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UTILITIES COMMISSION

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Attorney for the Commission Staff

## 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>COMMENTS OF THE</b>
	)	<b>COMMISSION STAFF</b>
	)	

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The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, submits the following comments in response to Order No. 30761 issued on March 27, 2009.

On March 18, 2009, Idaho Power Company filed a report disclosing that the Company recently recorded the sale of surplus sulfur dioxide (SO<sub>2</sub>) emission allowances. The Company reported that thus far in 2009, it has either sold or entered into contracts for the sale of 16,500 SO<sub>2</sub> allowances.<sup>1</sup> After deducting its brokerage fees of \$4,125, Idaho Power booked SO<sub>2</sub> proceeds of \$2,341,375. The Company's report also noted that during calendar year 2008, it sold 10,000 SO<sub>2</sub> allowances. After deducting brokerage fees, the Company reported net SO<sub>2</sub> revenues in 2008 of \$2,958,500. See Case No. IPC-E-08-14 (report filed July 24, 2008).

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<sup>1</sup> In January 2009 Idaho Power booked SO<sub>2</sub> net proceeds in the amount of \$1,781,875. In February 2009 the Company booked SO<sub>2</sub> net proceeds of \$559,500.

On March 27, 2009, the Commission issued Order No. 30761 initiating this proceeding. In its Order, the Commission requested written comments concerning the appropriate disposition and ratemaking treatment for the reported SO2 revenues. The Commission directed that written comments be filed no later than April 17, 2009.

### **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” 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 the authority to emit one ton of SO2. Idaho Power has an ownership interest in three thermal power plants: 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 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.*

### **STAFF REVIEW**

Staff verified that the SO2 sales transactions were booked accurately. The review included inspection of all contracts, sales terms for allowances sold, vintage of allowances, price per allowance, and brokerage fees. Interest is calculated monthly on the balance and will continue to accrue, increasing the total funds to be dispersed. Consistent with prior treatment, Staff recommends that the Commission direct the Company to continue to accrue interest on the SO2 proceeds until the funds are used. Interest through March 31, 2009 is \$47,578 (\$43,983 on 2008 sales and \$3,595 on 2009 sales).

#### **Include Proceeds in the PCA**

Staff believes that the proceeds from the sale of SO2 allowances should be used to satisfy the greatest need at this time, which in Staff’s opinion, is to offset the purchased power costs in

this year's Power Cost Adjustment (PCA) case (Case No. IPC-E-09-11). The PCA costs subject to recovery this year will be some of the highest on record, surpassed only in 2000 and 2001 during the western energy crisis. PCA costs to be included in rates were estimated at nearly \$200 million at the end of March 2009. The extremely high PCA costs are due to a below average water year in 2008 and an expected below average water year in 2009. The PCA surcharge that is currently in place is designed to recover approximately \$105 million. Therefore, if the current PCA cost estimate neither increases nor decreases an additional \$93 million more than is currently being collected must be collected through a higher PCA surcharge beginning June 1, 2009. The result could be a PCA surcharge that is nearly twice the current surcharge.

### **Two Accounting Adjustments**

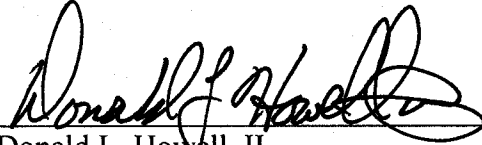
In its report, Idaho Power noted that there were two accounting adjustments applicable to the sale of SO<sub>2</sub> allowances in 2009. First, Idaho Power observed that the 90/10 percent PCA sharing mechanism was changed in Order No. 30715. Beginning in February 2009, revenues from SO<sub>2</sub> sales are subject to the new 95/5 percent sharing methodology. See Order No. 30715 (Case No. IPC-E-08-19). Second, Idaho Power asserted that its jurisdictional allocations were adjusted in the Company's 2008 rate case. In particular, Idaho's jurisdictional percentage increased from 94.70% to 94.79%. Order No. 30722. Both these adjustments became effective in February 2009. Consequently, the \$559,500 in net SO<sub>2</sub> proceeds booked in February 2009 are subject to these two adjustments. Staff has examined the Company's workpapers and verified that these Commission-approved adjustments were made.

### **STAFF RECOMMENDATION**

In summary, Staff recommends that the customers' share of SO<sub>2</sub> proceeds be passed through the PCA for the current year. Passing the customers' share of funds through the PCA will reduce the current PCA cost subject to recovery and mitigate the impact of what will likely be a very large surcharge for 2009. Given the Commission's recent Order allocating \$500,000 (plus accrued interest) of SO<sub>2</sub> proceeds to fund an energy education program, Staff believes that all available SO<sub>2</sub> revenues this year should be applied to offset PCA costs. Order No. 30760. Given the forecasted PCA balance, Staff believes that reducing the PCA balance represents the greatest need and is of the highest value for use of the SO<sub>2</sub> proceeds at this time. Thus, Staff

recommends 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 included in this year's PCA.

Respectfully submitted this 17<sup>th</sup> day of April 2009.



Donald L. Howell, II  
Deputy Attorney General

Staff: Terri Carlock

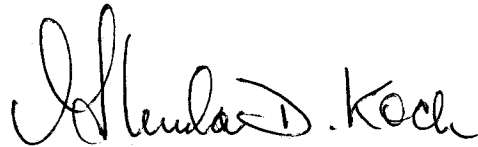
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 17TH DAY OF APRIL 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NOS. IPC-E-08-14 / IPC-E-09-08, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY