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Senior Attorney

IDAHO PUBLIC
UTILITIES COMMISSION

December 18, 2006

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-06-32
*Application of Idaho Power Company to Implement a Demand Side
Management Incentive Pilot Program*

Dear Ms. Jewell:

Please find enclosed an original and seven (7) copies of the following documents for filing in the above-referenced matter.

1. Application; and
2. Direct Testimony of Timothy E. Tatum.

I would appreciate it if you would return a stamped copy of this transmittal letter in the enclosed self-addressed, stamped envelope.

Very truly yours,

Barton L. Kline

BLK:sh
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY TO) CASE NO. IPC-E-06- 32
IMPLEMENT A DEMAND SIDE)
MANAGEMENT INCENTIVE) APPLICATION
PILOT PROGRAM)
_____)

COMES NOW Idaho Power Company ("Idaho Power" or "the Company"), by and through its attorneys, in accordance with RP 052 and hereby requests that the Commission issue its order authorizing Idaho Power to implement a pilot program that provides for positive incentives ("increased revenue" or "payments") or negative incentives ("reduced revenue" or "penalties") for achieving, or failing to achieve, agreed-upon levels of performance in implementing Demand-Side Management ("DSM") programs.

Idaho Power proposes that the DSM incentive program first be operated as a pilot program and only applied to a single DSM program for a three year period. This Application is separate from but related to the Joint Motion for Approval of Stipulation filed by the Company, the staff of the Idaho Public Utilities Commission ("Staff") and the NW

Energy Coalition (“NW Energy”) filed in Case No. IPC-E-04-15, which Motion is currently pending before the Commission.

I. BACKGROUND

1. On August 10, 2004, the IPUC in Order No. 29558 established Case No. IPC-E-04-15 (“04-15 Case”) to investigate financial disincentives to investment in energy efficiency by Idaho Power. In its Order, the Commission directed the parties to participate in a series of workshops and to provide a written report to the Commission following the workshop proceedings.

2. On December 15, 2004, the workshop participants filed a status report with the Commission. The final report on the workshop proceedings was filed on February 14, 2005. The final report called for two action items: (1) the development of a true-up simulation to track what might have occurred if a decoupling or true-up mechanism had been implemented for Idaho Power at the time of the last general rate case; and (2) advocacy for filing of a pilot energy efficiency program that would incorporate both performance incentives and fixed cost recovery adjustments. A final order was not issued and the 04-15 Case remained open.

3. On January 27, 2006, Idaho Power filed an Application in the 04-15 Case requesting authority to implement a rate adjustment mechanism that would adjust the Company’s rates upward or downward to recover the Company’s fixed costs, independent of the volume of Company energy sales (“FCA Mechanism”). With its Application in the 04-15 Case the Company filed the direct testimony of witnesses Ric Gale, Mike Youngblood and Ralph Cavanagh. Idaho Power witness Cavanagh discussed the desirability of implementing a ratemaking mechanism that would provide a positive incentive to the Company for superior

performance in implementing DSM programs. (Cavanagh Testimony p. 24-25).

4. On March 3, 2006, the Commission issued a Notice of Application in the 04-15 Case and acknowledged the intention of the Company and the Staff, together with other parties of record, to initiate and engage in settlement discussions. The parties engaged in several settlement negotiation sessions.

5. Based on the settlement discussions in the 04-15 Case, the Parties agreed to resolve and settle all of the issues in the 04-15 Case. A settlement Stipulation evidencing that settlement was filed with the Commission on December 18, 2006.

6. During the course of the settlement discussions in the 04-15 Case, the parties continued to discuss Mr. Cavanagh's proposal for an incentive mechanism that would provide additional ratemaking to Idaho Power if it exhibited superior performance of DSM programs or levied penalties if the Company's efforts did not meet prevailing agreed-upon targets.

7. Based on the consensus developed in the 04-15 Case discussions, Idaho Power is, in this case, proposing a DSM incentive pilot program similar to the one proposed by Mr. Cavanagh.

II. PROPOSED PILOT PROGRAM

8. In this Application Idaho Power requests authority to implement a DSM incentive mechanism which would allow the Company to retain a portion of the cost-reducing benefits accruing from a DSM program operated by the Company. The incentive would only be earned if the Company has done an exceptional job in implementing the DSM program. The incentive mechanism would also allow for a "penalty" payment by the

Company if Idaho Power's performance of the selected DSM program falls below previously agreed-upon goals.

9. Based on discussions between the parties in the 04-15 Case workshops, Idaho Power has selected the ENERGY STAR® Homes Northwest program as the DSM program to be used as the pilot to test the efficacy of a DSM incentive program. The ENERGY STAR Homes Northwest program is currently operated by the Company to acquire the resources identified in the Residential New Construction Option in the Company's 2004 IRP. The ENERGY STAR Homes Northwest program, the mechanics of the incentive program proposed by the Company and the rationale supporting the DSM incentive program are more particularly described in the testimony of Company witness Timothy E. Tatum which is filed concurrently with this Application.

10. In summary, the Company is proposing a three year pilot beginning in 2007 and ending at the end of 2009. Under the pilot the Company would receive an incentive payment if the market share of homes constructed under the ENERGY STAR Homes Northwest program exceeds: (1) 7% of the total number of homes constructed in Idaho Power's service area in 2007, (2) exceeds 9.8% of total service area homes in 2008 and (3) exceeds 11.7% of total service area homes in 2009. These percentage levels would be the target goals and if Idaho Power exceeds these targets, it would receive an incentive payment equal to the percentage benefit that exceeds the target. For example, if Idaho Power is able to achieve 105% of the 7% target percentage in 2007, Idaho Power would receive a payment equal to 5% of the total program net benefits. The incentive program would be capped at 10% of program net benefits. For example, if Idaho Power

achieved 115% of the 7% target percentage in 2007, Idaho Power's incentive payment would be 10%

11. Penalties would be levied for 2007, 2008 or 2009 if in any of those years Idaho Power's ENERGY STAR Homes Northwest program fails to reach the market share of 4.9% achieved in 2006.

12. Idaho Power recommends that the Commission process this Application under modified procedure pursuant to RP 201 *et seq.*, but the Company stands ready to present its testimony and support the program in a technical hearing if the Commission determines that such a hearing is required.

NOW, THEREFORE, the parties respectfully request that the Commission issue its Order granting this Application and authorizing the Company to implement, as a pilot program, the DSM incentive mechanism proposed by the Company in this Application.

Respectfully submitted this 18 day of December 2006.



BARTON L. KLINE
Attorney for Idaho Power Company