

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)	NOTICE OF WORKSHOP
)	
)	ORDER NO. 30478

On November 9, 2007, Idaho Power Company filed a report disclosing that the Company made a subsequent sale of 15,000 sulfur dioxide (SO2) emission allowances in 2007. Report/Motion at 2. For the entire year of 2007, Idaho Power reports that it sold 35,000 SO2 allowances for a total amount (less brokerage fees) of \$19,642,250. *Id.* The after-tax amount of proceeds allocated to Idaho for SO2 emissions is \$10,131,560. *Id.* at ¶ 5. This amount assumes an income tax rate of 39.095% and a jurisdictional allocation to Idaho of 94.1%. *Id.* Last year the Commission approved a settlement that the 2006 SO2 revenues were used to offset power purchase costs in the 2007 Power Cost Adjustment (PCA) case.

In addition to its report, Idaho Power also filed a "Motion for a Workshop Schedule." Rather than utilizing the proceeds from the 2007 SO2 sales to offset the PCA next year, Idaho Power "believes that other opportunities presently exist with the potential to provide greater long-term value to customers." Report/Motion at 3. If the Commission agrees that Idaho Power should investigate other potential uses for the SO2 revenues, the Company "respectfully requests the Commission schedule a workshop for the purpose of receiving feedback from interested parties concerning possible alternatives to benefit customers." *Id.* at 4. This Order grants the Company's Motion.

BACKGROUND

A. SO2 Allowances

Title IV of the Clean Air Act Amendments of 1990 established a national program for the reduction of acid rain. 42 U.S.C. §§ 7651 *et seq.* The centerpiece of the acid rain program is the incentive- or market-based "cap and trade" SO2 program. Under the cap and trade program, the Environmental Protection Agency (EPA) sets a cap or ceiling on the total amount of SO2 emissions allowed nationwide. Based upon this cap, EPA allocates a certain

number of SO2 emission allowances to thermal power plant owners. Each allowance provides the authority to emit one ton of SO2. See Order No. 29852 at 1.

Each year a thermal power plant owner must hold sufficient allowances to cover actual SO2 emissions. A power plant owner that does not possess sufficient allowances to cover its annual emissions must purchase additional allowances or it is automatically fined and must surrender future year allowances to cover the shortfall. A thermal power plant holding surplus SO2 allowances in a given year may retain the allowances or sell them. SO2 allowances are fully marketable commodities and can be traded on the open market or in special EPA-sponsored auctions. *Id.* Idaho Power has an ownership interest in three thermal power plants in the west: Jim Bridger, North Valmy, and Boardman.

B. The Prior SO2 Cases

In Order No. 29852 issued in August 2005, the Commission granted Idaho Power blanket authority to sell its surplus SO2 allowances. The Commission also directed that Idaho Power file a report no later than 60 days after each sale. Finally, the Commission Staff was to conduct workshops to explore the appropriate ratemaking treatment of the SO2 proceeds and advise the Commission. Case No. IPC-E-05-20.

Although the workshop participants were initially unable to reach an agreement upon the appropriate ratemaking treatment, Idaho Power, Staff, the Industrial Customers of Idaho Power and Micron reached agreement upon an appropriate ratemaking treatment. The parties proposed that the revenues from the 2006 SO2 sales be included in the Company's 2006-2007 PCA mechanism, 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. Case No. IPC-E-05-26.

In April 2006, the Commission issued Order No. 30016 requesting public comment on the settlement proposal. In response to the Commission's Notice of Modified Procedure, comments were filed by the Commission Staff, NW Energy Coalition, the U.S. Department of Energy (DOE), the Idaho Energy Education Project, and six customers of Idaho Power. DOE supported the settlement but questioned the calculation of the credit. The NW Energy Coalition and the Idaho Energy Education Project also supported the proposed use of the sale proceeds in the PCA, but suggested the Commission consider other alternative uses for the proceeds. For example, the proceeds could be used for long-term conservation and efficiency programs, measures designed to reduce the Company's coal plant emissions, to acquire renewable

generating resources, or to implement energy education programs in schools. Order No. 30041 at 3.

After reviewing the comments, the Commission found that the PCA is the logical mechanism to track and distribute proceeds from the sale of 2006 SO2 allowances. *Id.* In approving the stipulation, the Commission found that

the PCA, which is designed to track and true-up abnormal power supply costs and revenues, is the logical mechanism to track and distribute proceeds from the sale of excess SO2 allowances. SO2 allowances are allocated to the Company based on the ownership and operation of its thermal/coal powered plants. Excess allowances are a direct result of many factors associated with the operation of the coal plants including installation of environmental equipment, the geographic location of the plant, the total time the plant is operated, the nature of the coal used to fuel the plant, as well as other factors. . . . Consequently, we approve and adopt the Stipulation as a reasonable and logical method to both pass on a major portion of the proceeds to customers as well as align shareholder and ratepayer interests in obtaining the best possible price for excess allowance sales.

Order No. 30041 at 4 (emphasis added). The Commission also found that the 90% of allowances allocated to customers should be grossed-up to recognize the tax savings that accrues when the credit is actually provided to customers through the PCA. *Id.* at 5.

THE MOTION FOR WORKSHOPS

Although Idaho Power believes that the proceeds from the 2007 sales of SO2 allowances could be included in the next PCA, the Company suggests that the Commission consider other opportunities “with the potential to provide greater long-term value to customers.” Report/Motion at 3. More specifically, Idaho Power suggests two alternatives to discuss with other workshop participants. First, is using the customer’s share of the proceeds (the 90%) to purchase multi-year streams of “Renewable Energy Certificates (‘green tags’) from the owners of renewable generation facilities” that have entered into PURPA contracts with Idaho Power. *Id.* at ¶ 8. “If a federal renewable portfolio standard (“RPS”) is enacted, Idaho Power will be required to purchase green tags at prices expected to be higher than those existing today. . . . 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 through the PCA.” *Id.*

Second, Idaho Power would like to discuss the possibility of using the 90% share “to buy down a portion of the rate base associated with the purchase of wind project development rights.” *Id.* at ¶ 9. Under such an approach, Idaho Power would enter into negotiations or issue a request for proposal (RFP) to purchase a permitted wind project. The Company maintains that by owning a wind project rather than purchasing equivalent energy elsewhere, customers would have additional access to renewable energy at competitive prices and retain the value of the green tags associated with such wind projects.

“If the Commission agrees” that Idaho Power should investigate other potential uses of the customers’ share of the SO2 proceeds, then the Company requests that the Commission schedule a workshop to allow interested parties to consider possible alternatives to benefit customers. Idaho Power states that it would then report the results of such workshops to the Commission for its approval. *Id.* at 4.

DISCUSSION

We grant Idaho Power’s Motion to Schedule a Workshop. Without addressing the merits of any particular use of the revenue from the sale of excess SO2 allowances, we find that it is reasonable to convene a public workshop so that interested persons may discuss appropriate alternatives regarding the SO2 proceeds. Persons interested in the ratemaking disposition of the sale of 2007 SO2 allowances are encouraged to attend.

NOTICE OF WORKSHOP

YOU ARE HEREBY NOTIFIED that a workshop will convene on **TUESDAY, JANUARY 15, 2008 AT 9:30 A.M. AT THE COMMISSION’S HEARING ROOM, 472 WEST WASHINGTON STREET, BOISE, IDAHO (208) 334-0300.** The purpose of the workshop is to discuss and investigate the appropriate disposition of revenues from the 2007 sale of SO2 allowances.

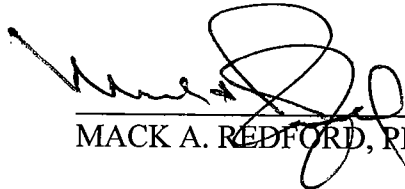
YOU ARE FURTHER NOTIFIED that all hearings and workshops in this matter will be held in facilities meeting the accessibility requirements of the Americans with Disabilities Act (ADA). Persons needing the help of a sign language interpreter or other assistance in order to participate in or to understand the discussion at the public workshop may ask the Commission to provide a sign language interpreter or other assistance at the hearing. The request for assistance must be received at least five (5) working days before the hearing by contacting the Commission Secretary at:

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PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0338 (Telephone)
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ORDER

IT IS HEREBY ORDERED that Idaho Power's Motion is granted. Persons interested in the disposition of the customers' share of the revenue from the sale of the 2007 SO2 allowances are encouraged to participate in the workshop scheduled above.


DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 20th day of December 2007.



MACK A. REDFORD, PRESIDENT

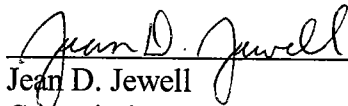


MARSHA H. SMITH, COMMISSIONER



JIM KEMPTON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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