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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION)	
OF APPROPRIATE RATEMAKING)	CASE NO. IPC-E-05-26
TREATMENT OF IDAHO POWER)	
COMPANY'S SO2 ALLOWANCE SALE)	
PROCEEDS.)	COMMENTS OF THE
)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission, by and through its Attorneys of record, Donovan E. Walker and Cecelia A. Gassner, Deputy Attorneys General, respectfully submit the following comments in response to Order No. 30016, issued on April 11, 2006.

BACKGROUND

On June 9, 2005, Idaho Power Company (Idaho Power, Company) filed an Application requesting: (1) blanket authority to sell surplus sulfur dioxide (SO2) allowances and (2) an accounting order to provide for recording any sale(s) of such allowances. Case No. IPC-E-05-20. The Company's Application also suggested that a determination of ratemaking treatment for the proceeds be made at a later date.

On August 22, 2005, the Idaho Public Utilities Commission (Commission) approved the Company's Application. Order No. 29852. The Commission, while reserving the review of the

reasonableness of each sale, granted Idaho Power's request for blanket authority to sell SO2 emissions allowances and approved the accounting treatment proposed by the Company, on an interim basis, until such time as the Commission determines the appropriate ratemaking treatment of the proceeds from the sale of the SO2 allowances. *Id.* The Company was ordered to file a report with the Commission within 60 days of the receipt of any SO2 proceeds. *Id.* Additionally, the Commission ordered that a separate docket be opened for Staff to conduct workshops and make a recommendation to the Commission regarding the appropriate ratemaking treatment of SO2 proceeds. *Id.*

This docket, IPC-E-05-26, was opened and two workshops were held on November 7 and November 23, 2005, respectively. During the workshops the parties were unable to reach agreement upon the ratemaking treatment of the proceeds. On March 6, 2006, the Commission issued Order No. 29989, establishing a comment deadline of March 31, 2006, and a subsequent briefing schedule. On March 30, 2006, this comment deadline and briefing schedule was vacated based upon the parties' notification that an agreement had been reached. The Industrial Customers of Idaho Power and Micron were the only parties to petition for intervention, which was granted.

The parties met on March 23, 2006, and reached agreement upon an appropriate ratemaking treatment for the allowance proceeds. The parties have signed a Stipulation providing that SO2 allowance sales proceeds be included in the Company's annual Power Cost Adjustment (PCA) proceeding, with 90% of the net proceeds to be passed on to customers, and 10% of the net proceeds to be retained as a shareholder benefit. This Stipulation has been filed with the Commission. Idaho Power has filed a Motion for Approval of the Stipulation asking the Commission to accept the Stipulation in its entirety without material change or condition.

The Stipulation

On April 6, 2006 Idaho Power Company filed a motion with the Commission requesting approval of an agreement (Stipulation) among the parties (Company, Staff, Micron Technology and the Industrial Customers of Idaho Power) with respect to sharing and distribution of proceeds resulting from the sale of SO2 allowances. The Stipulation specifies that net proceeds resulting from the sales will be distributed through the Power Cost Adjustment (PCA) mechanism, as are other extraordinary power supply costs and benefits. The net proceeds currently estimated at approximately \$49 million will be jurisdictionally allocated to Idaho at the approved rate of 94.1%

and shared 90%/10% between ratepayers and shareholders. Any proceeds from future sales will be jurisdictionally allocated to Idaho and shared at the then approved ratios.

The Stipulation further specifies that the Idaho customer benefit, currently amounting to \$42.1 million, will accrue interest at the PCA rate and be reflected in the PCA as a credit to the PCA true-up balance for amortization in the PCA rates during the June 1, 2007 through May 31, 2008 PCA rate period. Idaho Power will record any proceeds from future sales of surplus SO₂ allowances, net of taxes and fees, received after June 1, 2006 in the PCA for allocation and sharing through the true-up portion of the PCA.

Staff Analysis

Staff believes the Stipulation, signed by all parties to this case, aligns the interest of shareholders and ratepayers by reasonably sharing the net proceeds from the sale of SO₂ allowances. Staff supports the terms laid out in the Stipulation and recommends Commission approval.

However, the Stipulation reflects the SO₂ proceeds net of tax. In subsequent discussions, it has been determined that the taxes will be a timing difference only. Therefore it will be appropriate to gross-up the current \$42.1 million benefit when it is returned to customers in the PCA. Idaho Power has informed Staff that it agrees with this concept. Staff recommends that the Commission include the provision for gross-up of the benefits when returned to customers in the PCA if it approves the Stipulation.

Staff's support for the settlement is based on its belief that SO₂ allowances are an attribute of coal plants paid for by ratepayers and that the benefits derived from the sale of such excess allowances (credits) should be returned to the ratepayer. The credits accrue as a direct result of plant operation and ownership in much the same way that energy generated from the plant is used to meet ratepayer demand and generate surplus sales revenue to offset plant-operating costs.

The generation of SO₂ credits results from the plant configuration with respect to installed environmental equipment, the geographic location of the plant, the total time the plant is operated and the nature of the coal used to fuel the plant. All of these factors dictate the cost of plant generation, the volume of generation available for surplus sales and the environmental costs/benefits expected from the plant. To the extent coal costs increase, they are passed through to customers, to the extent surplus revenues decline or environmental costs increase, they too are passed on to customers. The reverse is also true. When coal costs decline, when surplus sales

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 24TH DAY OF APRIL 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-05-26, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

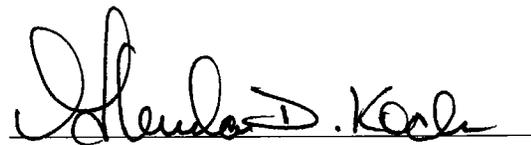
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