IPC-E-07-18

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Workshop: Alternatives for use of SO_2 Emission Allowance Proceeds

January 15, 2008

Presentation Outline

- Background
- Alternatives for use of proceeds:
  - Return to Customers - Flow through PCA
  - Purchase Renewable Energy Certificates (RECs or green tags)
  - Purchase wind project development rights
  - Other
- Discussion of potential benefits
- Idaho Power Recommendations

Background

- Title IV of the 1990 Clean Air Act Amendments – EPA Acid Rain Program. Market-Based Cap & Trade Program
- Idaho Power has surplus SO_2 emission allowances
- 2005/06 – Idaho Power sells 78,000 SO_2 allowances
  - Return ~$42.1 million to Idaho Customers
- 2007 – Idaho Power sells 35,000 SO_2 allowances
  - Proceeds ~$10.1 million

Alternative 1

Return to Customers – Flow through PCA

- Pros
  - Largest initial benefit to customers
  - Softens any pending increase in rates
- Cons
  - One time reduction
  - Other potentially more beneficial alternatives

Alternative 2

Purchase Green Tags

Concept – Purchase multi-year streams of green tags. Sell near-term tags until needed to meet RPS or comply with other regulations, annually flow proceeds through PCA.

- *Idaho Power green tag position – short (relative to portfolio capability)*
- *265 MW PURPA wind under contract – Idaho Power does not own the green tags;*

➢ Pros

- Customer is hedged with respect to future green tag price increases and hedged against future RPS/green tag/REC requirements
- Long-term portfolio is "greened"
- May be able to acquire tags at a discount with up-front payment

➢ Cons

- Price risk – price of tags may go down in the future

Alternative 3

Purchase Wind Project Development Rights

Concept – Purchase wind project development rights, secure site & develop Idaho Power owned wind project at a later date. Once developed, sell near-term tags until needed to meet RPS or comply with other regulations, annually flow proceeds through PCA.

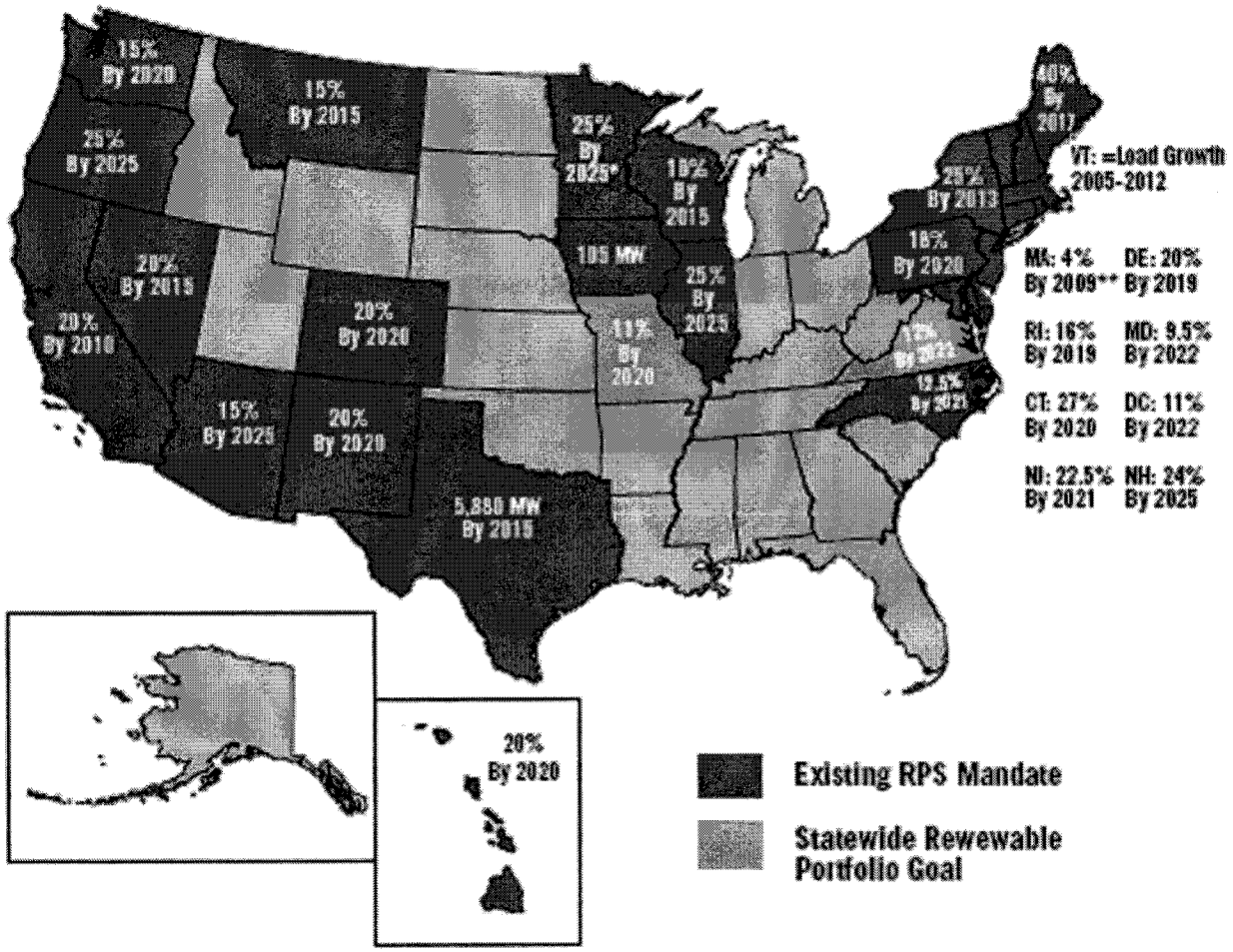
➢Pros

- Idaho Power owned utility scale project should result in lower levelized cost to customers (relative to PURPA wind projects)
- Idaho Power owns multi-year stream of green tags. Customer is hedged against future green tag price increases and hedged against future RPS/green tag/REC requirements
- Operational control: provides flexibility

➢Cons

- Capital intensive project

State Renewable Portfolio Standards Programs



*Xcel Energy: 30% By 2020 **Increasing 1% per year there-after

Source: Edison Electric Institute, status as of August 28, 2007.

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Alternative 1
Potential Benefits

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Temporary Rate Reduction by Customer Class[1]

- Industrial -4%
- Large Commercial -3%
- Small Commercial -2%
- Residential -2%
- Irrigation -3%

- Rate -0.1248 ¢/kWh

1. Including an additional estimated tax benefit of $6 million.

Alternative 2
Potential Benefits

265 MW of PURPA Wind (30% CF) ~ 696,000 MWh Annually

- A $2 increase in green tag price would return $1.4 million to customers per year.

Alternative 3
Potential Benefits

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100 MW Wind Project (30% CF) ~ 263,000 MWh Annually

- Assume project displaces PURPA wind projects
- Assume levelized cost is $5/MWh less than PURPA rate
- Assume green tag price is $5
- $2.6 million/year long-term stream of benefits to customers
- Each 1% improvement in capacity factor adds $0.5 million/year

IPC Recommendations

- Authorize Idaho Power to use proceeds from SO_2 Allowance sales to (1) fund the purchase of wind project development rights, or (2) purchase green tags.

- Commitment: If authorized, Idaho Power will conduct RFPs as appropriate.