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UTILITIES COMMISSION

**LISA D. NORDSTROM**  
**Attorney II**

February 25, 2008

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
P. O. Box 83720  
Boise, Idaho 83720-0074

Re: Case No. IPC-E-07-18  
In the Matter of the Appropriate Disposition of Proceeds for the  
Sale of Idaho power Company's SO2 Emission Allowances in CY  
2007

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power's  
Comments in the above-referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter  
for our files in the enclosed self-addressed stamped envelope.

Very truly yours,

  
Lisa D. Nordstrom

LDN:sh  
Enclosures

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Attorneys for Idaho Power Company

Express Mail Address

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPROPRIATE	)	
DISPOSITION OF PROCEEDS FOR THE	)	CASE NO. IPC-E-07-18
SALE OF IDAHO POWER COMPANY'S	)	
SO2 EMISSION ALLOWANCES IN CY 2007	)	IDAHO POWER'S COMMENTS
_____	)	

COMES NOW, Idaho Power Company ("Idaho Power" or "the Company") and in response to the Notice of Modified Procedure issued on February 4, 2008, submits the following comments discussing the proposals presented at the January 15, 2008 workshop and recommending the Commission authorize Idaho Power to use proceeds from SO2 Allowance sales to (1) fund the purchase of wind project development rights, or (2) purchase green tags from its PURPA projects.

**THE WORKSHOP PROPOSALS**

1. Offset the Power Cost Adjustment (PCA) Deferral Account. In Order No. 30041, issued in Case No. IPC-E-05-26, the Commission approved a sharing

arrangement in which 90% of the state of Idaho's 94% jurisdictional share of net sale of sulfur dioxide ("SO<sub>2</sub>") allowance proceeds, including tax effects, was allocated to customers and the remaining 10% share was allocated to Idaho Power's shareowners. The Commission also directed the Company in Order No. 30041 to include the proceeds in the Power Cost Adjustment ("PCA") to reduce the level of PCA rates.

Consistent with Order No. 30041, Idaho Power proposes that the same 90%/10% sharing of benefits be utilized to allocate the proceeds from sales of surplus sulfur dioxide emission allowances made in 2007. Customers benefited from the proceeds received from sales of surplus allowances in 2005 and 2006 through a PCA rate reduction. If 2007 SO<sub>2</sub> revenues were likewise included in the PCA, the amount benefiting Idaho ratepayers would be grossed up for taxes to \$16,635,021.53. This amount would offset the PCA deferral account, which had a balance of \$111,172,241 through January 2008, and mitigate a likely 2008-2009 PCA rate increase by 0.1248¢/kWh. While Idaho Power does not object to using the 2007 revenues in this manner for a one-time customer benefit, the Company believes that using these funds to purchase green tags or development rights for a wind project could potentially provide greater long-term value to customers.

2. Purchase Green Tags from PURPA Facilities. As an alternative to offsetting the PCA balance, Idaho Power suggests that SO<sub>2</sub> proceeds could be used to purchase multi-year streams of Renewable Energy Certificates ("RECs" or "green tags") from the owners of renewable generation facilities that have entered into Public Utility Regulatory Policies Act ("PURPA") contracts with Idaho Power. This alternative is in alignment with Policy 11 in the 2007 Idaho Energy Plan which states, "Idaho and Idaho

utilities should prepare for the possibility of federal regulation of greenhouse gas emissions.” (Idaho Energy Plan at 3 and 49-50).

In the event Congress enacts a renewable portfolio standard (“RPS”) requiring electric utilities to achieve a certain percentage of generation from renewable resources, Idaho Power will be required to purchase green tags at prices expected to be higher than those existing today. This would result in increased costs to Idaho Power’s customers. If Idaho Power purchased green tags prior to the enactment of a federal RPS or in excess thereof, the Company would sell the green tags on a short-term basis and flow the proceeds from the sales to customers annually through the PCA.

This approach would “hedge” customers with regard to future green tag price increases and allow Idaho Power to manage the risk associated with a future federal renewable portfolio standard. It also “greens” Idaho Power’s long-term portfolio. Idaho Power may be able to acquire green tags at a discount with up-front payment. The downside is that customers would risk the price of green tags decreasing in the future. Assuming Idaho Power bought green tags for the 265 MW of PURPA wind (at a 30% capacity factor generating 696,000 MWh annually) it currently has under contract, a \$2 increase in green tag price would return \$1.4 million annually to customers.

All proceeds from any sales of green tags purchased with the customers’ share of proceeds from emission allowance sales, would flow 100% to the customer. Idaho Power anticipates that any additional green tag purchases funded by Idaho Power would be treated as an expense and recovered as authorized by the Commission.

3. Purchase a Wind Project’s Development Rights. Another alternative to using the funds to offset the PCA balance would be to use the SO2 proceeds to

purchase development rights for a wind project. This alternative is in alignment with Policy 5 in the 2007 Idaho Energy Plan which states, "When acquiring resources, Idaho and Idaho utilities should give priority to (1) Conservation, energy efficiency and demand response; and (2) Renewable resources..." (Idaho Energy Plan at 2 and 48-49). In addition, Action E-15 states, "The Idaho PUC should establish appropriate shareholder incentives for investments in Idaho renewable resources by investor-owned utilities. Shareholder incentives may include, but are not limited to: i) Increased return on investments in renewable resources located in Idaho; and ii.) A share of the net societal benefits attributable to a renewable energy purchase." (Idaho Energy Plan at 4 and 55).

Under such an approach, Idaho Power would enter into negotiations or issue a request for proposals ("RFP") to purchase a permitted wind generation project. In essence, the Company would purchase a portion of the wind project with capital contributed by customers, resulting in a reduction in a portion of the rate base associated with the purchase and development of a wind project. By developing and owning the wind project rather than purchasing equivalent energy elsewhere, Idaho Power's customers would have additional access to renewable energy at competitive prices and retain the green tags associated with the wind project to hedge against future green tag price increases and/or RPS requirements. While an Idaho Power-owned, utility-scale project would provide operational flexibility, development of a wind project is capital intensive at a time when Idaho Power's capital budget is already stretched. Assuming Idaho Power used the proceeds to offset the rate base of a 100 MW wind project with a 30% capacity factor generating 263,000 MWh annually and the project: 1)

displaced PURPA wind projects, 2) had a levelized cost of \$5/MWh less than the levelized PURPA published rate, and 3) the green tags were sold for \$5 each, customers would receive a long-term benefit of \$2.6 million/year. Under these assumptions, each 1% improvement in capacity factor would increase customer benefits by \$0.5 million/year.

Idaho Power anticipates that any funding provided by Idaho Power to complete construction and development of the wind project would be included in rate base.

4. Develop and Fund Energy Education Programs. At the January 15<sup>th</sup> workshop, the Idaho Energy Education Project suggested that approximately \$500,000 could be used to develop and implement classroom education programs about energy efficiency. It recommended that the remaining balance of the proceeds could be directed to energy efficiency operations or other beneficial uses. Although not one of its preferred proposals, Idaho Power would support use of a portion of the SO<sub>2</sub> allowance proceeds for energy efficiency education. The 2007 Idaho Energy Plan supports the acquisition of energy conservation resources in the public at large through education and outreach programs. (Idaho Energy Plan at 13.)

## **CONCLUSION**

Idaho Power recognizes that the current size of the PCA deferral balance makes disposition of proceeds from Idaho Power's sale of its excess 2007 SO<sub>2</sub> allowances into something other than the PCA account more difficult. However, Idaho Power believes application of the proceeds toward the purchase of green tags from its PURPA projects or the development rights to a wind project is a better long-term investment that will benefit ratepayers for years to come. These investments also conform to the 2007

Idaho Energy Plan's recommendation that Idaho utilities develop in-state renewable resources to promote fuel diversity, create Idaho jobs and tax revenues, and reduce Idaho's vulnerability to likely carbon regulation. (Idaho Energy Plan at 12, 44-45, and 49.) For these reasons, Idaho Power respectfully requests the Commission authorize Idaho Power to use proceeds from SO2 Allowance sales to (1) fund the purchase of wind project development rights, or (2) purchase green tags from its PURPA projects.

Respectfully submitted this 25<sup>th</sup> day of February, 2008.

  
LISA D. NORDSTROM  
Attorney for Idaho Power Company

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 25<sup>th</sup> day of February, 2008, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

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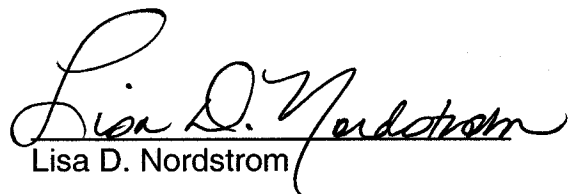
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