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SERVICE DATE

APR 13 1994

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of	)	
	)	
PACIFICORP	)	DOCKET NO. UE-940466
	)	
Seeking Blanket Authorization for the Sale of Surplus Sulfur Dioxide Emission Allowances	)	COMMISSION DECISION AND ORDER GRANTING AUTHORIZATION
	)	
. . . . .	)	

NATURE OF PROCEEDING: Pacific[1] ("company" or "Pacific") requests a Commission order, effective March 1, 1993, granting blanket authorization under the Commission's property transfer statute, RCW 80.12.020, for sales of surplus sulfur dioxide (SO_2) emission allowances.

COMMISSION: The Commission will grant authorization for Pacific sales of surplus sulfur dioxide emission allowances, effective with the date of this Order. Pacific will file, on or before May 13, 1994, a petition seeking approval of accounting treatment for net proceeds from any allowance sales made under the blanket sale authorization. An accounting order will insure that Pacific's accounting for the sales is complete and appropriate. The Commission reserves the right in an appropriate proceeding to determine the effect of sales transactions for ratemaking purposes.

MEMORANDUM

Pacific petitions the Commission for an order granting it blanket authorization to sell surplus sulfur dioxide emission allowances. The company concedes that the sales are property transfers under RCW 80.12.020. 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

Pacific states that as a result of Title IV of the Federal Clean Air Act ("the Clean Air Act") Amendments of 1990 (42 USC §§ 7651-61f), an open, dynamic air emission allowance market has developed in the United States. The company asserts that buyers and sellers currently have available the Canter Fitzgerald Allowance Billboard which promotes fast, efficient purchases and sales of emission allowances.

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[1]PacifiCorp conducts business in the state of Washington under the name Pacific Power & Light, the name that appears on the company's Washington tariffs.

Sales and purchases can be finalized based upon bulletin board representations, i.e., sales are not conditional.

The Commission agrees that the allowance market is developing. The development of a viable market and the sale of surplus SO_2 emissions allowances by Pacific and similarly situated utilities can be consistent with the utility's best interests and with the public interest.

B. Surplus allowances

Pacific acknowledges that it will need some sulfur dioxide emission allowances by the year 2000 to assure compliance by its generating units with the Act's Phase II requirements, but represents that even so it now has and will continue to have a surplus of allowances. The company expects first to use its allocated allowances to support operation of its thermal system, including future additions to the system, then to retain a reasonable "cushion" of surplus allowances to accommodate potential changes in unit operation and to protect against unforeseen contingencies. Finally, it proposes to market the remaining allowances. Pacific asserts that it has sufficient surplus SO_2 allowances to support additional sales if the company is able to obtain a reasonable price for its allowances.

C. Accounting Petition

Pacific commits that it will file a petition for an accounting order no later than May 13, 1994. An accounting order will clarify and direct the proper accounting treatment for any sales conducted under this authorization.

D. Conclusion

The Commission grants the requested blanket authorization based on the developing market and based on the company's representations regarding its surplus allowance position. This grant of sale authority is not to be construed as support for any particular accounting or ratemaking treatment of net proceeds from SO_2 emission allowance sales. The appropriate ratemaking treatment will be addressed in Pacific general rate cases or other appropriate proceedings.

Petitioner requests sales authority retroactive to March 1, 1993. The Commission believes that granting that authority would be improper and perhaps beyond the Commission's authority. It will grant authority effective with the date of this order.

The Commission accepts Pacific's commitment to file a petition for proper accounting treatment by May 13, 1994, as a basis for this grant of authority. The Commission encourages Commission Staff and the company to undertake discussions on the issue in an effort to arrive at a consensus on the proper recording of revenues from sales of SO_2 emission allowances. The company shall retain all records relating to the sales at least until accounting and ratemaking treatment are determined.

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 companies.

2. Pacific is engaged in the business of furnishing electric service within the state of Washington as a public service company.

3. Title IV of the Federal Clean Air Act Amendments of 1990 (42 USC §§ 7651-61f) creates tradable pollution permits to control sulfur dioxide emissions. These permits, known as "SO_2 allowances," give a utility the right to emit one ton of sulfur dioxide. As such the utility acquires a property right in the SO_2 allowance. This right, the SO_2 allowance, may be transferred or sold to other entities in an open market. A market for the purchase and sale of allowances is developing.

4. Pacific now has surplus SO_2 allowances, and will have such allowances from time to time in the future, available for sale in the developing market.

CONCLUSIONS OF LAW

1. Pacific is a public service company and is subject to the jurisdiction of the Commission.

2. Sulfur dioxide emissions allowances under the federal Clean Air Act 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 Pacific the blanket authority to sell its SO_2 allowances without further prior approval by the Commission, provided the sales are recorded using an appropriate accounting treatment for proceeds of Pacific's sales of emissions allowances as determined by the Commission, and provided further that nothing in this order or the approval granted herein shall affect the Commission's right to determine in an appropriate proceeding the effect of any such transactions for ratemaking purposes.

4. Pacific should be ordered to submit a petition no later than May 13, 1994, asking the Commission to determine the appropriate accounting treatment for revenues from sales of SO_2 allowances.

ORDER

THE COMMISSION HEREBY ORDERS:

1. Pacific's petition for blanket authorization of sales of surplus sulfur dioxide emission allowances under RCW 80.12.020 is granted.

2. Pacific shall file no later than May 13, 1994, a petition seeking an accounting order from the Commission reflecting proper recording of net proceeds from sales of SO_2 emission allowances. Revenues from Pacific's SO_2 emissions allowance sales shall be accounted for pursuant to practices established by the Commission.

3. Approval of this petition and the determination of proper accounting practices shall in no way affect the authority of this Commission over the prudence, valuations, and estimates or determination of costs or revenues of SO_2 allowance sales transactions entered into by the Company. Nor does approval of this petition affect the authority of this Commission to determine the effect of allowance sales transactions on petitioner's rates and charges for service within the state.

4. The Commission retains jurisdiction to effectuate the provisions of the Order.

DATED at Olympia, Washington, and effective this 13th day of April 1994.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Sharon L. Nelson

SHARON L. NELSON, Chairman

Richard Hemstad

RICHARD HEMSTAD, Commissioner