E-002/M-94-13 ORDER ALLOWING REQUEST FOR DEFERRED ACCOUNTING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of the Petition of Northern States Power Company for Approval of Deferred Accounting Treatment of Emission Allowance Transactions under the Clean Air Act Amendments of 1990	ISSUE DATE: May 12, 1994 DOCKET NO. E-002/M-94-13 ORDER ALLOWING REQUEST FOR DEFERRED ACCOUNTING

PROCEDURAL HISTORY

On December 27, 1993, Northern States Power Company (NSP or the Company) requested authority to establish deferred accounting for gains from emissions allowance sales.

On February 7, 1994, the Department of Public Service (the Department) filed comments in support of the Company's request.

The matter came before the Commission for consideration on April 28, 1994.

FINDINGS AND CONCLUSIONS

I. The Clean Air Act Amendments of 1990

The Clean Air Act Amendments of 1990 represent the federal government's attempt to use a free market strategy to reduce sulfur dioxide (SO_2) emissions. The Act establishes emissions allowances for generating stations, with penalties for exceeding the allowances. Utilities can choose to sell unneeded allowances if they have reduced their own emissions through such means as pollution control equipment or fuel switching. The trade in allowances is intended to create an incentive for a gradual reduction in SO_2 emissions.

The Clean Air Act Amendments provide that approximately 2.8% of the total emissions allowances will be held in a special reserve. The reserve will be used by the Environmental Protection Agency (EPA) for direct sales and for promoting the market in allowance trading. In general, proceeds of the EPA's sales out of the reserve will be paid over to the utility to which the allowances were assigned.

II. NSP's Request for Deferred Accounting; the Department's Comments

At the first annual allowance auction, a portion of NSP's reserved allowance was sold. NSP's Minnesota jurisdiction received $76,326.40 from the sale proceeds.

NSP proposed deferring the gain from the allowance sale in the Company's Federal Energy Regulatory Commission (FERC) Account 254 until regulatory treatment is determined in the Company's next general rate case or another appropriate proceeding. NSP reasoned that deferral would be necessary for ratepayers to receive in a future test year the net revenues from the sale of the reserved allowance.

NSP also requested that deferred accounting be allowed for future gains from sales of allowances, as well as for incremental transaction costs.

NSP did not propose an amortization at this time.

The Department recommended approval of the Company's proposal. The Department believed that the proposed deferral is consistent with the relevant principles of the Uniform System of Accounts.
The Department stated that deferred accounting will allow consideration of the sale gains in the context of a rate case review. According to the Department, NSP's recent trend toward frequent general rate cases renders the lack of a current amortization proposal acceptable.

III. Commission Analysis

Under Minn. Rules, part 7825.0300, the Commission has adopted the FERC's uniform system of accounts (USOA). Minnesota utilities are required to present their filings in conformity with the USOA.

The USOA provides that items of profit and loss should generally be presented in the year in which they are experienced and taken into account in calculating the utility's annual net income. In contrast, deferred accounting excludes certain costs in the year incurred and holds them for inclusion in revenue calculations for future years. The USOA allows deferred accounting in certain specified circumstances.

In 1993 the FERC issued an order which requires revisions to the USOA to accommodate the consequences of the new emissions allowance trading. Part of the new rule states as follows:

> Gains on dispositions of allowances, other than allowances held for speculative purposes, shall be accounted for as follows. First, if there is uncertainty as to the regulatory treatment, the gain shall be deferred in Account 254, Other Regulatory Liabilities, pending resolution of the uncertainty.

The Commission agrees with the Department that the Company's proposed deferral is consistent with the changes in the USOA called for by the FERC. At this time, there is uncertainty as to the ratemaking consequences of NSP's gain from emission allowance sales. Under the FERC's new rule, the net revenue may therefore properly be deferred in Account 254.

Deferral of gain from emission allowance trading is also consistent with the good cause standard the Commission has traditionally imposed in its consideration of deferred accounting proposals. There is clearly good cause for allowing the Company to engage in deferred accounting under these circumstances.

The need to account for gains from emissions allowance sales arose from the federal government's change in its approach to utility emissions, not from any action of the Company. The consequences of the changes in federal law could not have been foreseen nor planned for by the Company. In future years, similar gains or losses from emissions trading may significantly affect the Company and its ratepayers. These facts amount to good cause for allowing the Company to defer the gains from its emissions allowance sales until they are examined in a general rate case or another special docket.

A general rate case or other proceeding devoted to the ratemaking consequences of these revenues will also be the best place to settle the important policy questions which arise from the new emissions allowance trading. The Commission should have the benefit of a full record and the comments of NSP and other parties when determining the ratemaking treatment of gains on emissions allowances.

For these reasons, the Commission will allow NSP deferred accounting of the gain it has already realized from the disposition of emissions allowances, and of future proceeds and incremental costs of emissions allowance transactions. The Company may place the proceeds of allowance sales in its FERC Account 254 pending regulatory determination in a future rate case or other proceeding.

ORDER

1. The Commission approves NSP's December 27, 1993 proposal for deferred accounting.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)