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19-02022

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Governor

STATE OF NEVADA

PUBLIC UTILITIES COMMISSION

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Executive Director

April 25, 2019

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

RE: <u>Docket No. 19-02022 – Staff's Final Impact Analysis</u>

Dear Ms. Osborne:

Please find attached the Regulatory Operation Staff's ("Staff") Final Impact Analysis in the above-referenced docket. Staff has attached in executable format a confidential disc which includes its calculations.

If you have questions, please contact me directly.

Sincerely,

Meredith Barnett
Assistant Staff Counsel

MB/tmr
Attachment
cc/Parties of Record

STAFF'S FINAL IMPACT ANALYSIS for

Nevada Property 1 LLC dba The Cosmopolitan ("Cosmopolitan") NRS CHAPTER 704B SOUTHERN NEVADA DEPARTURE APPLICATION

DOCKET NO. 19-02022

SUMMARY

The total load that Cosmopolitan proposes to move from bundled retail electric service represents approximately 0.35 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 April 12, 2019 ("1st Revised Requested Calculations"),[1] Staff's Final Analysis of the impact of Cosmopolitan's proposed departure of approximately 16 mega-watts ("MW")[2] of peak electric consumption is approximately $3.961 million. Table 1 below, provides a summary of the impact fee analyses for the 6-year analysis period. The impact fees contained in Table 1 includes the local government fee and Cosmopolitan's Demand Side Management ("DSM") Recapture Payment of $303,142 but does not credit Cosmopolitan with the forecasted external sales that may result from the departure of its load from NPC's system, as further discussed below.

Table 1 - Summary of Impact Fees by Analysis Period

	6-year	
	Nominal	Net Present Value
Requested Calculations 4/12/2019	4,211,000	3,469,000
DSM Recapture Payment	303,142	303,142
Subtotal	4,514,142	3,772,142
Local Government Fee	225,707	188,607
Total Impact Fee	4,739,849	3,960,749

1 NPC informed the parties of two separate issues regarding the Requested Calculations. The first error was found to be an overstated credit attributable to avoided capacity and the second regarded Stillwater's PEC calculations. These errors affected Staff's impact fee by approximately $50,000. These were the same errors that occurred in the other NRS Chapter 704B cases the Cosmopolitan was performed with, those being Boyd, South Point and SLS, those specific Docket numbers are outlined below.

2 The Letter of Intent ("LOI") the Applicant originally filled stated the peak electrical consumption was approximately 20 MW, but the Applicant changed that to 16 MW after reviewing more data prior to filing their application.

BACKGROUND

On March 1, 2019, Staff directed NPC, pursuant to Nevada Administrative Code ("NAC") 704B.350, to perform a 704B impact calculation with off-system sales turned off, utilizing non-bypassable rates, to determine the impact that a departure of Cosmopolitan, Boyd Gaming Corporation[3], Gaughan South's LLC, d/b/a South Point Hotel[4] and Las Vegas Resort Holdings', LLC d/b/a SLS Las Vegas[5] aggregated loads would have on remaining customers as well as on NPC. A copy of Staff's Directive Document to NPC is provided as Attachment 1. Attachment 1 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 December 27, 2018. On March 22, 2019, NPC provided Staff with a copy of the Requested Calculations. On April 12, 2019, NPC provided Staff with and updated impact analysis to correct two errors NPC identified. Based on the Testimony provided by NPC Witness Shawn Elicegui on April 23, 2019, in the course of the Hearing in Docket No. 18-12003, Staff is uncertain whether NPC followed Staff's Directive in performing the 1st Revised Requested Calculations. Staff is concerned that NPC did not calculate the Net-BTER and R-BTER in accordance with Staff's Directive. As such, Staff will investigate this issue and may need to provide an update to Staff's Final Impact.[6]

REQUESTED CALCULATIONS

The 1st Revised Requested Calculations utilizing the non-bypassable rate methodology for a 6-year period show the impact of Cosmopolitan's load departing to be approximately $4.740 million with a net present value of $3.961 million, which includes the local government fee and Cosmopolitan's DSM Recapture Payment, but does not give credit to Cosmopolitan for forecasted external sales resulting from the departure of Cosmopolitan's load from NPC's system. Staff's Final Analysis utilizes a 6-year period with non-bypassable rates extending beyond that 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

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3 Boyd Gaming Corporation submitted its 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.

4 Gaughan South LLC submitted its LOI to Staff, NPC, and Bureau of Consumer Protection on November 5, 2018. On December 6, 2018, Gaughan South LLC filed its Application to purchase Energy, capacity, and/or ancillary services from a provider of new electric resources in Docket No. 18-12003.

5 Las Vegas Resort Holdings, LLC submitted its LOI to Staff, NPC, and Bureau of Consumer Protection 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.

6 Staff is currently receiving/reviewing the PROMOD output files provided by NPC and verifying that NPC used the inputs as directed by Staff in the Directive Document.

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 and avoids every departing customer arguing for different impact periods, thereby potentially leading to some customers arguing they were treated unfairly.[7] The summary sheet from the 1st Revised Requested Calculations, received on April 12, 2019, is attached hereto as Attachment 2 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 Cosmopolitan's load leaves bundled retail service. Upon departure from bundled service, Cosmopolitan will pay only transmission (pursuant to NPC's OATT) and distribution charges (pursuant to NPC's DOS Tariff). Cosmopolitan will no longer contribute to the generation assets which were, in part, built to serve Cosmopolitan's load.

The BTGR portion of Cosmopolitan's 6-year impact fee is $6.606 million, with a net present value of $5.098 million. This impact is caused by NPC receiving less revenue from Cosmopolitan over the 6-year timeframe. NPC's Transmission and Distribution ("T&D") rates account for approximately 57.4 percent of BTGR revenues, leaving a revenue shortfall of the remaining 42.6 percent for NPC and other customers to absorb. Tab "Summary (A-2)" lines five and eleven 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 Cosmopolitan'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 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 Cosmopolitan based upon its annual energy load ratio share. Cosmopolitan's BTER impact fee is a credit of $1.708 million, with a net present value of $1.113 million.

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[7] For example, NPC's High Load Factor and NV Green Energy Rider ("NGR") Tariffs have minimum time requirements that are not dependent on load size.

3) Variable Operations & Maintenance ("O&M") Costs: As discussed above, once Cosmopolitan'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, Cosmopolitan is paying for a fixed amount of variable O&M costs in the impact fee calculation, and therefore should be given credit for the reduction in variable O&M costs that are incurred when Cosmopolitan's load is removed. The O&M credit is estimated to be approximately $1.010 million, with a net present value of $0.789 million.

4) Obligation for Existing and Future Regulatory Assets/Liabilities ("Non-Emissions Reduction and Capacity Replacement ("ERCR") Regulatory Assets"): This cost represents Cosmopolitan's Marginal Cost of Service Study percentage share of Mohave decommissioning costs among other existing and future regulatory assets and liabilities. Cosmopolitan's 6-year portion of the costs associated with this obligation is $17,000 with a net present value of $12,000.

5) Obligation for ERCR Regulatory Assets: This cost represents Cosmopolitan's marginal generation demand cost allocation share of generation assets that were approved while Cosmopolitan 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. Cosmopolitan's 6-year portion of the costs of these generation assets is $0.174 million, with a net present value of $0.138 million.

6) January 2020- September 2020 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 will go into effect on October 1, 2019, prior to Cosmopolitan departing NPC's bundled retail service. Should Cosmopolitan choose to depart NPC's bundled retail service under the provisions of NRS Chapter 704B, remaining ratepayers would be subjected to increased costs due to NPC not recovering Cosmopolitan's share of the EE program and implementation costs. Therefore, Staff is including Cosmopolitan's share of the proposed EE program and implementation costs for the period of January 2020-September 2020 as a lump sum payment. Staff has estimated the EE lump sum payment to be approximately $132,000 with a net present value of $123,000. The rates set in October 2020, and in following years, will not be applicable to Cosmopolitan 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 Cosmopolitan over the past 5 years, based upon the remaining program life associated with each incentive should Cosmopolitan choose to depart retail service under the provisions of NRS Chapter 704B. Cosmopolitan's DSM Recapture Payment is estimated to be approximately $303,142. This amount was added to the 1st Revised Requested Calculations as a separate line item. The workpapers associated with Cosmopolitan's DSM Recapture Payment are provided in Attachment 3.

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 $225,707, with a net present value of $188,607.

9) Economic Development Rate Rider: This component represents Cosmopolitan'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.[8]

10) Off-System Sales: Staff, at this point, is not including a credit in the Impact Fee for the utility's off-system sales of energy or capacity forecasted to possibly result from the Applicant's departure from bundled service. Staff recognizes that an off-system sales credit has been provided in some prior NRS 704B impact analyses. Underlying this credit is the assumption that NPC's generation resources, which previously served the eligible customer departing bundled service with generation from NPC, 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 704B. Staff has not included an off-system sales credit 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 service, and existing and new customers considering departing bundled retail service, it is not reasonable or practical to assume that NPC 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 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 willing counterparty. 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 NPC's costs are too high and market prices are so much less expensive; it is somewhat illogical to assume NPC would be able to sell the surplus energy and capacity that result given 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 NPC's current avoided cost, as confirmation that it would be illogical for any counterparty in the marketplace to purchase NPC's remaining fossil fuel generation when such cheaper renewable assets are available in the same marketplace. As such, Staff does not believe that NPC can continue to sell increasing amounts of its fossil fuel powered energy and capacity into an increasingly saturated market, and does not believe the Applicant should be credited for

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[8] 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.

such speculative sales, placing the entire risk of said speculative sales on remaining retail ratepayers.

STAFF'S PROPOSED MODIFICATIONS AND/OR CONCERNS

After performing a cursory review of the 1st Revised Requested Calculations, Staff has not identified any concerns. Notwithstanding, Staff understands there could be undiscovered errors or issues that may or may not create a material change in the outcome of its analysis.

Staff has identified issues that cannot be properly and reasonably valued at this time in the 1st Revised Requested Calculation, but believes that Cosmopolitan should be responsible for, or be entitled to, a cost or credit. As part of future proceedings, Staff recommends that the Commission allocate to Cosmopolitan its appropriate share of the costs and/or benefits associated with the following:

- Reid Gardner and Navajo Costs: Staff recommends that Cosmopolitan compensate NPC and remaining customers for Cosmopolitan's share of Reid Gardner and Navajo remaining net book value costs for six years after its transition to unbundled electric service based on Cosmopolitan'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. Cosmopolitan 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 Cosmopolitan'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 Cosmopolitan will have paid for its share of these costs in its impact fee. However, whether or not Cosmopolitan has paid for the Commission approved 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 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 Cosmopolitan be addressed in a separate proceeding that may take place after Cosmopolitan's departure from bundled electric retail service.

Attachment 1

DIRECTIVE DOCUMENT

Staff's NRS Chapter 704B Exit Impact Analysis

Docket No. 19-02022 – "Nevada Property 1 LLC dba The Cosmopolitan" ("Cosmopolitan") 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 Cosmopolitan's load on the electric utility and its remaining customers. The analysis using the Non-Bypassable Rate Methodology is 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 during a meeting with all parties on December 27, 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 **March 22, 2019**, 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. Please include workpapers showing the yearly capacity credits (if any) and off-system sales that were given as a result of Cosmopolitan's load departing and the variable operations and maintenance savings NPC will accrue as a result of Cosmopolitan'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 January 1, 2020, through August 31, 2029 (the "nine-year and 8 month analysis period")[1]. Staff is requesting takeoff points for ***each year***[2] of the analysis period.
- 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 SPPC's ("SPPC" together with NPC, "the Companies") 2019-2021 Action Plan in the Companies' joint 2019-2038 Integrated Resource Plan

[1] Cosmopolitan's original Letter of Intent utlined a departure date of September 1, 2020, and as such Staff included the Cosmopolitan's load in the impact fee analysis it performed for other pending NRS 704B Applications. As such, Staff understands that the "ten-year analysis period" Staff typically requests in these impact fee analyses is actually 9 years and 8 months for Cosmopilitan.

[2] Staff understands the final takeoff year will only consist of a period of 8 months.

("IRP") as approved by the Commission in its Order in Docket No. 18-06003, which includes six (6) solar photovoltaic ("PV") Purchase Power Agreement ("PPA").

- 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 Commission approved plan 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's Inc. d/b/a Atlantis Casino Resort Spa Application in Docket No. 18-08007,[4] Georgia-Pacific Gypsum's LLC Application in Docket No 18-09015,[5] and MEI-GSR Holding, LLC's Application in Docket No 18-12018 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 (above) load forecast with Cosmopolitan, Boyd Gaming Corporation (Application in Docket No 18-11039)[6], Gaughan South's LLC, d/b/a South Point Hotel and Casino (Docket No. 18-12003)[7] and Las Vegas Resort Holdings' LLC d/b/a SLS Las Vegas Application in Docket No 18-12019)[8] loads removed. For the four 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 the respective Applications in each Docket.
- The 12-month test period incorporates any demand side management programs implemented to date.
- Use January 1, 2020, as the Departure Date for the analyses. The analysis period is therefore January 1, 2020, through August 31, 2029, with takeoff points for ***each year.***

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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.

7 Application of Gaughan South LLC d/b/a South Point Hotel and Casino to purchase energy, capacity, and/or ancillary services from a provider of new electric resources.

8 Application of Las Vegas Resort Holdings' LLC d/b/a SLS Las Vegas to purchase energy, capacity, and/or ancillary services from a provider of new electric resources.