

# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPROPRIATE	)	
DISPOSITION OF PROCEEDS FROM THE	)	CASE NO. IPC-E-11-17
SALE OF IDAHO POWER COMPANY'S SO <sub>2</sub>	)	
EMISSION ALLOWANCES IN CALENDAR	)	
YEAR 2011	)	ORDER NO. 32434
	)	

On September 19, 2011, Idaho Power Company filed its report ("Report") on the Company's sale of sulfur dioxide (SO<sub>2</sub>) emission allowances in 2011. The Company says it expects to receive \$21,756 in net proceeds from the sale (after deducting brokerage fees of \$1,554), and that it will account for the proceeds using the interim accounting method that the Commission approved in Order 29852.

On October 26, 2011, the Commission issued a Notice of Report/Notice of Modified Procedure setting a November 16, 2011 comment deadline. *See* Order No. 32385. The Commission's Staff submitted the only comments in the case.

## BACKGROUND

### A. The SO<sub>2</sub> Program

Title IV of the Clean Air Act Amendments of 1990 establishes a national plan to reduce acid rain. 42 U.S.C. §§ 7651, *et seq.* The plan's centerpiece is the incentive- or market-based "cap and trade" SO<sub>2</sub> emission program. Under this program, the Environmental Protection Agency (EPA) caps the total amount of SO<sub>2</sub> emissions allowed nationwide. The EPA then allocates SO<sub>2</sub> emission allowances to thermal power plant owners based on the cap. Each allowance authorizes a plant owner to emit one ton of SO<sub>2</sub>. Order No. 29852 at 1.

Each year a plant owner must hold sufficient allowances to cover actual SO<sub>2</sub> emissions. If a plant owner has insufficient allowances to cover its annual emissions, it must buy additional allowances or be fined and forced to surrender future year allowances to cover the shortfall. A plant owner with surplus SO<sub>2</sub> allowances in a given year either may save or sell them. SO<sub>2</sub> emission allowances are fully marketable commodities and can be traded on the open market or in special EPA-sponsored auctions. Idaho Power has an ownership interest in three thermal power plants in the western United States that receive SO<sub>2</sub> allowances from EPA. *Id.*

### ***B. Prior Commission Orders***

The Commission has previously issued Orders related to the sale of Idaho Power's surplus SO2 emission allowances. These include, without limitation, the following Orders.

In 2005, the Commission authorized Idaho Power to sell the Company's surplus SO2 emission allowances. *See* Order No. 29852. The Commission required Idaho Power to report the SO2 sale proceeds within 60 days of receipt. *Id.*

In 2006, the Commission ordered the Company to include SO2 allowance sales proceeds in the Company's annual Power Cost Adjustment ("PCA") as an offset to reduce the level of PCA rates. *See* Order No. 30041. The Commission decided that, like the then-approved PCA sharing arrangement, "90% of the net proceeds [were] to be passed onto customers, and 10% [were] . . . to be retained as a shareholder benefit." *Id.*

In 2009, the Commission modified Idaho Power's PCA mechanism by changing the customer/shareholder power purchase cost-benefit allocation to 95%/5%. *See* Order No. 30715. In 2011, the Commission applied this change to allocating net proceeds from the Company's sale of SO2 emissions allowances during the 2010 calendar year. Thus, 95% of Idaho's jurisdictional share of the net sale proceeds, including tax effects, was allocated to customers, and the remaining 5% was allocated to shareholders. *See* Order No. 32162.

### **THE REPORT**

The Company reported that it sold or contracted to sell 6,216 surplus SO2 emission allowances in 2011. The Company expects to receive \$21,756 in net proceeds from the sale (after deducting brokerage fees of \$1,554). Report at 2. The Company will account for the proceeds using the same interim accounting method that the Commission approved in Order No. 29852. *Id.* at 3.

The Company said the Commission previously authorized it to record proceeds *net* of income taxes and transaction fees from future SO2 allowances sales in the PCA for purposes of calculating interest. However, for tax reasons the Company believes it is more appropriate to record the *gross* benefits (less transaction costs) of the sale of excess SO2 allowances. The Company said that if SO2 allowance sales exist and the PCA's sharing mechanisms are triggered, customers will benefit by earning interest on the gross amount of the income from sales. *Id.* at 2-3.

The Company said it will file a subsequent report that includes contracts for the sale of surplus SO2 emission allowances entered into after the instant report was filed. *Id.* at 3.

#### **STAFF COMMENTS AND RECOMMENDATIONS**

Staff commented that, in Order No. 29852, the Commission authorized Idaho Power to sell the Company's surplus SO2 emission allowances and required the Company to report the SO2 sale proceeds within 60 days of receipt. Staff Comments at 2. In 2006, the Commission directed the Company to include SO2 allowance sales proceeds in the Company's annual PCA as an offset to reduce the level of PCA rates, subject to the sharing mechanism already in place for the PCA. *Id.* (citing Order No. 30041).

Staff reviewed the present Report and verified that the Company had accurately booked the SO2 sales transactions. *See* Staff Comments at 2. Staff agreed with the Company that if SO2 allowance sales exist and the PCA's sharing mechanisms are triggered, customers will benefit by earning interest on the gross amount of the income from the SO2 allowances instead of the net amount. Staff also agreed with the Company that tax and interest impacts are appropriately established within the PCA calculation, and Staff recommended that the Company continue to book SO2 revenues as booked in 2011. *Id.* at 2-3.

Staff said the market for SO2 allowances, the number of allowances sold, and revenues from the sale of allowances have declined. *Id.* Staff said the Company had only one SO2 allowance sale this year, and that the Company sold less than one-third of its available allowances. *Id.* at 3.

Staff said that the SO2 reporting process is now fairly routine. Staff also noted that the Commission has never specifically required the Company to file an SO2 report as a docket apart from the monthly PCA filing. Staff said it believes a separate SO2 reporting case is unnecessary and recommended that, going forward, Idaho Power should submit any such report concurrent with its monthly PCA filing. *Id.*

Staff commented that \$500,000 in funds reserved for an Idaho Energy Education Program in 2008 continue to be utilized. *See* Case No. IPC-E-08-11. As of August 31, 2011, funds of just under \$100,000 continue to be available. Staff said the remaining balance will be used to purchase additional Energy Wise classroom kits for the 2011-2012 school year, and two additional SEE-related kits for iSTEM lending libraries in Meridian and Twin Falls.

In sum, Staff recommended that the customers' share of SO2 proceeds be passed through the PCA in its entirety for the current year. Staff said this will modestly decrease net power costs subject to recovery through the PCA. Staff further recommended that the Company submit subsequent reports on the proceeds from excess SO2 allowances concurrent with the monthly PCA report that conforms to the 60-day notification window.

### **FINDINGS AND DISCUSSION**

After reviewing our prior Orders and the comments in this case, we find that the appropriate disposition of the CY 2011 SO2 proceeds is to pass the customers' share of the Idaho jurisdictional allocation of those proceeds, plus any applicable interest, through the PCA to offset the Company's deferred PCA balance. Applying the SO2 proceeds in the PCA mechanism appropriately benefits all Idaho Power customers.

In addition, we believe the SO2 reporting process has become fairly routine, and that reports need not be filed as a separate case outside the monthly PCA filing. We find it reasonable for the Company to submit any future SO2 reports concurrent with its monthly PCA filings.

### **ORDER**


IT IS HEREBY ORDERED that the Company shall pass the customers' share of the Idaho jurisdictional allocation of the CY 2011 SO2 proceeds, plus any applicable interest, through the PCA to offset the Company's PCA deferral balance this year.

IT IS FURTHER ORDERED that the Company shall submit subsequent reports on the proceeds from excess SO2 allowances concurrent with the monthly PCA report that conforms to the 60-day notification window.

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

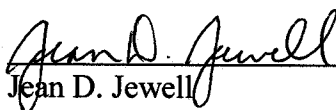
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12<sup>th</sup>  
day of January 2012.

  
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PAUL KJELLANDER, PRESIDENT

  
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MACK A. REDFORD, COMMISSIONER

  
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MARSHA H. SMITH, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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