

Agenda 21-14; Item No. 2D Draft Order for discussion at utility agenda. 2014 OCT 24 PM 4:57

THIS ORDER IS NOT A FINAL ORDER AND MAY BE SUBSTANTIALLY REVISED PRIOR TO ENTRY OF A FINAL ORDER BY THE PUBLIC UTILITIES COMMISSION OF NEVADA

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Application of Nevada Power Company d/b/a NV)
Energy for approval of the first amendment to the)
2013-2032 Integrated Resource Plan and the Energy)
Supply Plan Update for 2015 to include an initial)
emissions reduction and capacity replacement plan.)

Docket No. 14-05003

Application of Nevada Power Company d/b/a NV)
Energy for approval of the second amendment to)
the 2013-2032 Integrated Resource Plan and Action)
Plan as it relates to a new 500kV/230kV)
autotransformer at the existing Harry Allen)
substation.)

Docket No. 14-06022

At a general session of the Public Utilities Commission of Nevada, held at its offices on October 27, 2014.

PRESENT: Chairman Alaina Burtenshaw
Commissioner Rebecca D. Wagner
Commissioner David Noble
Assistant Commission Secretary Breanne Potter

**PROPOSED MODIFICATIONS TO [PROPOSED] ORDER
BY COMMISSIONER DAVID NOBLE**

The Public Utilities Commission of Nevada ("Commission") makes the following findings of fact and conclusions of law:

...

X. Pursuant to NRS 704.751, the Commission deems the Moapa Project inadequate. Pursuant to NRS 704.746(8), the Moapa Project is not needed at this time; its economic benefit to this State is inconclusive at best; its costs are unnecessarily high for Nevada Power's

DOCUMENT REVIEW AND APPROVAL ROUTING

DRAFTED BY: <u>DAVE NOBLE</u>	
FINAL DRAFT ON <u>10/24/14</u> AT <u>4:55 P M</u>	
REVIEWED & APPROVED BY:	DATE
<input type="checkbox"/> ADMIN / ASST. (_____) _____	____ / ____ / ____
<input checked="" type="checkbox"/> COMM / COUNSEL <u>Gcw</u>	<u>10/24/14</u>
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customers; its impact on the opportunities for creation of new jobs in this State is inconclusive at best; and its value to Nevada Power's customers is negligible.

X. Pursuant to NRS 704.7316(2)(c), the ERCR Plan must provide for Nevada Power to construct or acquire and own electric generating plants with an electric generating capacity of 550 MWs "in an orderly and structured manner" to eliminate the coal-fired electric generating capacity retired or eliminated pursuant to NRS 704.7316(2)(a). The need for generating capacity is fundamental to the orderly and structured construction or acquisition of electric generating plants in this State. Unfortunately, there is no demonstrated need for the Moapa Project in the timeframe delineated in the ERCR Plan. The capacity is not actually needed by Nevada Power until 2020 when Nevada Power plans to build a 600-MW combined cycle plant. (Ex. 54 at 15.) When BCP asked Nevada Power to model a 71-MW combustion turbine plant in 2018 in lieu of the Moapa Project, the combustion turbine plant was not dispatched in the production cost modeling except for two hours in 2040. (Ex. 66 at 8-11.) Paying for generating capacity that is not needed places unnecessary costs on ratepayers. The Moapa Project is not needed at this time.

X. If there is no need for the output from the Moapa Project at this time, then the economic benefit to the State realized by the construction and operation of the Moapa Project is largely negated by the economic costs to fund the construction and operation of the unnecessary Moapa Project. It is simply a transfer of wealth from ratepayers to all of the entities that benefit from the construction and operation of the Moapa Project. Most of the beneficiaries are not in this State—the economic impact analysis conducted by Nevada Power for the Moapa Project assumed that 75 percent of the plant costs ($\$438 \text{ million} \times 0.75 = \328.5 million) are spent on out-of-state purchases of solar panels and other equipment. (Ex. 12 at 199.) Further, BCP highlighted the difficulty in assessing the economic impact of the Moapa Project on this State

due to the different input vintages and timing differences in the studies provided by Nevada Power in support of the ERCR Plan as well as the fact that the one study specific to the Moapa Project did not provide a comparison to any of the other alternative resource plans to assist with decision making. (Ex. 64 at 8-10.) Implementing the ERCR Plan with the inclusion of the Moapa Project does not provide the greatest economic benefit to this State because the Moapa Project's economic benefit to this State is inconclusive at best.

X. The Moapa Project's costs are unnecessarily high for Nevada Power's customers. The Moapa Project is a 200-MW solar PV plant, representing 76 MWs of firm generating capacity, to cover the remaining 54 MWs (out of 550 MWs) of firm generating capacity mandated by NRS 704.7316(2)(c). The Moapa Project is not the least-cost approach, spending \$438 million to fill a 54-MW open position that could be filled by spending (1) approximately \$85 million for combustion turbine technology or (2) nothing at all and leaving the position open until capacity is actually needed on the system. (Ex. 54 at 10) The present value savings from constructing a 71-MW combustion turbine plant instead of the Moapa Project are \$121 million after 10 years, \$79 million after 20 years, and \$64 million after 30 years; the cumulative savings are \$128 million after 5 years and \$193 million after 10 years. The present value savings from constructing nothing instead of the Moapa Project are \$180 million after 10 years, \$173 million after 20 years, and \$163 million after 30 years; the cumulative savings are \$182 million after 5 years and \$311 million after 10 years. (Ex. 54 at 11-13.)

X. The Moapa Project represents a \$50.2 million increase to Nevada Power's revenue requirement in 2017. (Ex. 12 at 201.)¹ Without the Moapa Project, those monies remain

¹ Nevada Power calculated a corresponding \$20.5 million increase for purchasing power on the open market in 2017 to replace the power produced by the Moapa Project, resulting in a \$29.7 (50.2-20.5) million annual difference in costs to ratepayers through 2020. (Ex. 12 at 201). However, it is unclear why any power would need to be purchased in lieu of constructing the Moapa Project during that timeframe given the production cost modeling

with customers to invest or spend. Customers in Nevada already pay some of the highest electric rates in the region. (Ex. 54 at 15-16.) The Moapa Project is unnecessarily expensive and impractical when compared with the solution of adding a more reasonably-priced combustion turbine plant to fill out the required 550 MWs of utility-owned capacity or nothing at all until generating capacity is actually needed on the system. Implementing the ERCR Plan with the inclusion of the Moapa Project results in unnecessarily high costs for Nevada Power's customers.

X. The Moapa Project's \$50.2 million increase to Nevada Power's revenue requirement in 2017 may have a significant effect on the creation of jobs in Nevada. Nevada Power's customers, including nearly every employer in Nevada Power's service territory, already pay some of the highest electric rates in the region. (Ex. 54 at 15-16.) In general, higher electric rates for commercial and industrial customers will decrease profit margins, and the ensuing increase in the cost of doing business may result in employers reducing labor costs. Nevada Power states that the Moapa Project will create 640 job-years through 2044. (Ex. 12 at 201.) However, the 640 job-years represents only the positive effect on jobs. The immediate impact to jobs in Nevada for 2016 is a loss of 292 jobs. Even at the end of the 20-year planning period, the jobs lost are 12 in 2027. (Ex. 64 at 8.) Implementing the ERCR Plan with the inclusion of the Moapa Project does not appear to provide the greatest opportunities for the creation of new jobs in the State. The Moapa Project's effect on job-growth is inconclusive at best.

X. The Moapa Project does not provide much value for Nevada Power's customers in meeting the RPS. Even without the Moapa Project, Nevada Power will have excess RPS credits through 2027. (Ex. 12 at 232; Ex. 53 at 17; Ex. 73 at 8.)

results from replacing the Moapa Project with a 71-MW combustion turbine plant in 2018—the combustion turbine plant was not dispatched in the production cost modeling except for two hours in 2040. (Ex. 66 at 8-11).

X. While the fuel-free Moapa Project mitigates Nevada Power's customers' exposure to the risk of natural gas volatility, the Moapa Project is not unique in this regard and would result in only a slightly larger portion of Nevada Power's generation portfolio, both energy and capacity, not being dependent on natural gas in 2018. (Ex. 93 at 29-30; Tr. at 605-606.) The 110-MW Crescent Dunes Solar Energy Project is scheduled to come on-line in late-2014, and the ERCR Plan's 15-MW Nellis Solar Array II is scheduled to come on-line by December 31, 2016.² Further, as mandated by NRS 704.7316(2)(b)(6), RFPs for 300 MWs of renewable electric generating capacity will be issued on or before December 31, 2016. All of these other projects will mitigate Nevada Power's customers' exposure to the risk of natural gas volatility.

X. The Moapa Project has very limited value related to compliance with the EPA's proposal to regulate carbon emissions from existing generating units ("111(d) Regulations").³ Any opinion that the Moapa Project will count toward compliance with the EPA's proposal is pure speculation because the EPA's proposal does not even address carbon emissions of existing generating units on tribal lands, and the 111(d) Regulations have not yet been finalized and subjected to judicial review. Any proposed renewable Moapa Project not on tribal land has more value than the Moapa Project for the purpose of complying with the 111(d) Regulations.

X. Given the timing of the Commission's review of the Plan, the value of the Moapa Project cannot be compared to the values of other renewable projects. The Commission does not know the current market price of solar PV power or any other renewable power (solar thermal, geothermal, wind, biomass, etc.) in this State. Prior to this proceeding, the Commission's last

² Pursuant to NRS 704.7316(2)(b)(6), Nevada Power will be authorized to construct or acquire an additional 35 MWs of electric generating capacity from new renewable energy facilities by December 31, 2021.

³ Nevada Power acknowledges the risk that the Moapa Project will not qualify for compliance purposes and proposes to share that risk with its customers. (Tr. at 583-588, 602-603.)

review of a new renewable project for Nevada Power occurred in 2011 (Docket No. 11-03014).⁴

The market price for renewable power will be more established just three months from now when the bids for the first 100 MWs of competitively bid power are opened in January 2015.

The RFP is open to all resources and will presumably serve as the forum for comparing costs and other factors (ie. dispatchability, load characteristics, location, etc.) of the various proposals.

Following the RFP, the Commission will have a basis for comparison of a company-owned solar PV project to various renewable power projects owned by independent power producers.⁵

Implementing the ERCR Plan with the inclusion of the Moapa Project does not represent the best value to Nevada Power's customers because the Moapa Project's value to Nevada Power's customers is negligible.

- X. Based on the foregoing, the Commission deems the Moapa Project inadequate.
- X. Pursuant to NRS 704.7321, the Commission may recommend a modification to any portion of the Plan that the Commission deems inadequate.
- X. Staff proposed several modifications to the Plan related to the Moapa Project, including applying the capacity of the Moapa Project to both the nameplate capacity and planning capacity requirements mandated in NRS 704.7316(2)(b)(6) and 704.7316(2)(c), respectively, delaying the addition of the Harry Allen autotransformer, holding Nevada Power financially responsible for any performance problems that occur at the Moapa Project, and amending the land lease agreement to require the Moapa Band of Paiutes to (1) not oppose the

⁴ In Docket No. 13-11007, the Commission reviewed a geothermal PPA for Nevada Power that replaced a PPA approved in Docket No. 11-03014. The power and credits from the McGinness Hills geothermal generating facility were substituted for the already-approved Dixie Meadows site and included a \$2.6 million termination payment for the benefit of ratepayers.

⁵ While Nevada Power stated that a direct comparison of the Moapa Project lease to a prospective BLM lease is not possible, Staff provided information demonstrating additional annual costs for the Moapa Project lease on tribal land compared to annual costs for a prospective lease on BLM land. (Ex. 75 at 6:9-25, Attachment AED-8.) Staff's comparison demonstrates that the lease agreement and acquisition premium for the Moapa Project appear to be expensive. (Ex. 79 at 9:5-11.)

addition of new natural gas-fired generation resources at the Reid Gardner site and (2) support the use of the Moapa Project as a renewable energy facility for the State's compliance with the EPA's 111(d) Regulations. (Ex. 79 at 36-45.) However, Staff's recommendations do not overcome the lack of need for the Moapa Project or the cumulative negative aspects of the Moapa Project related to economic benefits, cost, job creation, or value as discussed above.

X. Both BCP and SNHG recommend modifying the plan to eliminate the Moapa Project. (Ex. 54 at 12-13, 21; Ex. 66 at 20.) BCP and SNHG discuss the ramifications of filling the remaining 54 MWs of planning capacity mandated in NRS 704.7316(2)(c) with the construction of a 71-MW combustion turbine (Ex. 54 at 11-12; Ex. 66 at 10-11), while SNHG also discusses applying that remaining capacity to the addition of a 600-MW combined cycle plant in 2020. (Ex. 54 at 12-13.) Notwithstanding, there is not enough information in the record to make an informed decision regarding the remaining 54 MWs of electric generating capacity. The 71-MW combustion turbine plant was just a hypothetical evaluation requested by BCP for modeling purposes. Applying the remaining 54 MWs to the 600-MW combined cycle plant may be logical, but the combined cycle plant was just a placeholder for planning purposes with no in-depth analysis provided on prospective locations, configurations, costs, etc. that would enable the Commission to make an informed decision on the combined cycle plant. As a result, the Commission modifies the Plan to eliminate the Moapa Project with no alternative approval for the remaining 54 MWs of electric generating capacity at this time.

X. While there are specific deadlines for the retirement of coal-fired electric generating capacity in NRS 704.7316(2)(a), no similar deadlines exist for the construction or acquisition and ownership of the corresponding replacement generating capacity in NRS 704.7316(2)(c). Nevada Power shall file an amendment to the ERCR Plan to construct or

acquire and own electric generating plants to fill the remaining 54 MWs of electric generating capacity in an orderly and structured manner when the capacity is actually needed.⁶

⁶ The need for capacity was integral to the passage of SB 123 (2013), which provides the statutory framework for the Commission's review and approval of the ERCR Plan. Regarding the 550 MWs of company-owned replacement capacity, NPC stated "... the Commission first has to make a finding that there is a need for capacity. . ." (Minutes of the Assembly Committee on Commerce and Labor, May 27, 2013 at 16) and "... if that were a construction project, the way I anticipate that working is we would obtain Commission approval after a finding of need for capacity to add that facility. . ." This is consistent with the statement of David Bobzien, Chairman of Assembly Commerce and Labor:

The goal of this bill is to provide a means for replacing company-owned retired coal-fired capacity with 550 megawatts of company-owned generating capacity. The Commission will determine when and how through an emissions reduction and capacity replacement plan however the bill does not replace the integrated resource planning process. The Commission will continue to supervise long term resource planning and address other existing customer needs such as those met by existing contracts through that process. . . . the legislation should be construed to recognize that the Commission will use the IRP process to address existing capacity and energy needs such as those met by existing contracts. This means that . . . when the Commission finds that there is a need to replace existing coal fire generating capacity that will be retired or that there is a need for new capacity, then the Commission should authorize the Company to acquire or construct and own the first 550 megawatts of capacity to replace company-owned generation retired by the plan. . . ."

(June 3 Remarks Addressing SB 123 on the Assembly Floor).