

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** KIRA DALE PFISTERER

**DATE:** JULY 8, 2005

**RE:** APPLICATION OF IDAHO POWER COMPANY FOR BLANKET  
AUTHORITY TO SELL AIR EMISSION ALLOWANCES AND FOR AN  
ACCOUNTING ORDER. CASE NO. IPC-E-05-20.

On June 9, 2005, Idaho Power Company filed an Application with the Commission for (1) blanket authority to sell surplus sulfur dioxide ("SO<sub>2</sub>") allowances obtained by the Company under the provisions of the Federal Clean Air Act Amendments of 1990; and (2) an accounting order to provide for recording any sale(s) of such allowances.

### BACKGROUND

Title IV of the Clean Air Act Amendments of 1990 establishes a national program for the reduction of acid rain. 42 USCA §§ 7651, *et seq.* The centerpiece of the Title IV acid rain program is the incentive- or market-based, "cap and trade" SO<sub>2</sub> emission program. Under the cap and trade program, the Environmental Protection Agency (EPA) sets a cap or ceiling on the total amount of SO<sub>2</sub> emissions allowed nationwide. The EPA then allocates this amount among utility generating units through annual emissions allowances. Each allowance provides the authority to emit one ton of SO<sub>2</sub>.

The EPA closely monitors the emissions of each utility generating unit to ensure compliance with the program. A utility that emits less SO<sub>2</sub> than its annual emissions allowances in a given year may save the surplus allowances or trade them in the open market or through EPA-sponsored auctions. A utility that holds insufficient allowances to cover its annual emissions is automatically fined and must surrender future year allowances to cover the shortfall. The theory behind the "cap and trade" system is that it ensures environmental quality while preserving free choice and creating market incentives to reduce emissions.

## THE APPLICATION

Idaho Power has an ownership interest in five thermal power plants in the western United States. Three of these power plants are coal fired and receive allocations of SO2 allowances from the EPA. These plants are: (1) Jim Bridger Units 1 through 4 (1/3 interest); (2) North Valmy Units 1 and 2 (1/2 interest); and (3) Boardman (1/10 interest). Idaho Power believes that, after retaining sufficient allowances, including a reasonable cushion for change and contingencies, it can make surplus SO2 allowances available for sale. However, in order to effectively participate in the SO2 allowance trading market, Idaho Power must have regulatory approval prior to the sale(s). In addition, Idaho Power seeks an accounting order to track the potential proceeds from any such sale(s).

In this Petition, Idaho Power does not seek a Commission decision regarding how the revenue from an SO2 allowance sale shall be treated; the Company simply seeks the authority to sell and to track the revenues obtained through any potential sale of the SO2 allowances. The Company anticipates a subsequent filing in the near future to address the issue of how to treat the revenue obtained from the future sale of SO2 allowances.

## STAFF RECOMMENDATION

Staff recommends that the Petition be processed under Modified Procedure with a 21-day comment period.

## COMMISSION DECISION

Should Idaho Power Company's Application for blanket authority to sell SO2 allowances and an accounting order to provide for recording any sale(s) of such allowances be processed under Modified Procedure with a 21-day comment period?

  
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Kira Dale Pfisterer

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