

DECISION MEMORANDUM

TO: COMMISSIONER KEMPTON
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL
DEPUTY ATTORNEY GENERAL

DATE: APRIL 21, 2009

SUBJECT: DISPOSITION OF IDAHO POWER'S SO₂ PROCEEDS, CASE NOS. IPC-E-08-14 AND IPC-E-09-08

On March 27, 2009, the Commission issued a Notice of Modified Procedure requesting public comments regarding the appropriate disposition and ratemaking treatment for Idaho Power's sulfur dioxide (SO₂) revenues from CY 2008 and 2009 (to the present). In response to the Commission's Notice, comments were submitted by the Commission Staff, the Idaho Energy Education Project (IEEP), and one customer from Shoshone. These comments are outlined in greater detail below.

BACKGROUND

A. SO₂ Proceeds

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 has 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 noted 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).

B. Proposed Accounting Adjustment

In its report, Idaho Power noted that it had made two accounting adjustments to SO₂ proceeds. First, Idaho Power observed that the 90/10 percent PCA sharing mechanism was changed in Order No. 30715. Beginning in February 2009, revenues from SO₂ sales are subject

to the new 95/5 percent sharing methodology. Second, Idaho Power's jurisdictional allocations were adjusted in the Company's 2008 rate case. More specifically, the Idaho jurisdictional percentage increased from 94.70% to 94.79% effective in February 2009. Order No. 30722. Consequently, the \$559,500 in net SO2 proceeds booked in February 2009 are subject to these two adjustments. Staff verified that these two Commission-approved adjustments were made.

THE COMMENTS

The Commission received three comments in response to its Notice. One customer recommended that the Commission set aside at least \$500,000 per year from the sale of SO2 credits to further energy education. In addition to energy education programs, the customer urged the Commission to consider allocating some of the SO2 revenues for conservation and residential weatherization programs designed to assist low-income and senior homeowners.

The IEEP suggested that some of the monies from the sales of SO2 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 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.

The Staff verified that the SO2 sales transactions were booked accurately. In addition, Staff 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.

Staff recommended that the proceeds from the sale of SO2 allowances should 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. "Passing the customers' share of funds through the PCA will reduce the current PCA costs subject to recovery and 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 applied to the PCA rather than reserved 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.

COMMISSION DECISION

Based upon the comments of the parties, what does the Commission find is the appropriate disposition of Idaho Power's 2008 and 2009 SO2 proceeds?



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