

**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 ) ORDER NO. 30529**  
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On November 9, 2007, Idaho Power Company filed a report disclosing that the Company sold 35,000 sulfur dioxide (SO<sub>2</sub>) emission allowances in calendar year 2007 for a total amount (less brokerage fees) of \$19,642,250. Report/Motion at 2. The after-tax amount of proceeds allocated to Idaho for SO<sub>2</sub> emissions is \$10,131,560. *Id.* at ¶ 5. Rather than utilizing the proceeds from the SO<sub>2</sub> sales to offset purchased power costs in this year's Power Cost Adjustment (PCA) case, Idaho Power recommended the Commission explore other possible uses for the SO<sub>2</sub> proceeds. The Company requested that the Commission convene a public workshop for the purpose of allowing interested persons to discuss other possible alternatives.

On December 20, 2007, the Commission issued Order No. 30478 granting the Company's request to convene a public workshop. The workshop was held on January 15, 2008. Because the participants at the workshop were unable to reach consensus regarding the disposition of the SO<sub>2</sub> proceeds, the Commission issued a Notice of Modified Procedure on February 4, 2008. The Commission specifically invited public comments on the four alternatives discussed at the workshop and on other possible uses of the SO<sub>2</sub> proceeds. The Commission also directed that comments should indicate whether a recommended alternative conforms to the 2007 Idaho Energy Plan.

**BACKGROUND**

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" SO<sub>2</sub> 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. Based upon this cap, EPA allocates a certain number of SO<sub>2</sub> emission allowances to thermal power plant owners. Each allowance provides the authority to emit one ton of SO<sub>2</sub>. *See* Order No. 29852 at 1.

Each year a thermal power plant owner must hold sufficient allowances to cover its 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 power plant owner 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.

### **THE WORKSHOP AND THE FOUR ALTERNATIVES**

The public workshop to discuss the SO2 proceeds was held January 15, 2008. The following parties attended the workshop and with two exceptions submitted comments: Idaho Power, the U.S. Department of Energy (did not comment), the Idaho Energy Education Project, Ridgeline Energy, the Snake River Alliance, Windland, Avista Utilities, the Idaho Conservation League, the Commission Staff, Micron, Dean J. Miller (did not comment), and the Industrial Customers of Idaho Power (ICIP). The participants generally discussed four possible uses for the SO2 proceeds. The four alternatives are discussed below.

1. Offset the PCA. First, as was the case last year, SO2 proceeds could be included in the annual PCA case this year. If included in the PCA, the amount of the SO2 revenue would be grossed up to approximately \$16.6 million. This amount would offset the PCA deferral account and mitigate any pending increase in the PCA rates this summer. Staff disclosed at the workshop that the current PCA deferral balance was (then) about \$90 million. Staff, Micron and ICIP favored this alternative.

2. Green Tags. Idaho Power suggested that SO2 proceeds could be used 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. Order No. 30478 at 3 *citing* Idaho Power’s Report/Motion at ¶ 8. Idaho Power suggested that if Congress enacts a renewable portfolio standard (RPS)<sup>1</sup> for electric utilities, Idaho Power will be required to purchase green tags at prices expected to be higher than those existing today. *Id.*

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<sup>1</sup> A RPS typically requires that an electric utility obtain a certain percentage of its generation from renewable resources (such as wind, solar, biomass, etc.) by a certain year. For example, Oregon’s RPS generally requires large Oregon utilities to obtain 25% of their generation from renewable resources by 2025.

3. Wind Projects. Idaho Power next suggested that the SO<sub>2</sub> proceeds could be used to purchase a wind project's development rights. Under this approach, Idaho Power would enter into negotiations or issue a request for proposal (RFP) to purchase a permitted wind generation project. In essence, the Company would be purchasing the wind project with capital contributed by customers. This would result in a reduction in the Company's rate base. *See* Order No. 30478 at 4. The wind developers supported the third option and Idaho Power supported either the second or the third option.

4. Education. The Idaho Energy Education Project (IEEP) suggested that approximately \$500,000 could be used to develop and implement classroom education programs about energy efficiency and conservation. The remaining balance of the proceeds could be directed to energy efficiency operations or other beneficial uses.

### THE COMMENTS

Because the participants at the workshop were unable to reach consensus regarding the disposition of the SO<sub>2</sub> proceeds, the Commission issued a Notice of Modified Procedure seeking public comment in this matter. Order No. 30495. The Commission received timely comments from most of the workshop participants, Renewable Northwest Project, and 14 individual customers.

#### *A. Include Proceeds in PCA*

Micron, ICIP, Staff, and Avista all recommended using the \$16,635,022<sup>2</sup> in grossed-up SO<sub>2</sub> proceeds to mitigate the PCA deferral account.

1. Micron. In its comments, Micron recommended that the funds be used to offset the projected PCA rate increase. It argued that using the proceeds to purchase green tags or wind development rights was too speculative. Micron Comments at 1-2. Micron noted that current law does not require the purchase of green tags and there is no guarantee that prices for green tags will be higher than current prices. *Id.* at 1. It also expressed concern that buying wind development rights could "turn out to be a 'dry hole' that is never built because of economic or legal constraints. For its part, Micron does not wish to be forced into the wind development business and it respectfully suggests many other Idaho Power ratepayers would agree." *Id.* at 2.

2. ICIP. ICIP stated that the PCA deferral balance was in excess of \$111 million as of the date of its comments. If this deferral balance were maintained it would roughly equate a

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<sup>2</sup> This amount included interest up to March 31, 2008. Additional interest will accrue.

15% increase in the PCA rate. This projected increase, coupled with the recent base rate increase effective March 1, supports using the SO<sub>2</sub> proceeds in this year's PCA case. Ameliorating these "back-to-back rate cases will serve the public interest to a much greater extent than Idaho Power's proposed speculative ventures [with green tags or wind development projects]." ICIP Comments at 2. ICIP also argued that because Idaho Power does not currently operate under a mandated green-tag portfolio, the "pre-purchase of green tags by the Company would be nothing more than pure speculation in a market that is yet to mature." *Id.*

ICIP and Micron also took exception to using SO<sub>2</sub> proceeds for energy efficient education efforts. In particular, ICIP stated that Idaho Power has an active energy conservation education program in place funded with ratepayer dollars. "There has been no assertion . . . that these efforts are currently underfunded or not effective." ICIP at 3.

3. Staff. For its part, Staff also recommended that the SO<sub>2</sub> proceeds be used to mitigate the potential increase in PCA rates this year. The Staff indicated that if current trends continue, the PCA deferral balance may be the third-highest ever, "surpassed only in 2000 and 2001 when the extreme run-up in regional electric prices occurred. The extremely high PCA balance is due to a below average water year in 2007 and an inaccurate forecast of power supply costs last spring." Staff Comments at 3.

Staff suggested the Commission not use this year's SO<sub>2</sub> proceeds for the purchase of green tags or wind project development rights. Although Staff found some merit in the purchase of future wind project rights, Staff did not support using 2007 SO<sub>2</sub> sale proceeds for this purpose. "Early acquisition of renewable sites or development rights to projects is something that Idaho Power should be doing anyway, without needing incentive to do so from funds available as a result of SO<sub>2</sub> allowance sales. In addition, Staff believes that Idaho Power ownership of renewable projects could possibly result in lower project costs than simply acquiring project output through power purchase agreements. . . ." Staff Comments at 5.

Staff asserted that returning the SO<sub>2</sub> allowance proceeds to customers in this year's PCA is consistent with the State Energy Plan. In particular, the PCA mechanism includes a shareholder incentive to generate surplus credits. *Id.* at 6. Although Staff did not object to maintaining the historic 90/10 sharing of SO<sub>2</sub> allowances, "Staff believes that the 90/10 split should be re-examined if the proceeds are used for other purposes or credit proceeds are derived from other sources." Staff continued by noting:

There is a strong possibility that CO<sub>2</sub> will be a regulated greenhouse gas in the future, with a cap and trade system similar to SO<sub>2</sub>. From time to time, Idaho Power may have surplus CO<sub>2</sub> allowances that, if sold, could potentially dwarf the amounts being received from the sale of surplus SO<sub>2</sub> allowances. Consequently, disposition of funds from the sale allowances could become an even bigger issue in the future. To the extent intermittent proceeds are used for purposes other than to offset PCA deferral balances or proceeds become a significant annual revenue stream, then Staff believes the Commission should consider establishing a methodology to maximize sales proceeds and include the revenue in base rates without PCA sharing.

*Id.* at 7.

4. Avista. Avista also supported passing the SO<sub>2</sub> credits through the PCA mechanism. Avista asserted that it was important to develop a consistent policy for handling the costs or credits associated with “trade emissions-related credits, such as SO<sub>2</sub>, greenhouse gas (GHG) credits, and renewable energy credits (RECs) to meet [our] legal obligations.” Avista Comments at 1. Avista noted that emission sales are relatively unique and unpredictable; consequently, energy credits or RECs should be passed through the PCA. The 10% sharing mechanism does encourage utilities to be diligent in the pursuit of voluntary emission credits. This is the reason why Avista has joined the Chicago Climate Exchange (CCX). If long-term sales or purchases of emission credits “are known and measurable, they could be proformed into base rates.” *Id.* at 2.

### ***B. Energy Education***

The Idaho Energy Education Project (IEEP) maintained that a portion of the SO<sub>2</sub> money should be devoted to energy education. In particular, IEEP proposed that \$250,000 be used for energy education (conservation and efficiency) and \$250,000 be made available as grants to schools for students involved in efficiency, conservation, and renewable education projects. IEEP recommended that the balance of the SO<sub>2</sub> proceeds be used to buy wind generation projects.

If the Commission determines that the proceeds should be used to mitigate the cost of the PCA account or green tags, then IEEP still recommended that \$500,000 be used for energy education and \$500,000 be dedicated for energy-efficiency/renewable/education project for residential, small business, and agricultural customers. Except for low-income customers, the project grants should be based upon a 75/25 cost sharing, where 25% of a project’s cost would be contributed by the applicant.

Other commenters also supported IEEP's education recommendation and blended it with other recommendations. These "blended" recommendations are discussed in Section D below.

### ***C. Wind Development Rights***

1. Ridgeline Energy. Ridgeline urged the Commission to use the SO<sub>2</sub> proceeds to purchase a wind project's development rights. Given the ever-rising cost of labor and materials, Ridgeline characterized the investment in wind as "investing in clean renewable energy as a hedge against rising gas prices and the uncertain expense associated with likely federal carbon reduction programs." Ridgeline Comments at 1. Use of the SO<sub>2</sub> proceeds will also develop Idaho renewable resources, create jobs, and promote rural economic development. Ridgeline insisted that many ideal Idaho wind sites have already been committed to out-of-state utilities and these sites have the highest capacity factor with the lowest construction costs. *Id.* at 2.

Ridgeline also evaluated the green-tag and PCA alternatives. Absent the purchase of wind development rights and the accompanying green tags, Ridgeline argued that investment in green tags probably will be spent out of state. In addition, it insisted that investment in green tags is a potentially speculative use of the SO<sub>2</sub> proceeds. Regarding the PCA alternative, Ridgeline said that using the proceeds to mitigate the PCA "will benefit only a few large industrial customers. The bulk of IPCo's customers, residences and small business are unlikely to receive significant benefit." *Id.* at ¶ 6.

2. ICL. The Idaho Conservation League supported using SO<sub>2</sub> proceeds to buy a wind project's development rights. ICL advanced several reasons for supporting this option. First, acquiring wind resources promotes a policy of reducing hazardous emissions and supporting renewable energy resources. ICL Comments at 1-2. Second, this option is compatible with Idaho Power's Integrated Resource Plan (IRP). The 2006 IRP indicates that Idaho Power plans to add 250 MW of wind energy by 2025. Third, given the ever-increasing costs of generating electricity, ICL asserted that it is appropriate to promote sources of energy with "stable cost projections and long-term economic benefits for customers." *Id.* at 2. Besides the lack of fuel costs, purchasing wind development rights can reduce Idaho Power's initial costs associated with expected federal carbon regulations.

Fourth, by using SO<sub>2</sub> credits for wind development rights, Idaho Power would also own the "green tags" that are associated with such facilities. In essence, investing in wind

facilities will allow Idaho Power to receive the benefits of renewable generation and the green tags such facilities provide. Finally, investing in renewable energy generation will mitigate increases by providing contributed capital. *Id.*

3. Windland. Windland sees win-win benefits by utilizing SO2 emission revenues to purchase wind generation facilities. More specifically, ratepayers could gain access to carbon-risk-free, fuel-free energy at a 20-year levelized cost of less than \$60/MWh. Windland Comments at 1. The wind developer indicated that utilizing SO2 proceeds now will ensure that Idaho Power has sufficient capital to acquire the best wind sites before they are acquired by other parties. Given the general interest emanating from out-of-state interests, the Commission would be wise to allow Idaho Power to use the proceeds now to acquire wind rights. Acquiring such rights is also in compliance with the 2007 State Energy Plan. In particular, the Plan calls for a diverse mix of generating resources and places the highest priority on “local renewable resources.” *Id. citing* Energy Plan at 48.

Acquiring wind-generating resources within Idaho promotes fuel diversity, job creation, and rural economic development. More to the point, Windland stated that “Action Item” E-15 of the State Energy Plan urges the Commission to establish appropriate shareholder incentives which, in this case, would be provided by the use of SO2 proceeds. *Id. citing* Energy Plan at 55. Finally, Windland noted that 89% of the respondents in Boise State’s 2007 Energy Policy Survey agree that Idaho should provide incentives to promote renewable electricity generation. Windland concluded that using SO2 proceeds to procure wind farm development rights is the appropriate path to take. *Id.*

#### ***D. Blended Alternatives***

1. Snake River Alliance. The Alliance congratulated Idaho Power for its creative approach in developing alternative uses for the SO2 credits. While the Alliance recognized that using the proceeds for the PCA “is laudable, the Alliance believes there are opportunities to better use the funds at issue. . . .” SRA Comments at 1. More specifically, the Alliance supported the \$500,000 energy education alternative suggested by the Idaho Energy Education Project (IEEP). The Alliance recommended that the remaining balance of the proceeds be used “in a blend of both renewable energy projects and conservation and efficiency programs.” *Id.* at 2. While the Alliance does not oppose acquiring wind development rights, it cautioned that such an investment should return benefits to ratepayers within a reasonable timeframe. The Alliance

would not necessarily limit the proceeds to wind renewable facilities. It declared that other renewable resources (e.g., geothermal) offer attractive benefits. Turning to the green-tag alternative, the Alliance does not oppose this alternative provided the proceeds are used for renewable projects. *Id.*

In conjunction with the education alternative, the Alliance encouraged the Commission to consider an enhancement of energy-efficiency and conservation programs through the existing DSM structure. The Alliance claimed, “An investment in new programs [as opposed to existing DSM programs] is both appropriate and would help extend the value of the funds.” Other DSM programs might include “smart grid” or other non-wired initiatives, which promote efficiency and conservation. *Id.* Because the SO<sub>2</sub> funds are the result of reduced environmental impact associated with existing thermal plants, “the fund should be used in ways that improve the Company’s clean-energy portfolio – whether by investing in renewable energy, conservation and efficiency programs, or a combination of the two.” SRA concluded that such a use of the fund would certainly comport with the 2007 Idaho Energy Plan.

2. Public Comments. The Commission also received 14 comments from members of the public. Five comments supported IEEP’s proposals, while other commenters supported the blending of educational programs and other forms of renewable generation. Two customers supported the educational programs and proposed using the balance of the SO<sub>2</sub> proceeds for solar PV projects. One customer suggested that the Commission allocate 85% of the proceeds among customers, 7% to shareholders, and 8% to green tags. Another customer recommended an allocation of 45% wind, 45% education, and 10% to develop efficiency measures for Idaho Power’s headquarters building in Boise.

Finally, one customer recommended that the Commission utilize the proceeds to install demand response/smart metering. “Demand response can be the answer to the intermittency of renewable resource power generation, allowing a larger integration of this type of energy.”

## **DISCUSSION AND FINDINGS**

At the outset, we commend Idaho Power, the other participants and the commenters in this case for their thoughtful suggestions and recommendations regarding the disposition of the SO<sub>2</sub> sale proceeds. We too believe that it is beneficial to “think outside the box” and consider non-traditional uses of one-time revenues.

Having carefully reviewed the comments in this case, we find that the most appropriate use of this year's SO2 proceeds is to offset the potential increase in the power cost adjustment (PCA) rates this year. As the ICIP and Staff noted in their comments, this year's PCA deferral balance may be the third highest since the Commission established the PCA mechanism in 1993. ICIP observed that the PCA deferral balance is currently in excess of \$111 million. If current trends continue, this may result in a double-digit PCA rate increase this year. Consequently, we find that the most appropriate use (with the possible exception noted below) is to use the SO2 proceeds to offset the PCA deferral balance.

Although we find that the majority of the SO2 proceeds should be used to offset the PCA, we are intrigued by the Idaho Energy Education Project's (IEEP) proposal to utilize \$500,000 for energy education and associated project grants. Under IEEP's proposal, \$250,000 would be dedicated to classroom conservation and efficiency education and the remaining half would be used for grants for renewable and efficiency projects in those participating schools. The grants would be for schools served by Idaho Power and these participating schools should publicly track energy savings. We find that classroom "instruction on energy conservation and efficiency" may be in the public interest. Although IEEP has provided the basic structure of its proposal, it has not provided sufficient detail for us to fully evaluate its merits. Consequently, we reserve judgment on \$500,000 of the SO2 proceeds until IEEP provides us with additional information regarding its proposal. In particular, IEEP should provide us with a course/classroom syllabus and additional detail regarding any arrangements with school districts or state agencies.

We have determined that the best use of this year's SO2 proceeds is to offset the PCA deferral balance. However, we also recognize there may be merit in the wind power alternative in the future. Using SO2 proceeds to purchase a wind project would be equivalent to using customers' contributed capital to "buy down" the cost of a generating asset. We encourage Idaho Power to continue investigating the acquisition of wind resources and wind generating opportunities through interconnection agreements with Bonneville Power Administration or other Northwest utilities. Indeed, the Company's 2006 Integrated Resource Plan envisions adding 250 MW of wind to its generation.

## ORDER

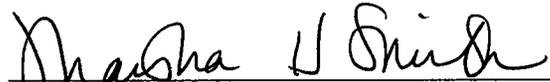
IT IS HEREBY ORDERED that the \$16,635,022 in grossed-up proceeds from the sale of Idaho Power's SO<sub>2</sub> allowances (with the possible exception of \$500,000 as noted below) be used to offset this year's PCA deferral balance. The \$16.63 million shall continue to accrue interest.

IT IS FURTHER ORDERED that the Commission reserves judgment on the appropriateness of using \$500,000 of the SO<sub>2</sub> proceeds for IEEP's energy education program. IEEP is directed to provide the Commission with additional information regarding its educational proposal such as a syllabus, curriculum, and any arrangements it has with school districts or state agencies. IEEP shall file this additional material within 14 days of the date of this Order. At that time, the Commission will consider whether to authorize SO<sub>2</sub> proceeds to be used to fund IEEP's energy education program.

THIS IS A FINAL ORDER EXCEPT FOR THE RESERVED ISSUE. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any final matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

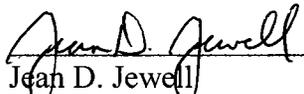
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 14<sup>th</sup>  
day of April 2008.

  
MACK A. REDFORD, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
JIM D. KEMPTON, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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