

FEB 12 1997

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

| | |
|--|----------------------|
| IN THE MATTER OF THE PETITION OF THE) | DOCKET NO. UE-961156 |
| WASHINGTON WATER POWER COMPANY) | COMMISSION DECISION |
| SEEKING BLANKET AUTHORIZATION TO) | AND |
| SELL AND LEASE SULFUR DIOXIDE) | ORDER GRANTING |
| EMISSION ALLOWANCES AND SEEKING) | AUTHORIZATION |
| AN ASSOCIATED ACCOUNTING ORDER) | |

NATURE OF PROCEEDING: This is a proceeding in which The Washington Water Power Company (WWP) requests blanket authorization under the Commission's property transfer statute, RCW 80.12.020, to sell excess sulfur dioxide (SO₂) emission allowances associated with the Centralia and Colstrip generating plants if and to the extent excess allowances are available to be sold. WWP also requests blanket authorization to lease SO₂ allowances associated with the Centralia and Colstrip generating plants irrespective of there being excess allowances. Finally, WWP requests an accounting order setting forth the proper regulatory reporting of the proceeds from the SO₂ allowance transactions for which regulatory authorization is being sought.

COMMISSION: The Commission authorizes WWP to sell excess SO₂ emission allowances and to lease SO₂ allowances. In addition, the Commission authorizes WWP to account for the proceeds associated with leasing SO₂ allowances as credits to Account 411.8 - Gains from Disposition of Allowances. The proceeds associated with selling excess SO₂ allowances are to be credited to Account 254 - Other Regulatory Liabilities and amortized to Account 407.04 - Regulatory Credits. The amortization period is to be the shorter of ten years or the remaining life of the respective generating plant to which the sold SO₂ allowances relate. Deferred taxes are to be accounted for in the normal process of analyzing the difference between the reporting of net income for book and tax purposes. Account 254 - Other Regulatory Liabilities and any associated deferred taxes are to be reflected in rate base for regulatory reporting.

MEMORANDUM

WWP requests blanket authorization under the Commission's property transfer statute, RCW 80.12.020, to sell excess SO₂ emission allowances and to lease allowances. That statute requires Commission approval for utility disposition of properties necessary or useful in performing the utility's duties to the public.

A. Emission Allowance Market

The SO₂ allowance market provides opportunity for WWP sell or lease allowances. Under a lease arrangement an equivalent number of SO₂ allowances would be returned by the lessee to WWP in the future by vintage year. The SO₂ allowances being returned to WWP would likely not be the same allowances that were originally issued to WWP.

The number of regularly issued SO₂ allowances for Phase II which begins in the year 2000 amount to 58,617 allowances and 10,900 allowances for the Centralia and Colstrip

generating plants, respectively. The SO₂ allowances may not be allowed to be fully utilized at the Centralia generating plant due to state implementation of the Clean Air Act. In order to meet state requirements, scrubbers may have to be installed. If scrubbers are installed at the Centralia generating plant, there will be excess SO₂ allowances available to be marketed. WWP requests advance authorization to sell SO₂ allowances related to the Centralia and Colstrip generating plants which are deemed to be excess. Although there are currently no projected excess SO₂ allowances for the Colstrip generating plant, WWP requests authorization to sell such allowances without delay, should any become excess. In addition to requesting authorization to sell excess SO₂ allowances, WWP requests authorization to lease allowances related to both the Centralia and Colstrip generating plants. Under a lease arrangement the SO₂ allowances would be returned to WWP by vintage year and any allowances which are deemed to be excess would be available to be marketed.

B. Accounting Petition

WWP requests that the proceeds associated with leasing SO₂ allowances be credited to Account 411.8 - Gains from Disposition of Allowances. The proceeds associated with selling excess SO₂ allowances are proposed to be credited to Account 254 - Other Regulatory Liabilities and amortized to Account 407.04 - Regulatory Credits. The amortization period is proposed to be the shorter of ten years or the remaining life of the respective generating plant to which the sold SO₂ allowances relate. Deferred taxes would be accounted for in the normal process of analyzing the difference between the reporting of net income for book and tax purposes. Account 254 - Other Regulatory Liabilities and any associated deferred taxes would be reflected in rate base for regulatory reporting.

C. Conclusion

The Commission grants the blanket authorization under the Commission's property transfer statute, RCW 80.12.020, to sell excess SO₂ emission allowances and to lease allowances and grants the accounting treatment set forth above.

FINDINGS OF FACT

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by law with the authority to regulate rates, rules, regulations, practices, accounts, securities and transfers of public service companies operating within the state, including electric operations.
2. WWP is engaged in the business of furnishing electric service within the state of Washington as a public service company.
3. WWP has SO₂ emission allowances which it may be able to sell or lease.

CONCLUSIONS OF LAW

1. WWP is a public service company and is subject to the jurisdiction of the Commission.
2. SO₂ emission allowances are property within the meaning of chapter 80.12 RCW and RCW 80.12.020.
3. It is consistent with the public interest to grant WWP the blanket authorization under the Commission's property transfer statute, RCW 80.12.020, to sell excess SO₂ emission allowances and to lease allowances.
4. It is consistent with the public interest for WWP to record the proceeds associated with leasing SO₂ allowances by crediting Account 411.8 - Gains from Disposition of Allowances and to record the proceeds associated with selling excess SO₂ allowances by crediting Account 254 - Other Regulatory Liabilities and amortizing the deferred credits to Account 407.04 - Regulatory Credits with inclusion in rate base of the unamortized gain and associated deferred income taxes. The amortization period is to be the shorter of ten years or the remaining life of the respective generating plant to which the sold SO₂ allowances relate.

ORDER
THE COMMISSION HEREBY ORDERS:

1. WWP's petition for blanket authorization under the Commission's property transfer statute, RCW 80.12.020, to sell excess SO₂ emission allowances and to lease allowances is granted.
2. WWP's petition for an accounting order is granted as set forth above.

DATED at Olympia, Washington, and effective this 12th day of February 1997.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



Sharon L. Nelson, Chairman



Richard Hemstad, Commissioner



William R. Gillis, Commissioner