

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL STAFF**

FROM: SCOTT WOODBURY

DATE: JUNE 24, 2004

**RE: CASE NO. IPC-E-04-15 (Idaho Power)
NW ENERGY COALITION PETITION TO INITIATE INVESTIGATION OF
FINANCIAL DISINCENTIVES TO INVESTMENT IN ENERGY
EFFICIENCY BY IDAHO POWER COMPANY**

On June 18, 2004, the NW Energy Coalition (NVEC; Energy Coalition) filed a Petition with the Idaho Public Utilities Commission (Commission) to initiate workshop proceedings to investigate financial disincentives which hinder Idaho Power's investments in cost-effective energy efficiency resources. Reference IDAPA 31.01.01.033 and 053. The Energy Coalition was an intervenor in Idaho Power general rate case IPC-E-03-13. The Energy Coalition's Petition in this case is a follow-up to the Commission's final Order No. 29505 in the Idaho Power rate case. Order No. 29505 provided, in relevant part:

The Commission has determined that a proceeding to assess financial disincentives inherent in Company-sponsored conservation programs is appropriate and should proceed by informal workshops. The Commission specifically directs the parties 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 where efficiencies are derived from innovation and the use of new 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. The cited Order language was preceded in the Commission's Order by the following: "A proposal for a second workshop proceeding was sponsored by NW Energy Coalition, which agreed that financial disincentives hinder Idaho Power's investments in cost-effective efficiency *and clean distributed generation.* (emphasis added) In a footnote to its Petition, NW Energy Coalition states: While the Commission's Order spoke directly to removing barriers to "efficiency investment", NW Energy Coalition believes the same principles apply to investment in "clean distributed generation." A copy of the underlying agreement for Commission review is attached to this memo.

As reflected in the Petition, counsel for the Energy Coalition has conferred with Staff, Idaho Power, and the Industrial Customers of Idaho Power (ICIP) to obtain agreement on workshop timing and procedures. NW Energy Coalition, Staff, Idaho Power, and ICIP agree to proceed as follows:

A series of three (3) informal workshops is anticipated, to be concluded by December 15, 2004. The first workshop will be held starting at 9:30 a.m. until approximately 12:30 p.m. on August 24, 2004, at Idaho Power Company, 1221 West Idaho Street, Boise, Idaho. Dates and locations for further workshops will be determined at this initial meeting. The Energy Coalition will provide direct notice of such workshops to all parties to Case No. IPC-E-03-13.

As reflected in the Petition, Idaho Power has generously agreed to underwrite the costs of a facilitator for the workshops. In order to advance discussions, Idaho Power has also agreed to circulate a "white paper" analysis of the issues identified by the Commission in Order No. 29505 to Staff, NW Energy Coalition, and ICIP (and other parties that may request the analysis), by July 24, 2004.

Apart from the initiation of this new proceeding, no specific actions or orders are requested of the Commission at this time. If no party seeks specific actions or orders of the Commission by December 15, 2004, the Energy Coalition commits to provide a status report to the Commission no later than that date to update the Commission on the status of the investigative workshops.

COMMISSION DECISION

NW Energy Coalition requests, as more particularly described above, that the Commission grant its Petition to initiate an investigation of the financial disincentives to investment of energy efficiency by Idaho Power Company. An initial workshop is proposed for August 24, 2004. Commission Staff recommends that a Notice of Investigation and public workshop be issued. Does the Commission agree with the proposal to establish an investigative docket and the proposal for workshops?

Does the Commission desire to expand the authorized investigation to comport with the intent of the agreement parties, i.e., to explore also economic disincentives to investment in "clean distributed generation?" In Staff discussions with the agreement parties, it appears that there is an understanding that the intention by the "clean distributed generation" language is limited to "demand side" generation and is related to fixed cost recovery. The seed for the workshop was Ralph Cavanagh's testimony, which spoke to the need for a fixed cost recovery true-up mechanism as a means of diminishing the natural reluctance of a Company in the business of selling energy to try and reduce energy sales. A frequent objection to net metering is that it cuts into fixed cost recovery and thus is analogous to DSM. It is not the intent of the parties to open the door to a re-evaluation of PURPA implementation, net metering rules, interconnection issues, etc.

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