ASSESSING FINANCIAL DISINCENTIVES AND RESOLUTION OPPORTUNITIES, WORKSHOP #5

DECEMBER 13, 2004, 9:00 A.M. TO 12:00 P.M.
CONFERENCE ROOM 6 EAST, IDAHO POWER CORPORATE HEADQUARTERS, BOISE, ID

Facilitation Susan Hayman, North Country Resources, Inc.
Documentation Natalie Chavez, Chavez Writing & Editing, Inc.

WORKSHOP OBJECTIVES

1) Review and finalize proposals for
   a) Refined true-up mechanism simulation
   b) Performance-based mechanism pilot program
2) Finalize the status report for submission to the IPUC by December 15, 2004
3) Determine the final report timelines and responsibilities

ACTION ITEMS

What?	Who?	When?
Prepare the application for the pilot project and circulate it to the work group for review and comment.	Lynn Anderson, IPUC, and Idaho Power	February 1
Refine the simulation proposal (and retrospective analysis) and circulate it to the work group for review and comment.	Mike Youngblood, Idaho Power; Bill Eddie, Advocates for the West; and Ralph Cavanagh, NRDC	January 14
Draft final report and circulate it to the work group for review and comment.	Bill Eddie, Advocates for the West	January 14
File pilot application with the IPUC	Idaho Power	Mid-February

WORKSHOP INTRODUCTION

Susan Hayman, North Country Resources, welcomed participants to Workshop #5 (Appendix 1), reviewed workshop objectives (above), and then reviewed the agenda (Appendix 2). Because Bill Eddie, Advocates for the West, was expected to be a little late, presentations for the true-up mechanism simulation and performance-based mechanism pilot were switched on the agenda.

Before participants moved on to the first presentation, David Hawk, J.R. Simplot Co., congratulated Ralph Cavanagh for being chosen to sit on the National Commission on Energy Policy. Hawk also shared that two natural gas utilities in the Pacific Northwest were looking into decoupling approaches, a situation that he found interesting given the context of these workshops.

PROPOSAL REVIEW

Performance-Based Mechanism Pilot

Susan Hayman distributed the draft proposal from Darlene Nemnich, Idaho Power, regarding the DSM fixed-cost revenue recovery and performance incentive pilot. Nemnich reviewed the document, which is

included as Appendix 3. Essentially, Idaho Power proposes to use the Energy Star Homes Northwest program for the pilot. This program, which is already included in the *Integrated Resource Plan*, will be implemented by three parties: the Northwest Energy Efficiency Alliance, Idaho Energy Division (a state office), and Idaho Power. Idaho Power provides an incentive to a builder for meeting a standard set at approximately 30% above existing Idaho residential building codes, IED qualifies that homes are built to the standard and conducts quality assurance, and NEEA provides the builder outreach and training components of the program. This program was started at a very small scale in 2003–2004 (30 to 40 homes), but this implementation of it is 10 times the size (430 homes).

Nemnich also reviewed how savings would be established and verified, how the fixed-cost revenue requirement would be calculated, and then how the DSM incentive would be calculated. Establishing and verifying savings would be a two-step process. At the beginning of the pilot, a review would look at assumptions and identify original savings estimates based on engineering estimates derived from a 2004 Idaho Power study by Ecotope. The review group would also determine any studies to be conducted to firm up uncertainty and get closer to validating savings by the end of the pilot. Evaluation costs would be included in program costs but would not exceed 5% of these costs. The second step would be to do any evaluations that the review group deemed necessary and determine the validated savings estimates. If the validated savings estimates differed from the original savings estimates, a new cost-effectiveness analysis would be completed and the program ended, modified, or extended. The validated savings estimates would feed into calculations of the fixed-cost revenue requirement. Then DSM incentives could be calculated. These incentives would be earned when at least 110% of the applicable DSM threshold was met. She showed three possibilities for thresholds. Nemnich proposed that the pilot be conducted for calendar year 2005. Validated energy savings and DSM incentives would be calculated by March 31, 2006, and submitted to the IPUC for review. Then the total fixed-cost revenue requirement and incentives could be collected from June 2006 through May 2007.

Following her explanation, she answered questions and addressed comments. Flipchart notes regarding the discussion are included in Appendix 4. The following issues were raised during the discussion:

- **Calculation of incentive**—The second threshold listed in the proposal should be "10% < target" rather than "10% > target." Participants preferred the option for MWh reduction, with the threshold being 10% greater than target and the incentive calculated as 10% of net annualized savings.
- **Persistence of the net benefit**—Cavanagh suggested an approach that would enable evaluation of the durability of savings. For example, Idaho Power could be paid 10% of the first year's annualized savings, with an additional incentive paid at year three to reflect the annualized net benefit for the additional 2 years of savings. It is important to verify that savings are ongoing and energy improvements are still in place.
- **Maximum incentive**—It may be beneficial to know the "maximum hit" and consider whether a cap is needed. The incentive is a percentage so it can increase with additional success.
- **Effect to other DMS programs**—The incentive might cause Idaho Power not to pursue other programs as aggressively as it could. On the other hand, incentives are designed to motivate. If this pilot works while other programs do not, it's safe to say that incentives work.
- **Basis for program budget**—Incentives were not originally calculated into the program budget since this program was already planned for implementation. Nemnich thought that the evaluation costs could remain roughly the same, at $25,000.
- **Adequacy of existing building codes**—To earn the $750 incentive, program participants have to show that the house meets the prescriptive building standard. These codes are relatively new and therefore hopefully adequate. However, enforcement is a problem, which is why utilities should be involved. Their involvement through DSM programs provides incentives for builders to meet or exceed code.
- **Inclusion of manufactured housing**—The program as is may favor higher income households. Inclusion of manufactured housing would likely broaden the economic scope of the program. Different building codes and standards apply to "stick built" homes than to manufactured homes. Nemnich commented that another DSM program was aimed at manufactured homes. She will look into combining the two programs for the pilot.

- **Collaboration between the IPUC and Idaho Power**—Much of the discussion focused on details that need to be worked out for filing regarding the pilot program. Ric Gale, Idaho Power, suggested that IPUC and Idaho Power staff collaborate on the filing, work out the details, and e-mail the proposal for review and comment.

True-Up Mechanism Simulation

Simulation Spreadsheet

Mike Youngblood distributed copies of two handouts: an Excel spreadsheet set up to simulate the fixed-cost recovery true-up mechanism and a table showing fixed-cost lost revenue per MWh by customer classes (Appendix 5). The first page of the Excel spreadsheet included those schedules of customer classes that would be trued up according to customer counts, while the second page included those customer classes trued up according to forecast sales in the IRP. On the first page, Youngblood had split large commercial and small commercial because the total fixed-cost loss per MWH differed for these two schedules (see the table in Appendix 5). Large commercial customers have demand meters in place and a demand component in their bills. So more of the fixed costs associated with these customers are captured somewhere besides variable costs. Cavanagh commented that Eddie's proposal trues up demand revenues as well as kWh revenues. Youngblood agreed to think more about the issue of truing up demand revenues.

Youngblood then explained how the simulation is set up, using residential customers on the first page and industrial on the second page as his examples. Blue zeroes will eventually be substituted with real numbers. On the first page, the actual customer count (column 2) is multiplied by $371.92 (fixed-cost recovery per customer) to calculate the authorized fixed-cost recovery (column 3). To calculate the actual fixed-cost revenue recovered (column 5), weather-normalized energy (column 4) is multiplied by $30.14 (fixed-cost recovery per MWh). Column 6 shows the difference between amounts in columns 3 and 5. This is the amount of true-up. Actual customer count may be year-end or average, depending on which approach was used in the rate case. Youngblood will look that up, although he used year-end customer count for this spreadsheet.

For industrial and irrigation customers, forecasted energy (column 2) is multiplied by $2.44 (the fixed-cost recovery per MWh) to calculate the allowed fixed-cost recovery. Once known, weather-normalized energy use (column 4) is multiplied by the same amount to calculate the actual fixed-cost revenue recovered. Again, the difference between columns 3 and 5 constitutes the amount of true-up needed. Although the simulation was originally intended for 2005, Youngblood included 2004 in the spreadsheet since those numbers will soon be available (March 2005). Per Bill Eddie's proposal, he will include 1994 to 2004 numbers to see what would have happened to customers' rates over the last 10 years with a true-up mechanism in place.

Simulation Proposal

Bill Eddie spoke about the proposal he had e-mailed to participants on behalf of the Northwest Energy Coalition. The proposal is included in Appendix 6, while flipchart notes regarding the simulation are included in Appendix 7.

The first page is a recap of information provided in earlier meetings. Cavanagh commented that truing up demand charges is not explicit on this page but should be. The second page spelled out details of the simulation. For item 2, they used the Northwest Power and Conservation Council number of about 0.5% sales annually for assumed level of efficiency savings. Although that number is not accurate for 1994, it is fairly close and can be applied retroactively. Item 4 identifies some parameters to analyze to illuminate results of the simulation. Eddie said that other parameters could be looked at as well if people had ideas. Items 5 and 6 are procedural in nature. He would like to see the retrospective analysis included in the final report in January. Eddie added that he'd like to see more frequent analysis of the true-up simulation, but given that only the year-end numbers would be "truth numbers," monthly checks may not be possible or informative.

Don Reading asked how the simulation would account for the state's efforts at buying water and retiring land. Eddie didn't believe that these actions would manifest during the simulation. The next IRP would

consider those activities in its forecasted sales. Anomalies will run through the system, and the simulation may show the effects of these anomalies.

Eddie, Youngblood, and Cavanagh will refine the simulation proposal, run the retrospective analysis, and send both out for review and comment in time for inclusion in the January report.

IPUC Reports

Status Report

Bart Kline, Idaho Power, provided copies of the redlined status report to the Idaho Public Utilities Commission (Appendix 8). He commented that a word in the first full paragraph of page 2 ("believes") will be changed to "stated." Hayman added that numbered agreements listed in the "Progress" section have been revised for wording only: the content is the same. Other changes include the following:

- In the list of participants, Greg Said's affiliation should be identified as "Idaho Power."
- Laura Nelson should be identified as "IPUC Advisor" or something rather than "IPUC Staff." The Commissioners know that she is coming to the meetings, but she would like it clarified that she is not entering into any agreements on behalf of the IPUC.

The document will be signed and ready for submission by Wednesday, December 15.

Final Report

At the December 1 workshop, Bill Eddie agreed to coordinate work on the final report. The deadline for submission is January 31, 2005. Eddie will e-mail the draft to participants two weeks in advance (January 14) for review and comment. Participants reviewed the outline developed at the November 8 workshop (see Appendix 9). IPUC staff will help with the first section (history of the issue). The third section (conclusions and recommendations) will have next steps and discuss the pilot and simulation. Summaries of the workshops will be included to support the report. The filing for the proposed pilot program will be submitted in mid-February, but the final report will "lay the groundwork" for the filing. Lobb agreed to see whether the Commissioners had any additional concerns that might need to be addressed in a presentation.

Next Steps

Follow-Up Workshop

Participants decided that no follow-up workshop is necessary for January. However, they tentatively plan to meet again in midsummer to review the status of the pilot and simulation.

Monitoring Plan for Pilot and Simulation

Hayman asked that people forward ideas about evaluation and monitoring to those participants charged with developing the final documents. She also reminded them about the evaluation criteria that the group had developed at the December 1 workshop. For the simulation, monitoring means communicating results to work group members. Ultimate conclusions from the simulation will be worked out in the rate case.

Wrap-Up and Workshop Evaluation

Hayman reviewed action items (Appendix 10). She also reviewed information in the bin: a couple of gas utilities in the Northwest looking at decoupling and a suggestion to poll customers for their "appetite" for conservation. Idaho Power is willing to let David Hawk provide details about such a poll.

Hayman also requested that participants evaluate the workshop series. She recorded what worked and what concerns still exist (Appendix 11). For the most part, participants felt that the process worked well,

members were open and honest, and more headway was made than people expected. People did feel that this series of workshops was just the beginning, and efforts needed to continue into the future.

APPENDIX 1—PARTICIPANTS

(Shading indicates work group participants unable to participate in person or by phone.)

Name and Affiliation	Name and Affiliation
Lynn Anderson, IPUC	Laura Nelson, IPUC
Maggie Brilz, Idaho Power	Darlene Nemnich, Idaho Power
Terri Carlock, IPUC	Peter Richardson, Industrial Customers of Idaho
Ralph Cavanagh, Natural Resources Defense Council	Brad Purdy, Community Action Partnership Association of Idaho
Bill Eddie, Advocates for the West	Don Reading, Ben Johnson Associates
Ric Gale, Idaho Power	Greg Said, Idaho Power
David Hawk, J.R. Simplot Co.	David Schunke, IPUC
Nancy Hirsh, NW Energy Coalition	Tim Tatum, Idaho Power
Alden Holm, IPUC	Mike Youngblood, Idaho Power
Bart Kline, Idaho Power	Scott Woodbury, IPUC
Randy Lobb, IPUC	

APPENDIX 2—AGENDA

ASSESSING FINANCIAL DISINCENTIVES AND RESOLUTION OPPORTUNITIES WORKSHOP #5

December 13, 2004
9:00am-12:00pm
Conference Room 6 East
Idaho Power Corporate Headquarters
Boise, Idaho

Objectives:

1) Review and finalize proposals for:
   a. Refined true-up mechanism simulation
   b. Performance-based mechanism pilot program
2) Finalize the status report for submission to the IPUC by December 15, 2004.
3) Determine the final report timelines and responsibilities

Final Agenda
(breaks will be taken when most convenient for the group)

Time	Topic	Process
8:45am	*Coffee/Tea available in meeting room*	
9:00am	**Welcome/Introductions/Meeting Overview** – Susan Hayman	Information
9:15am	**Proposal Review** ▪ True-up mechanism simulation – Mike Youngblood ▪ Performance-based mechanism pilot – Darlene Nemnich ▪ Timeline and process for submission to IPUC – Idaho Power	Presentation, Discussion & Decision
10:30am	**IPUC Reports** ▪ Update on the status report – Bart Kline ▪ Final report preparation – Bill Eddie o Timelines o Responsibilities	Discussion
11:00pm	**Next Steps** ▪ Follow-up workshop in January – Susan Hayman o Is it needed? ▪ Monitoring plan for pilot and simulation – Group o When should this be prepared? o Who should be assigned this task?	Discussion
11:45pm	**Wrap-up and Evaluation** – Susan Hayman	Discussion
12:00pm	**Adjourn**	

APPENDIX 3—DRAFT PILOT PROGRAM

DRAFT

Proposal for DSM Fixed-cost Revenue Recovery and Performance Incentive Pilot

12/13/04

Proposed Program for Pilot

The Energy Star Homes Northwest program is the program proposed to acquire the resources identified in the Residential New Construction Option in the 2004 IRP and is proposed as the program for this pilot. This program was developed by the EPA/DOE, the Northwest Energy Efficiency Alliance and PNW electric utilities. Idaho Power piloted this program with the Alliance in 2004. There are three implementation partners for this program in the Idaho Power service territory; the Alliance, Idaho Energy Division (IED) and Idaho Power.

The essential feature of this program is a prescriptive building standard, also called a builder option package or BOP, that is set at approximately 30% above existing Idaho residential building codes. Idaho Power provides an incentive to the builder for each home built to the standard and provides marketing for the program. IED qualifies that homes are built to the standard and conducts a quality assurance process. The Alliance provides the builder outreach and training components of the program.

- Idaho Power's program budget for 2005 is $502,400
- Estimated 2005 kWh savings is 1,070,000.
- 2005 participation estimated at approximately 430 homes.

Establishing and verifying savings

Original Savings Estimates

As close to the beginning of the pilot as possible, Idaho Power proposes to establish an Original Savings Estimate. This estimate, measured in kWh per month per qualified house, represents the estimated reduction in customer usage between a program house and a non-program house. This estimate will be determined through a collaborative, peer-review process. The Energy Efficiency Advisory Group or a sub-set of the EEAG could be used for this purpose. Engineering estimates will be the primary method for determining savings estimates. An engineering simulation study, conducted

for Idaho Power in early 2004 by Ecotope to estimate program savings in Idaho will be used as a basis for the collaborative review.

This review group will also determine what assumptions should be tested, if any, during or at the end of the pilot to validate the savings estimates. Cost-effectiveness of the program will be calculated using these estimates. Evaluation costs of the pilot program will be recovered by the DSM rider, will be included in the cost-effectiveness calculation and will not exceed 5% of total program costs.

Idaho Power will review the program costs with the review group. Program costs shall include the cost of planning, developing, implementing, monitoring and evaluating DSM programs.

Validated Savings Estimates

At the end of the pilot period the collaborative review group will review any evaluations compiled during or at the end of the pilot and determine a Validated Savings Estimate per home. Total program savings will be determined by multiplying Validated Savings Estimate per home by the actual program participation. If the Validated Savings Estimates are different than Original Savings Estimates, a new cost-effective analysis will be completed and the program may be ended, modified or extended.

Calculation of Fixed-cost Revenue Requirement

For the pilot period, the Validated Savings Estimates (in MWh) will be multiplied by the total fixed-cost per MWh for purposes of determining the total fixed-cost revenue requirement to be recovered. For this pilot the residential total fixed-cost per MWh is estimated at $30.14/MWh. Total fixed-cost revenue requirement will be calculated using the Validated Savings Estimates irrespective of whether program goals are met.

Calculation of DSM Incentive

DSM Incentives are earned by Idaho Power when at least 110% of the applicable DSM threshold is met. Energy savings thresholds are calculated by multiplying the

Original Savings Estimate by original participation goals in the calculation of an incentive. There are three possibilities for this program:

	Threshold	Incentive
-MWh reduction	10%>target	10% of net $ savings
-Idaho Power $/kWh	10%>target	5% of program costs
-Number of part.	10%>target	5% of program costs

The total fixed-cost revenue requirement and incentives will be quantified and submitted for Commission review in a time frame that allows for collection during a 12-month June 2006 through May 2007 timeframe.

Timeframe for Pilot

Idaho Power proposes the pilot timeframe be calendar year 2005. Determination of Original Savings Estimate will be determined soon after approval of this pilot by the Idaho PUC. Determination of Validated Energy Savings, fixed-cost revenue requirement and DSM Incentive will be calculated by March 31, 2006.

APPENDIX 4—FLIPCHARTS REGARDING THE PILOT PROGRAM

Pilot Program Discussion

1) What is expected payment and max payments?
2) How much incentive is paid, and how much fixed costs recovered. This is focus of pilot. Cost effective is considered too.
3) For pilot, incentive % is fixed, but payments based on total savings.
4) Incentives are included in program budget ($750/home)—much of program budget is devoted to builder incentives.

Refinements to Pilot Proposal

1) First incentive
   - Pay 10% of first year's annualized savings, then 3-year evaluation again to test persistence of program (2 payments in this scenario)

or

   - Base payment on a single point in time
   - 3-year period between rate cases could be used to true-up fixed cost recovery

Refinements to Pilot Proposal (cont.)

2) Include manufactured housing in with "stick built"—though codes not the same, still incent to build above code (look at 2 different validated estimates, etc.)
3) IPC-IPUC staff will work to refine incentives, and look at durability incentive—joint application

APPENDIX 5—DRAFT SIMULATION SPREADSHEET

Fixed Cost Lost Revenue per MWh by Customer Class

		Base Rate Components ($/MWh)				
		Residential	Small Commercial*	Large Commercial**	Irrigation	Industrial***
Total Base Energy Rate **(b+c+d+e)**	(a)	$51.90	$62.61	$26.38	$32.57	$21.45
Variable Cost - *Class*	(b)	$20.69	$21.05	$20.14	$23.53	$18.41
Variable Cost - *Subsidy*	(c)	$1.08	$1.25	$0.78	($5.72)	$0.60
Fixed Cost - *Class*	(d)	$28.76	$38.70	$4.48	$22.09	$1.67
Fixed Cost - *Subsidy*	(e)	$1.38	$1.61	$0.99	($7.33)	$0.77
Total Fixed Cost Loss/MWh **(d + e)**	(f)	$30.14	$40.31	$5.47	$14.76	$2.44

(*) Small Commercial rate is schedules 07
(**) Large Commercial rate is a wghtd. avg. of schedule 09 S, P & T based on energy use.
(***) Industrial rate is a wghtd. avg. of schedule 19 S, P & T based on energy use.

Fixed Cost Recovery True-up Mechanism
(Simulation for Case No. IPC-E-04-15)

RESIDENTIAL

Rate Case Constants:

4,141,393 Energy
335,605 Customers
$124,816,934 Class Fixed Costs
$371.92 Fixed Cost Recovery per Customer
$30.14 Fixed Cost Recovery per MWH

Year	Actual Customer Count	Allowed Fixed Cost Recovery Based on Actual Customer Count	Weather Normalized Energy (MWH)	Actual Fixed Cost Revenue Recovered	Amount of True-Up
(1)	(2)	(3)	(4)	(5)	(6)
2003	**335,605**	**$124,816,934**	**4,141,393**	**$124,816,934**	**$0**
2004	**0**	**$0**	**0**	$0	$0
2005	**0**	**$0**	**0**	$0	$0

SMALL COMMERCIAL

Rate Case Constants:

265,336 Energy
32,316 Customers
$10,694,989 Class Fixed Costs
$330.95 Fixed Cost Recovery per Customer
$40.31 Fixed Cost Recovery per MWH

Year	Actual Customer Count	Allowed Fixed Cost Recovery Based on Actual Customer Count	Weather Normalized Energy (MWH)	Actual Fixed Cost Revenue Recovered	Amount of True-Up
(1)	(2)	(3)	(4)	(5)	(6)
2003	**32,316**	**$10,694,989**	**265,336**	**$10,694,989**	**$0**
2004	**0**	**$0**	**0**	$0	$0
2005	**0**	**$0**	**0**	$0	$0

LARGE COMMERCIAL

Rate Case Constants:

3,014,427 Energy
17,415 Customers
$16,499,592 Class Fixed Costs
$947.44 Fixed Cost Recovery per Customer
$5.47 Fixed Cost Recovery per MWH

Year	Actual Customer Count	Allowed Fixed Cost Recovery Based on Actual Customer Count	Weather Normalized Energy (MWH)	Actual Fixed Cost Revenue Recovered	Amount of True-Up
(1)	(2)	(3)	(4)	(5)	(6)
2003	**17,415**	**$16,499,592**	**3,014,427**	**$16,499,592**	**$0**
2004	**0**	**$0**	**0**	$0	$0
2005	**0**	**$0**	**0**	$0	$0

Fixed Cost Recovery True-up Mechanism
(Simulation for Case No. IPC-E-04-15)

INDUSTRIAL

Rate Case Constants:

1,978,824	Energy
105	Customers
$4,821,154	Class Fixed Costs
$45,916	Fixed Cost Recovery per Customer
$2.44	Fixed Cost Recovery per MWH

Year	Forecasted Energy from 2004 IRP (MWH)	Allowed Fixed Cost Recovery Based on Forecasted Energy	Weather Normalized Energy (MWH)	Actual Fixed Cost Revenue Recovered	Amount of True-Up
(1)	(2)	(3)	(4)	(5)	(6)
2003	**1,978,824**	**$4,821,154**	**1,978,824**	**$4,821,154**	**$0**
2004	2,035,043	**$4,958,125**	**0**	$0	$4,958,125
2005	2,104,294	**$5,126,846**	**0**	$0	$5,126,846

IRRIGATION

Rate Case Constants:

1,620,931	Energy
13,517	Customers
$23,925,859	Class Fixed Costs
$1,770	Fixed Cost Recovery per Customer
$14.76	Fixed Cost Recovery per MWH

Year	Forecasted Energy from 2004 IRP (MWH)	Allowed Fixed Cost Recovery Based on Forecasted Energy	Weather Normalized Energy (MWH)	Actual Fixed Cost Revenue Recovered	Amount of True-Up
(1)	(2)	(3)	(4)	(5)	(6)
2003	**1,620,931**	**$23,925,859**	**1,620,931**	**$23,925,859**	**$0**
2004	1,670,717	**$24,660,729**	**0**	$0	$24,660,729
2005	1,677,923	**$24,767,100**	**0**	$0	$24,767,100

APPENDIX 6—DRAFT TRUE-UP SIMULATION PROPOSAL

PROPOSAL FOR SIMULATION OF AN IDAHO POWER TRUE-UP MECHANISM

Submitted by Bill Eddie, Ralph Cavanagh, Nancy Hirsh
For discussion at 12/13/04 workshop

Per the discussion at the December 1, 2004, workshop, NRDC and NWEC propose the following simulation to illuminate impacts of the revised true-up mechanism proposed by NRDC and NWEC.

Recap of true-up. The key points of the revised true-up mechanism proposal are:

1. Starting point is fixed-cost revenue requirement and retail rates approved by Idaho PUC in latest Idaho Power rate case.

2. For the Industrial and Agricultural sectors, until reestablished in the next Idaho Power rate case, the currently approved fixed cost revenue requirement would be automatically adjusted annually to reflect the same rate of increase (or decrease) shown for retail electricity sales, net of any DSM programs, in Idaho Power's latest IRP.

3. For the Residential and Commercial sectors, until reestablished in the next Idaho Power rate case, the currently approved fixed cost revenue requirement would be automatically adjusted annually to reflect the actual changes in annual customer count for the residential and commercial sectors (in other words, the fixed cost revenue requirement per customer would remain fixed until the next rate case).

4. True ups would occur annually by customer class based on any divergence between the total fixed-cost revenue recovery that forecast sales (for Agricultural and Industrial sectors) or actual customer growth (for Residential and Commercial) would have delivered versus the fixed-cost revenues actually recovered through actual sales.

5. Idaho Power would continue to absorb the risk or benefits of purely weather-related effects on fixed-cost revenue recovery, as it does now. This would mean weather normalizing actual sales before making the annual true-up calculation.

6. The maximum annual average rate impact of the true up mechanism for any customer class would be capped at 2% annually, with any additional amounts carried over to the next year's true up.

Proposed simulation. The proposed simulation would study this mechanism both retrospectively (1994-2004 rate case) and prospectively (2004-next rate case):

1. Starting points are the fixed-cost revenue requirement and retail rates approved in the 1994 and 2003-04 rate cases, including subsequent Commission-approved adjustments to such revenue requirements.

2. Apply an assumed level of efficiency savings of 0.5% annually (roughly equivalent to the level of savings achievable in Idaho Power's territory per the NW Power Planning Council's draft 5th Plan) each year starting in 1994 and 2004. For simplicity, efficiency savings can be zeroed-out after the 2003-04 rate case.

3. Load forecasts for agricultural and industrial sectors will change with each IRP issued throughout the simulation periods.

4. Simulation should calculate the true-up mechanism's impacts in the following aspects: (1) annual rate impact to each customer class for the true-up alone, and the true-up together with the PCA; (2) annual and total impact to average customer bill amounts (assuming the 0.5% annual efficiency savings and the annual net benefit estimates developed in the recent Quantum consulting energy efficiency assessment), (3) total impact to IdaCorp shareholders if true-up mechanism were not in place.

5. Idaho Power will provide the results of the retrospective simulation to the workshop participants so they may be included in the final report to the Commission regarding this workshop proceeding. Idaho Power will provide the results of the prospective simulation to workshop participants and the Commission contemporaneously with each annual PCA filing.

6. Idaho Power will work with workshop participants as they prepare their next rate case filing to analyze the results of the simulation and evaluate incorporation of a true-up mechanism into the rate filing.

APPENDIX 7—FLIPCHARTS REGARDING THE TRUE-UP SIMULATION

Simulation

1) Would use same method of determining customer counts as in the last rate case (residential and commercial)
2) Suggest including 2004 figures with 2005 figures in simulation
   - Both for actualized (IRP) and NWPPC projections
   - Also look at 1994–2004 period
3) NWEC proposal includes demand and kWh charges
4) Simulation will also test anomalies that occur in next year
5) Testing period
   - 1994–2000 (back)
   - 2004–next rate case (about 18 months) (forward)

APPENDIX 8—DRAFT STATUS REPORT

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION OF FINANCIAL DISINCENTIVES TO INVESTMENT IN ENERGY EFFICIENCY BY IDAHO POWER COMPANY	)	CASE NO. IPC-E-04-15 INVESTIGATIVE WORKSHOP STATUS REPORT

BACKGROUND

On May 25, 2004, The Idaho Public Utilities Commission (Commission) in Order No. 29505 (Idaho Power Company general rate case No. IPC-E-03-13) determined that a separate "proceeding to assess financial disincentives inherent in Company-sponsored conservation programs is appropriate and should proceed by informal workshops." The Commission's Order provided in relevant part as follows:

> The Commission specifically directs the parties (Idaho Power, NW Energy Coalition, Industrial Customers of Idaho Power (ICIP) and Commission Staff) to address possible revenue adjustment when annual energy consumption is both above and below normal. The parties should also consider how much adjustment is necessary to remove DSM investment disincentives and whether (and to what extent) performance-based incentives such as revenue sharing could or should be incorporated into the resolution of this issue. The Commission is interested in proposals that could provide Idaho Power the opportunity to share and retain

> benefits gained from efficiencies, especially technologies... In short, the Commission believes opportunities exist for improvements in operating efficiency that would benefit the Company shareholders and its customers, and we encourage the parties to creatively consider the options for a performance-based mechanism to present to the Commission. *The parties to the agreement are directed to propose a workshop schedule and initiate a proceeding.* (emphasis added)

Order No. 29505 at pp. 68, 69.

As a follow up to the Commission's Order, the NW Energy Coalition on June 18, 2004 formally requested that a proceeding be initiated and that a workshop schedule be established. The Commission in Order No. 29558 established this docket to investigate the financial disincentives which hinder Idaho Power's investment in cost-effective energy efficiency resources. The Commission believes that the scope of the investigation should be focused on decoupling and performance based ratemaking. The Commission directed the participating parties to provide a written report to the Commission no later than December 15, 2004 to update the Commission on the status of the investigative workshops.

PROCESS

The parties have participated in five ~~four~~ workshops to date: August 24, September 27, November 8, ~~and~~ December 1, 2004, and December 13, 2004. These workshops have included presentations by participants, group discussion, and sensing for areas of agreement and disagreement. Workshops are designed and facilitated by Susan Hayman, North Country Resources, Inc., a Boise-based facilitation/mediation firm. Workshops are designed in cooperation with four designated workshop coordinators representing each of the four major interests at the table (Idaho Power Company, Idaho Public Utilities Commission Staff, Industrial Customers of Idaho Power, and Northwest Energy Coalition). Copies of all workshop summaries are provided as attachments to this Status Report.

PARTICIPANTS

The following people have attended one or more workshops, receive meeting materials and summaries, and are considered active workshop participants:

Name and Affiliation	Name and Affiliation
Lynn Anderson, IPUC Staff	Laura Nelson, IPUC Staff
Maggie Brilz, Idaho Power	Darlene Nemnich, Idaho Power
Terri Carlock, IPUC Staff	Peter Richardson, Industrial Customers of Idaho
Ralph Cavanagh, Natural Resources Defense Council	Brad Purdy, Community Action Partnership Association of Idaho
Bill Eddie, Advocates for the West	Don Reading, Ben Johnson Associates
Ric Gale, Idaho Power	Greg Said, IPC
David Hawk, J.R. Simplot Co.	David Schunke, IPUC Staff
Nancy Hirsh, NW Energy Coalition	Tim Tatum, Idaho Power
Bart Kline, Idaho Power	Mike Youngblood, Idaho Power
Randy Lobb, IPUC Staff	Scott Woodbury, IPUC Staff

PROGRESS

Since the inception of the workshops on August 24, participants have reached the following agreements:

1) Agreed on a set of operational principles that guide the workshops.
2) Clarified the nature and extent of financial disincentives to Idaho Power for investment in energy conservation through demand-side management programs (DSM).
3) Agreed that material financial disincentives do exist and will increase as DSM expenditures increase. ~~, though n~~Not all participants agree that restoration of lost fixed cost revenues would directly result in additional investment in DSM programs by Idaho Power.
4) Agreed on a set of evaluation criteria by which to compare and contrast potential mechanisms for removing financial disincentives and/or providing incentives for DSM programs.
5) Agreed to continue exploring two specifically proposed mechanisms: A true-up mechanism (referred to as a decoupling mechanism in early workshops) and a performance-based incentive mechanism.
6) Agreed to design a true-up mechanism simulation and a pilot program performance-based incentive mechanism to evaluate the effects of these two mechanisms. The

simulation and pilot program will be the subject of further review and discussion at the next workshop.

TIMELINE

Participants established the following timeline at the December 1 workshop:

1) Provide this ~~a~~ status report to the Commission on or before December 15, 2004, as specified in Order No. 29558.
2) Provide a full report to the Commission no later than January 31, 2005, including participant recommendations and rationale.

This Status Report to the Commission has been reviewed and approved by Idaho Power Company, Northwest Energy Coalition, the Commission Staff and the Industrial Customers of Idaho Power.

Date

Barton L. Kline
Attorney for Idaho Power Company and on behalf of Northwest Energy Coalition, the Commission Staff and the Industrial Customers of Idaho Power

APPENDIX 9—FLIPCHARTS REGARDING THE FINAL REPORT

Commission Report

January 31 Deadline—Bill Eddie Lead

I. History of issue that generated work group (with help from IPUC staff)

II. What did the workgroup do?

- Studies undertaken
- Mechanisms proposed
- Results of investigation

III. Conclusions and recommendations

- Schedule/timeline for addressing pilot and simulation findings—final recommendations

IV. Figures and tables, studies, workshop summaries

APPENDIX 10—FLIPCHARTS REGARDING NEXT STEPS AND ACTION ITEMS

Next Steps

1) If Randy gets feedback from Commissioners that there is something of concern, Randy will let the workgroup know—could possibly meet with them as a group
2) Possible mid-summer workgroup check-in (TBD)

Bin

1) Gas utilities → decoupling mechanism
2) Still interested in evaluation customer "appetite" for conservation at higher levels. (David Hawk to bring proposal to IPC)

Action Items

What	Who	When
1) IPC-IPUC staff will prepare pilot application and circulate for review and comment (include monitoring mechanism)	Lynn–PC	February 1
2) IPC and NWEC refine simulation proposal (and retrospective analysis) for review and comment by workgroup (include monitoring mechanism for March)	Mike, Bill, Ralph	January 14

Action Items

What	Who	When
3) Draft final report to workgroup by mid-January for R&C	Bill	January 14
4) File pilot application with IPUC	IPC	Mid-February

APPENDIX 11—FLIPCHARTS REGARDING THE WORKSHOP SERIES

What's Worked	Outstanding Concerns
1) Open, honest discussion and bringing to table	1) Feels like we have just begun—need to take next steps seriously—need to accomplish something together
2) Quality of recording—capturing essence of meetings	2) Need to monitor and carefully evaluate results—issue is not dropped
3) Appreciate organization of meetings/tracking what happened, quality of info presented	
4) Very successful workshop	
5) Facilitation helpful	
6) Interchange forthright—advanced issue further than thought we would	

What's Worked	Outstanding Concerns
7) Pleased with results of workshop	3) Language in order about "PBR" that we didn't get to. Hope it meets needs of Commissioners
8) Good solution, reached fairly quickly with good deliberation	4) Easy to do pilots and simulation—hope we have enough information to make follow-up decisions
9) Appreciated everyone attending	5) Being able to capture how we really will evaluate these things as we go along—ability to modify evaluation criteria
10) Appreciated openness of everyone to hear other perspectives	
11) Always had goals in sight—felt movement and progress towards goals	
12) Impressed with us all! Came a long way.	

What's Worked	Outstanding Concerns
13) IPC participation and get numbers out that people could understand	6) What Commissioners will say about the group's work/ agreements (curious)
14) Not everyone got what they wanted, but lots accomplished	7) Establishing program evaluation criteria
15) Candid discussion	8) Proof is in the pudding
16) Appreciate IPC going along with this in a positive way	9) Building codes/ enforcement
17) Ralph and Bill's analysis and numbers	

What's Worked	Outstanding Concerns
18) Group has had form and substance	10) Asking IPC to do additional things to an already "full plate"
19) Frank and fair	11) Look for results to "sell" process
20) Possible solution to issue, and conservation as a way to get at issue	
21) IPC collaborative involvement	