

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPROPRIATE</b>	)	
<b>DISPOSITION OF IDAHO POWER</b>	)	<b>CASE NOS. IPC-E-08-14</b>
<b>COMPANY'S SULFUR DIOXIDE EMISSION</b>	)	<b>IPC-E-09-08</b>
<b>ALLOWANCES FOR 2008 AND 2009</b>	)	
	)	<b>ORDER NO. 30790</b>

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On March 18, 2009, Idaho Power Company filed a report disclosing that the Company recently recorded the sale of surplus sulfur dioxide (SO2) emission allowances. The Company reported that it either sold or entered into contracts for the sale of 16,500 SO2 allowances. After deducting its brokerage fees of \$4,125, Idaho Power anticipates booking SO2 proceeds of \$2,341,375. The Company's report also notes that during calendar year 2008, it sold 10,000 SO2 allowances. After deducting brokerage fees, the Company reported net SO2 revenues in 2008 of \$2,958,500. *See* Case No. IPC-E-08-14 (report filed July 24, 2008).

On March 27, 2009, the Commission issued a Notice of Modified Procedure requesting written comments on the appropriate disposition and ratemaking treatment of the reported SO2 revenues. Order No. 30761. The Commission received four comments in response to its Notice. After reviewing the report and the comments, the Commission finds that these SO2 revenues should be included in the Company's annual Power Cost Adjustment (PCA) case.

**BACKGROUND**

Title IV of the Clean Air Act Amendments of 1990 establishes 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 U.S. 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, or credit, provides authority to emit one ton of SO2. Idaho Power has an ownership interest in three thermal power plants in the west: Jim Bridger, North Valmy, and Boardman.

A thermal power plant owner must hold sufficient allowances each year 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 SO<sub>2</sub> allowances in a given year may retain the allowances or sell them. SO<sub>2</sub> allowances are fully marketable commodities and can be traded on the open market or in special EPA-sponsored auctions. *Id.*

Idaho Power's report merely notes that the Company has accrued SO<sub>2</sub> credits but does not recommend a particular disposition or ratemaking treatment for the funds. Staff recommended that the Commission initiate a docket to determine the appropriate disposition of the 2008 and 2009 (thus far) SO<sub>2</sub> credits. In past cases, SO<sub>2</sub> proceeds have been included in the Company's annual Power Cost Adjustment (PCA) case. *See* Order Nos. 30041 and 30529. In Order No. 30760 issued March 27, 2009, the Commission authorized \$500,000 (with interest) in SO<sub>2</sub> proceeds to fund a two-year energy education program.

#### **ACCOUNTING ADJUSTMENTS**

In its report, Idaho Power proposes that the "same 90/10 percent sharing of benefits" be utilized to allocate the proceeds from the sale of SO<sub>2</sub> allowances booked during 2008 and in January 2009. Report at ¶ 7. The Company recognizes that subsequent SO<sub>2</sub> sales will be subject to the new 95/5 percent sharing methodology consistent with the parties' stipulation approved by the Commission in Order No. 30715 (Case No. IPC-E-08-19). In addition to the change in sharing methodology, Idaho Power also asserts that the jurisdictional allocations were adjusted in the Company's recent rate case Order No. 30722. In particular, Idaho's jurisdictional percentage increased from 94.70% to 94.79%. *Id.*

#### **THE COMMENTS**

1. Public Comments. The Commission received two customer comments in response to its Notice. One customer recommended that the Commission set aside at least \$500,000 per year from the sale of SO<sub>2</sub> credits to further energy education. In addition to energy education programs, the customer urged the Commission to consider allocating some of the SO<sub>2</sub> revenues for conservation and residential weatherization programs designed to assist low-income and senior homeowners. The other customer also suggested that a percentage of the SO<sub>2</sub> revenues be used for energy education.

2. Idaho Energy Education Project (IEEP). The IEEP suggested that some of the monies from the sales of SO<sub>2</sub> credits "be invested in energy education or some other form that

enhances energy efficiency and conservation.” More specifically, IEEP recommended the Commission consider using a percentage of SO2 proceeds equal to that amount in the energy education project in Case No. IPC-E-08-11. This amount would then be set aside in an account “similar to the telephone trust funds” to promote energy education following completion of the two-year pilot program in the 08-11 case.

3. Commission Staff. The Staff stated it verified that the SO2 sales transactions were booked accurately. Staff also calculated that the SO2 proceeds have accrued interest through March 31, 2009, in the amount of \$47,578 (\$43,983 for 2008 sales and \$3,595 for 2009 sales). Staff Comments at 2. Interest would continue to accrue until the funds are dispersed. *Id.*

Staff recommended that the proceeds from the sale of SO2 allowances be used to offset costs in Idaho Power’s Power Cost Adjustment (PCA) case this year. Staff noted that the PCA costs through the end of March 2009 were estimated to be nearly \$200 million. *Id.* at 3. Staff further noted that “Passing the customers’ share of funds through the PCA will reduce the current PCA cost subject to recovery and [also] mitigate the impact of what will likely be a very large [PCA] surcharge for 2009.” *Id.* Given the Commission’s recent Order No. 30760 allocating \$500,000 of SO2 proceeds to fund the energy education program, Staff believed that the current SO2 proceeds should be fully applied to the PCA rather than reserving a portion for energy education programs. Consequently, Staff recommended that the SO2 proceeds of \$5,347,453 (\$5,299,875 plus interest of \$47,578 as of March 31, 2009) be included in this year’s PCA. *Id.* at 4.

### **DISCUSSION AND FINDINGS**

After reviewing the SO2 report and the comments filed in response to our Notice, the Commission finds it appropriate to use the SO2 emission allowance proceeds to offset this year’s PCA balance. We decline the customers’ and IEEP’s suggestion that a portion of the SO2 proceeds be reserved for another energy education project. As the Staff observed, the Commission recently funded a two-year energy education proposal with more than \$500,000 in SO2 proceeds. The education proposal is set to begin at the start of the 2009 school year this September. We believe it is not appropriate to set aside additional SO2 proceeds for energy education until the two-year pilot project has been evaluated. Consequently, we decline to set aside a portion of the current SO2 proceeds before the pilot program has even started.

We agree with the Commission Staff that the best use of these SO2 proceeds and the accumulated interest is to offset the proposed increase in the PCA rates. The SO2 funds will provide an immediate benefit to all customers. Consequently, we direct that the proceeds of the SO2 sales on a system basis of \$5,347,453 (\$5,299,875 plus interest of \$47,578 as of March 31, 2009) be used to offset Idaho Power's PCA deferral balance. Interest shall continue to accumulate until the SO2 funds are dispersed.

**ORDER**

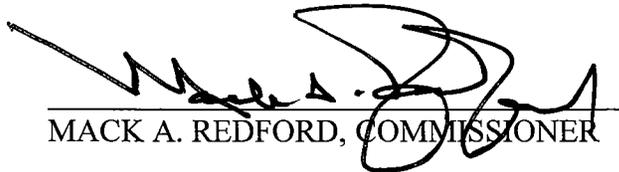
IT IS HEREBY ORDERED that the \$5,347,453 (\$5,299,875 plus accrued interest of \$47,578 as of March 31, 2009) be used to offset the Company's PCA deferral balance this year. The SO2 proceeds shall continue to accrue interest until dispersed.

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 these Case Nos. IPC-E-08-14 and IPC-E-09-08 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 these cases. 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 30<sup>th</sup>  
day of April 2009.

  
JIM D. KEMPTON, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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