•

•

•

STEVE SISOLAK
Governor

STATE OF NEVADA

PUBLIC UTILITIES COMMISSION

ANN WILKINSON
Chairman

ANN PONGRACZ
Commissioner

C.J. MANTHE
Commissioner

STEPHANIE MULLEN
Executive Director

March 1, 2019

Trisha Osborne, Assistant Commission Secretary
PUBLIC UTILITIES COMMISSION OF NEVADA
1150 East William Street
Carson City, NV 89703

RE: <u>Docket No. 18-12003 – Staff's Final Impact Analysis</u>

Dear Ms. Osborne:

Please find attached the Regulatory Operations Staff's ("Staff") Final Impact Analysis in the above-referenced Docket. Pursuant to the Commission's Procedural Order dated February 15, 2019, Staff has also provided in executable format its confidential calculations/workpapers underseal.

If you have any questions, please contact me directly.

Sincerely,

for

Meredith Barnett
Assistant Staff Counsel

MB/tmr
Attachment
cc/Parties of Record

STAFF'S FINAL IMPACT ANALYSIS for

GAUGHAN SOUTH LLC D/B/A SOUTH POINT HOTEL AND CASINO ("SOUTH POINT") NRS CHAPTER 704B SOUTHERN NEVADA DEPARTURE APPLICATION

DOCKET NO. 18-12003

SUMMARY

The total load that South Point proposes to move from bundled retail electric service represents approximately 0.28 percent, over a 6-year period, of Nevada Power Company d/b/a NV Energy's ("NPC's") annual energy sales, and therefore, impacts NPC's future revenues and costs to remaining NPC customers. Based upon the calculations and production cost information that the Regulatory Operations Staff ("Staff") of the Public Utilities Commission of Nevada ("Commission") requested from NPC and received on February 5, 2019 ("2nd Revised Requested Calculations"), Staff's Final Impact Analysis of the impact of South Point's proposed departure of approximately 11 mega-watts ("MW") of peak electric consumption is approximately $2.61 million.[1] Table 1, below, provides a summary of the impact fee analysis for the 6-year analysis period. The impact fees contained in Table 1 includes the local government fee, and South Point's Demand Side Management ("DSM") Recapture Payment of approximately $97,865, and does not credit South Point with forecasted external sales resulting from the departure of South Point's load from NPC's system, as further discussed below.

Table 1 - South Point Impact Fee (No Off-System Sales)		
	6-year	
	Nominal	Net Present Value
Adjusted 2nd Revised Calculation	$2,978,000	$2,384,000
DSM Recapture Payment	$97,865	$97,865
Subtotal	$3,075,865	$2,481,865
Local Government Fee	$153,793	$124,093
Total Impact Fee	$3,229,658	$2,605,958

BACKGROUND

On December 17, 2018, Staff directed NPC, pursuant to Nevada Administrative Code ("NAC") 704B.350, to perform a 704B impact calculation with system sales turned off, utilizing non-

1 Staff adjusted the numbers in the 2nd Revised Requested Calculations (referred to as "adjusted 2nd Revised Requested Calculations"), which were calculated using a September 1, 2019, departure date to reflect an October 1, 2019, departure date as amended by South Point in its February 8, 2019, Amendment to Application of Gaughan South LLC to purchase energy, capacity, and/or ancillary services from a provider of new electric resources.

bypassable rates, to determine the impact that a departure of South Point, Boyd Gaming Corporation[2] and Las Vegas Resort Holdings', LLC d/b/a SLS Las Vegas[3] aggregated loads would have on remaining customers as well as on NPC.[4] A copy of Staff's Directive Document to NPC is provided as Attachment 1. On December 21, 2018, the Commission issued an Order in Docket No. 18-06003, approving NPC's preferred case, the Low Carbon Case, with the conditional early retirement of Valmy Unit 1.[5] On December 21, 2018, Staff sent NPC a Revised Directive Document to reflect the Commission's Order in Docket No. 18-06003 and added Nevada Property 1's, LLC d/b/a The Cosmopolitan of Las Vegas[6] ("Cosmopolitan") load (collectively with the above listed Nevada Revised Statues ("NRS") Chapter 704B applicants referred to as "the Applicants") to the total aggregated load seeking to depart NPC's system. A copy of Staff's Revised Directive Document is provided in Attachment 2. Attachment 2 sets forth the key inputs and analysis criteria that Staff directed NPC to use in performing the Requested Calculations and production cost simulations which were discussed with all parties of record at the meeting held on November 30, 2018. On January 15, 2019, NPC provided Staff with a copy of the Requested Calculations. On January 25, 2019, NPC provided Staff with a revision to the Requested Calculations that take into account an error identified with the Requested Calculations ("1st Revised Requested Calculations"). On February 5, 2019, NPC provided Staff with a revision to the 1st Revised Requested Calculations that corrected an error in the regulatory asset calculation ("2nd Revised Requested Calculations"). On February 8, 2019, South Point amended its NRS Chapter 704B Application to change its departure date from July 1, 2019 to October 1, 2019. Staff adjusted the 2nd Revised Requested Calculations to reflect South Point's changed departure date of October 1, 2019 ("Adjusted 2nd Revised Requested Calculations"). Therefore, Staff believes that the Adjusted 2nd Revised Requested Calculations, with the inclusion of South Point's DSM Recapture Payment, are a reasonable estimate of the impact of South Point's departure under the provisions of NRS Chapter 704B.[7]

---

2 Boyd Gaming Corporation submitted its letter of intent ("LOI") to Staff, NPC, and Bureau of Consumer Protection ("BCP") on October 9, 2018. On November 29, 2018, Boyd Gaming Corporation filed its Application to purchase energy, capacity, and/or ancillary services from a provider of new electric resources in Docket No. 18-11039.

3 Las Vegas Resort Holdings, LLC submitted its LOI to Staff, NPC, and Bureau of Consumer Protection ("BCP") on November 5, 2018. On December 20, 2018, Las Vegas Resort Holdings, LLC filed its Application to purchase energy, capacity, and/or ancillary services from a provider of new electric resources in Docket No. 18-12019.

4 On the date Staff sent its Directive Document to NPC, the Commission had not yet issued its Order in Docket No. 18-06003 - Joint Application of Nevada Power Company d/b/a NV Energy and Sierra Pacific Power Company d/b/a NV Energy for approval of their 2019-2038 Triennial Integrated Resource Plan and 2019-2021 Energy Supply Plan. Therefore, Staff directed NPC to run the PROMOD analysis based upon NPC's Renewable Case with the retirement date of the Valmy Generating Station (Units 1 and 2) occurring on December 31, 2025.

5 On December 17, 2018, the Commission voted to approve the Presiding Officer's Draft Order and issued a Final Order in Docket No. 18-06008 on December 19, 2018.

6 Nevada Property 1, LLC submitted its LOI to Staff, NPC, and BCP on December 17, 2018. On February 19, 2019, Nevada Property 1, LLC, filed its Application to purchase energy, capacity, and/or ancillary services from a provider of new electric resources in Docket No. 19-02022

7 Staff reviewed the PROMOD output files "Boyd et_al Base Case.REP" and "Boyd et_al Change Case.REP" provided by NPC and has no reason to believe that NPC did not use the inputs as directed by Staff in the Revised Directive Document.

REQUESTED CALCULATIONS

The Adjusted 2nd Revised Requested Calculations utilizing the non-bypassable rate methodology for a 6-year period show the impact of South Point's load departing to be approximately $3.23 million with a net present value of $2.61 million, which includes the local government fee and South Point's DSM Recapture Payment, and does not give credit to South Point for forecasted external sales resulting from the departure of South Point's load from NPC's system. Staff's Final Impact Analysis utilizes a 6-year period with non-bypassable rates terminating at the end of that 6-year period. Staff believes a 6-year analysis period is a reasonable time period to forecast a departing customer's impact for several reasons. First, based upon the multitude of previous impact analyses performed for other NRS Chapter 704B applicants, a 6-year period has shown to be a long enough period for the negative base tariff energy rate ("BTER") impact of a customer's departure to swing back positive, thereby alleviating the negative BTER impact of a customer's departure on remaining customers. Second, because the analysis utilizes current base tariff general rate ("BTGR"), Distribution Only Service ("DOS"), and Open Access Transmission Tariff ("OATT") rates, performing an analysis beyond 6 years would require these rates to either remain constant, which is not realistic, or require the forecasting of future rate changes, which would bring even more error and disagreement into what has already proven to be a contentious process. Finally, Staff believes having a minimum analysis period (such as 6 years in southern Nevada) provides a level of protection for remaining customers given the large amount of out-of-the-money renewable contracts that have been signed by NPC and avoids every departing customer arguing for different impact periods, thereby potentially leading to some customers arguing they were treated unfairly.[8] The summary sheet from the Adjusted 2nd Revised Requested Calculations is attached hereto as Attachment 3 and the separate categories that make up the estimated impact fee are as follows:

1) **BTGR Impact**: This is the BTGR revenue impact that NPC will experience, and remaining customers will be burdened with, once South Point's load leaves bundled retail service. Upon departure from bundled service, South Point will pay only transmission (pursuant to NPC's OATT) and distribution charges (pursuant to NPC's DOS Tariff). South Point will no longer contribute to the generation assets which were, in part, built to serve South Point's load.

The BTGR portion of South Point's 6-year impact fee is $4.309 million, with a net present value of $3.28 million. This impact is caused by NPC receiving less revenue from South Point over the 6-year timeframe. NPC's Transmission and Distribution ("T&D") rates account for approximately 56.9 percent of BTGR revenues, leaving a revenue shortfall of the remaining 43.1 percent for NPC and other customers to absorb. Tab "Summary (A-2)" line 13 of the impact fee calculation outline the resulting BTGR revenue shortfall.

2) **Net-BTER Impact:** This is the estimated impact that will result to fuel and purchased power costs as a result of South Point's load being removed from the total load that NPC is required to serve. The BTER impact was determined by performing two PROMOD production cost

8 A minimum time requirement is not a new concept for NPC, who offers Commission-approved High Load Factor and NV Green Energy Rider ("NGR") Tariffs, which both have minimum time requirements.

simulations: one simulation with the Applicants' aggregated load in the load forecast ("Base Case") and one with the Applicants' aggregated load removed ("Change Case"), both cases with system sales turned off. Staff's BTER impact analyses excluded all of the placeholder resources contained in Docket No. 18-06003, in the PROMOD production cost simulation and assumed all energy and capacity needs were met with market purchases. The difference in the production costs between the Base Case and the Change Case is the BTER impact resulting in the Applicants' aggregated load departing NPC's bundled retail service. The BTER impact fee associated with the Applicants' aggregated load production cost simulation was allocated to South Point based upon its annual energy load ratio share. South Point's BTER impact fee is a credit of $827,000, with a net present value of $460,000.

3) Variable Operations & Maintenance ("O&M") Costs: As discussed above, once South Point's load departs bundled retail service, NPC's generation units will operate less, and will therefore incur lower variable O&M costs, such as chemicals and other consumables. Because variable O&M costs are included in the BTGR rate and not in the BTER rate, South Point is paying for a fixed amount of variable O&M costs in the BTGR portion of the impact fee calculation, and therefore should be given credit for the reduction in variable O&M costs that are incurred when South Point's load is removed. The O&M credit is estimated to be approximately $617,000, with a net present value of $479,000.

4) Obligation for Existing and Future Regulatory Assets/Liabilities ("Non-Emissions Reduction and Capacity Replacement ("ERCR") Regulatory Assets"): This cost represents South Point's Marginal Cost of Service Study percentage share of Mohave decommissioning costs among other existing and future regulatory assets and liabilities. South Point's 6-year portion of the costs associated with this obligation is $11,000 with a net present value of $6,000.

5) Obligation for ERCR Regulatory Assets: This cost represents South Point's marginal generation demand cost allocation share of generation assets that were approved while South Point was a customer. This includes costs associated with portions of Las Vegas Cogeneration, SunPeak 222 MW 2014, Nellis 2015 – 15 MW, and Silverhawk 54 MW 2017. South Point's 6-year portion of the costs of these generation assets is $102,000, with a net present value of $79,000.

6) Energy Efficiency ("EE") Payment: This is the cost associated with operating the DSM programs that have been approved by the Commission as well as any financial disincentive due to the DSM programs. DSM program and implementation rates would go into effect on October 1, 2019, when South Point departs NPC's bundled retail service. Therefore, South Point's EE program and implementation costs are zero. The rates set in October 2019, and in following years, will not be applicable to South Point as they will no longer be a customer of NPC and therefore not eligible to participate in DSM Programs and should not be assessed any energy efficiency costs in the non-bypassable rate.

7) DSM Recapture: Any DSM incentives that were provided by NPC to South Point over the past 5 years, based upon the remaining program life associated with each incentive should South Point choose to depart retail service under the provisions of NRS Chapter 704B. South Point's

DSM Recapture Payment is estimated to be approximately $97,865. This amount was added to the adjusted 2nd Revised Requested Calculations as a separate line item. The workpapers associated with South Point's DSM Recapture Payment are provided in Attachment 4.

8) Local Government Fees: This cost represents the 5 percent Clark County Quarterly License Fee, referred to as Local Government Fee that, pursuant to Clark County Code 6.13, NPC collects from its ratepayers based upon the gross revenue earned. This cost is similar to a sales tax, and is derived by simply multiplying the sum of the other cost categories by 5 percent. The local government fee is calculated to be $153,793, with a net present value of $124,093.

9) Economic Development Rate Rider: This component represents South Point's share of the non-bypassable rates associated with the Economic Development Rate Rider ("EDRR") program pursuant to NRS 704.7875. All customers are required to pay these rates, including distribution and transmission-only customers, which should be assessed either through inclusion in the DOS rate or through the imposition of a separate non-bypassable charge, whichever may be more appropriate.[9]

10) Off-System Sales: Staff is not including a credit in the Impact Fee for the utility's forecasted off-system sales of energy and/or capacity due the South Point's departure from bundled retail electric service. Staff recognizes that an off-system sales credit has been provided in some prior NRS Chapter 704B impact analyses. Underlying this credit is the assumption that NV Energy's generation resources, which previously served the eligible customer departing bundled retail electric service with generation from NV Energy, are now available for sale to other entities in the wholesale market. However, this assumption must be evaluated based on the changing circumstances pursuant to NRS Chapter 704B. Staff has not included an off-system sales credit in the present analysis for a number of reasons, including, but not limited to: a) Staff believes that, given the number and rate of filing of 704B Applicants who have already departed bundled retail electric service, and existing and new customers considering departing bundled retail electric service, it is not reasonable or practical to assume that NV Energy can continue to make more and more off-system sales from the growing amount of generation assets/surplus capacity that is left behind when a customer leaves bundled retail electric service. There is a limit to the marketplace in which these off-system sales can be made; b) Staff has seen no evidence that the sales forecasted by PROMOD are actually occurring; c) PROMOD's calculation is strictly mathematical, and assumes a perfect market with unlimited willing counterparties. Staff does not believe those counterparties exist based on the fact that the Applicant is leaving bundled service in order to purchase its capacity and energy needs in the open market because NV Energy's costs are too high and market prices are so much less expensive; it is somewhat illogical to assume NV Energy would be able to sell the surplus energy and capacity that result, given the Applicant's departure into the same market that the Applicant is stating has lower cost resources; and d) Staff sees the lowering price of renewable energy, as evidenced by the 1,000 MW of new solar contracts and storage approved in Docket No. 18-06003, which are priced below NV Energy's current avoided cost, as confirmation that it would

---

9 Currently, the EDRR program in the NPC service territory includes a single entity qualified and eligible to receive EDRR, Xtreme Manufacturing, LLC. *See* Commission's Order in Docket No. 17-10009.

be illogical for any counterparty in the marketplace to purchase NV Energy's remaining fossil fuel generation when such cheap renewable assets are available in the same marketplace. As such, Staff does not believe that NV Energy can continue to sell increasing amounts of its fossil fuel powered energy and capacity into and increasingly saturated market, and does not believe the Applicant should be credited for such speculative sales, placing the entire risk of said speculative sales on remaining retail ratepayers. Therefore, Staff does not believe it would be in the public interest to include an off-system sales credit in the impact analysis, which may result in ratepayers paying entities such as South Point to depart bundled service.[10]

STAFF'S PROPOSED MODIFICATIONS AND/OR CONCERNS

To date, Staff has carefully reviewed each iteration of the calculations provided by NPC and believes it has identified all significant outstanding issues with the calculations, and subsequently, worked diligently with NPC and the other parties to have those issues corrected and addressed in the adjusted 2nd Revised Requested Calculations used for this final analysis.

Staff has identified issues that cannot be properly and fairly valued at this time in the Adjusted 2nd Revised Requested Calculation, but believes that South Point should be responsible for, or be entitled to, a cost or credit. As part of future proceedings, Staff recommends that the Commission allocate to South Point its appropriate share of the costs and/or benefits associated with the following:

- Reid Gardner and Navajo Costs: Staff recommends that South Point compensate NPC and remaining customers for South Point's share of Reid Gardner and Navajo remaining net book value costs for six years after its transition to unbundled electric service based on South Point's actual kilowatt-hour ("kWh") of load at the time such remaining net book value costs are approved by the Commission and added into rates.[11] South Point should also pay all Commission-approved Reid Gardner and Navajo decommissioning and remediation costs until such costs are fully recovered regardless of whether such costs are fully recovered at the end of six years. The mechanism to collect South Point's appropriate share of the Commission-approved Reid Gardner and Navajo remaining net book value costs and decommissioning and remediation costs will be determined in a general rate case in which the Commission approves such costs. Further, similar to the position Staff took with respect to other NRS Chapter 704B DOS customers in NPC's last general rate case proceeding, Docket No. 17-06003, if NPC is able to pay for/absorb the cost of the Reid Gardner and Navajo net book value and decommissioning costs in current rates, it is possible that South Point will have paid for its share of these costs in its impact fee. However, whether or not South Point has paid for the Commission approved

---

10 Staff has serious concerns about increasing costs on existing customers for the first 3 to 4 years as a result of South Point's departure, based on the speculative proposition that in years 5 and 6 NPC will be able to sell the surplus capacity left behind in order to erase this guaranteed increase.

11 The 6-year time frame is based upon the fact that currently Reid Gardner Unit 4 and the remaining Reid Gardner common plant is being depreciated such that the remaining plant costs should be fully collected by the year 2023.

Reid Gardner and Navajo remaining net book value costs and decommissioning and remediation costs, this issue should be determined in the general rate case in which the Commission approves such costs. As such, Staff believes such a placeholder provision is necessary.

- Excess Accumulated Deferred Income Tax ("EDIT"): On October 8, 2018, the Commission issued an order in Consolidated Docket Nos. 18-02010, 18-02011, and 18-02012 directing NPC to record any EDIT as a regulatory liability until NPC's next general rate case, wherein the Commission will determine the allocation of and amortization of EDIT. Staff therefore, recommends that any adjustments related to EDIT and its applicability to South Point be addressed in a separate proceeding that may take place after South Point's departure from bundled electric retail service.

Attachment 1

DIRECTIVE DOCUMENT

Staff's NRS Chapter 704B Exit Impact Analysis

Docket No. 18-12003 – "Gaughan South LLC dba South Point Hotel and Casino" ("South Point") Southern Nevada Application ("Exit Application")

As required by Nevada Administrative Code ("NAC") 704B.350, the Regulatory Operations Staff ("Staff") of the Public Utilities Commission of Nevada ("Commission") is requesting Nevada Power Company d/b/a NV Energy ("NPC") perform the following calculations/PROMOD analyses in order for Staff to estimate the potential impacts of the departure of South Point's load on the electric utility and its remaining customers. The analyses using the Non-Bypassable Rate Methodology are divided into categories as follows: 1) the Base Tariff Energy Rate ("BTER")/PROMOD analysis; 2) the Non-Bypassable Rate analysis; and 3) the Base Tariff General Rate ("BTGR") analysis. The key inputs and assumptions that Staff is requesting be used for each category are described herein below and were discussed, in part, during a meeting with all parties on November 30, 2018. If NPC has any questions regarding Staff's requested analyses, please contact Staff immediately. Please provide the results of these analyses on or before **January 14, 2018**, or as soon thereafter as practicable. When the results are provided to Staff, please include all workpapers, including any macros or Excel files used to extract data from the PROMOD output reports, and PROMOD output report files, including workpapers showing the yearly capacity credits (if any) and off-system sales that were given as a result of South Point's load departing and the variable operations and maintenance savings NPC will accrue as a result of South Point's load departing due to NPC's generation units potentially operating less frequently.

ANALYSES REQUESTED BY STAFF

BTER/PROMOD ANALYSIS

- Use NPC's PROMOD software to perform a ten-year production cost simulation from September 1, 2019, through August 31, 2029 (the "ten-year analysis period"). Staff is requesting takeoff points for ***each year*** of the analysis period.[1]
- Perform two sets of production cost simulations under the guidelines provided below: a) Base Case Expansion Plan; and b) Exit Impact or "Change Case" Plan.
  a) Base Case Expansion Plan
     - Use NPC's and Sierra Pacific Power Company's d/b/a NV Energy ("SPPC" and together with NPC, "the Companies") Renewable Case for the 2019-2021 Action Plan in the Companies' joint 2019-2038 Integrated Resource Plan ("IRP"),

[1] Staff understands that South Point's Application provides a departure date of July 1, 2019, but given the deemed approve date for the Docket is not until May 2019, Staff believes this date is unrealistic and is proposing to run this analysis in conjunction with the Boyd Gaming Corporation Application filed in Docket No. 18-11039, which is proposing a September 1, 2019 departure date and Staff believes the analysis periods should be consistent.

Docket No. 18-06003, which includes six solar photovoltaic ("PV") project Purchase Power Agreements ("PPAs").[2]

  - Assume the retirement of the Valmy Generating Station (Units 1 and 2) occurs on December 31, 2025.
  - Use the base load, fuel and purchase power forecast with the mid carbon assumption.
  - Exclude all energy and capacity needs associated with the placeholder resources from the Renewable Case and assume all energy and capacity needs are fulfilled with market purchases at the prices contained in the fuel and purchase power forecast discussed above.
  - Due to Station Casinos' LLC ("Station") Application pursuant to NRS Chapter 704B currently before the Commission in Docket No. 18-06008, [3] Golden Road Motor Inn, Inc. d/b/a Atlantis Casino Resort Spa's Application in Docket No. 18-08007[4] and Georgia-Pacific Gypsum LLC's Application in Docket No 18-09015,[5] remove their applicable loads contained within the base load forecast.

b) Change Case Plan
  - The load forecast for the Change Case Plan is the Base Case Expansion Plan load forecast (above) with Boyd Gaming Corporation (Application in Docket No 18-11039)[6] load removed, South Point's load removed, and [redacted] (referred to as "Eligible Customer 3", who submitted their LOI on November 20, 2018), load removed. For the three entities in the Change Case, use each Eligible Customer's actual billing determinants during the 12-month period from October 1, 2017, through September 30, 2018 ("12-month test period"), for each service location identified in the Exhibits contained within each Docket and in Exhibit A to Eligible Customer 3's LOI.
  - The 12-month test period incorporates any demand side management programs implemented to date.

---

2 While Staff is aware that NPC has filed a joint IRP with SPPC in Docket No. 18-06003 (Joint Application of Nevada Power Company d/b/a NV Energy and Sierra Pacific Power Company d/b/a NV Energy for approval of their 2019-2038 Triennial Integrated Resource Plan and 2019-2021 Energy Supply Plan) and is requesting Commission approval of the Low Carbon Case, Staff believes the Renewable Case is more appropriate for this analysis at this time. However, when the Commission Order in Docket No. 18-06003 is issued, Staff may amend this directive based upon the Commission's Order.

3 Application of Station Casinos LLC to purchase energy, capacity, and/or ancillary services from a provider of new electric resources.

4 Amended Application of Golden Road Motor Inn, Inc. d/b/a Atlantis Casino Resort Spa to purchase energy, capacity, and/or ancillary services from a provider of new electric resources.

5 Application of Georgia-Pacific Gypsum LLC to purchase energy, capacity, and/or ancillary services from a provider of new electric resources.

6 Application of Boyd Gaming Corporation to purchase energy, capacity, and/or ancillary services from a provider of new electric resources.