy of the foregoing was served upon the following as indicated below:

By Electronic-Mail:

Data Request Response Center (datarequest@pacificorp.com, utahdockets@pacificorp.com)
PacifiCorp

Jana Saba (jana.saba@pacificorp.com)
Emily Wegener (Emily.wegener@pacificorp.com)
Rocky Mountain Power

Patricia Schmid (pschmid@agutah.gov)
Justin Jetter (jjetter@agutah.gov)
Robert Moore (rmoore@agutah.gov)
Steven Snarr (stevensnarr@agutah.gov)
Assistant Utah Attorneys General

Madison Galt (mgalt@utah.gov)
Division of Public Utilities

Cheryl Murray (cmurray@utah.gov)
Office of Consumer Services

Administrative Assistant