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10/12/2007

Ms. Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
P.O. Box 83720  
Boise, ID 83720-0074

IPC-E-06-32

RE: Performance-Based Demand-Side Management Incentive Pilot Quarterly Progress Report

Dear Ms. Jewell:

Pursuant to Order No. 30268, please find the attached Performance-Based Demand-Side Management Incentive Pilot progress report for the third quarter of 2007. According to preliminary program results, the company expects to achieve a market share within the market share dead-band under the pilot. Therefore, the ENERGY STAR<sup>®</sup> Homes Northwest program is not currently expected to have a financial impact to the company for 2007.

The Company and the Commission Staff have made progress in addressing some of the "technical difficulties" identified by Staff in its comments in Case No. IPC-E-06-32 and later detailed in Order No. 30268. This report details a modification to the Performance-Based Demand-Side Management Incentive Pilot that will improve the pilot program's metrics.

Sincerely,

Tim Tatum  
Pricing Analyst

cc: Ric Gale  
Greg Said  
Doug Jones  
Pete Pengilly  
P&RS/Legal Files

Pricing & Regulatory Services  
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Idaho Power Company  
Performance-Based DSM Incentive Pilot  
Quarterly Progress Update  
Year-To-Date September 30, 2007

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**Market Share Estimate**

ENERGY STAR® Homes Completed <sup>1</sup>	209
Estimated Total New Single-Family Homes <sup>2</sup>	4,746
Third Quarter Market Share Estimate	4.4%

**Notes:**

- (1) The number of ENERGY STAR Homes completed is based on the number of incentive payments Idaho Power has issued during the period.
- (2) The Wells Fargo Idaho Construction Report covering the first three quarters of 2007 was not available at the time of this update. As a result, the estimate of total new homes is based on a combination of data from the most recent Wells Fargo Idaho Construction Report dated June 30, 2007 and Idaho Power's records of new residential service points added during the period.

**ENERGY STAR Homes Northwest  
Preliminary Program Costs**

<u>Expense Category</u>	<u>As of 3<sup>rd</sup> Quarter 2007</u>
Incentives	\$156,100
Evaluation	15,289
Labor	86,695
Marketing	60,147
Other Expense	7,407
Training	5,733
<u>Travel</u>	<u>5,387</u>
<b>Total</b>	<b>\$ 336,758</b>

### **Modifications to the Pilot Program's Metrics**

According to Order No. 30268, Idaho Power is eligible to receive an incentive payment provided the "market share of homes constructed under the ENERGY STAR Homes Northwest program exceeds: (1) 7% of the total number of homes for which construction permits are issued in Idaho Power's service area in 2007..." Furthermore, under the pilot program, the Company is subject to a penalty if the "ENERGY STAR Homes Northwest program fails to reach a market share of 4.9%..." If the market share of homes constructed under the ENERGY STAR Homes Northwest program in 2007 is at least 4.9% and is not greater than 7%, Idaho Power is not eligible for an incentive or penalty ("market share dead-band").

In Order No. 30268, the Commission detailed several "technical difficulties" with the pilot program identified by Commission Staff in its comments. Over the past several months the Company and Staff have made progress in addressing some of these difficulties. One technical difficulty identified by Staff was the "uncertainty in measuring the actual Energy Star homes percentage achieved." Specifically, the Company understood Staff's concern to be related to the quantification of total new single-family homes used in the market share calculation. In its application, the Company proposed to use the Wells Fargo Idaho Construction Report listing of new single-family home permits issued in Idaho Power's service area as the source for the new home data. Under this approach, the Company's market share achievement is determined by dividing the number of Energy Star homes that received an incentive from Idaho Power by the number of single-family homes reported by Wells Fargo during the same period.

Following a discussion with Dr. Kelly Matthews, the preparer of the Wells Fargo report, it was confirmed that the Wells Fargo data covers only approximately 75% of the permits issued in Idaho Power's service area. Therefore, using the Wells Fargo data as the sole basis for the market share calculation could result in undercounting total new home construction and thus overstating the market share achievement. To address this issue, the Company and Staff have agreed on a revised approach to quantifying the number of new single-family homes in Idaho Power's service area. Under this new approach, the number of new single-family homes to be used in the market share calculation will be derived based on a combination of Idaho Power's records of new residential customers and the Wells Fargo Idaho Construction Report. The Wells Fargo data will be used to calculate a ratio of single-family homes to total residential homes in

Idaho Power's service area. The ratio will then be applied to Idaho Power's records of total new residential services added during the same period. The result is a derived number of new single-family homes that is a more complete representation of new home construction in Idaho Power's service area.

Attachment 1 details how this new approach compares to the original derivation of market share. As can be seen in Attachment 1, the market share achieved in 2006 under the original derivation method was 5.0% (estimated to be 4.9% in Case No. IPC-E-06-32). Under the current pilot program design, 5.0% is the market share threshold whereby the Company would be subject to a penalty if it achieves a market share below that threshold. Under the revised market share calculation, the actual market share achieved in 2006 would be calculated at 4.1%, which would become the new penalty threshold. While this new market share derivation method has the effect of lowering the penalty threshold from 5.0% to 4.1%, it does not improve the Company's ability to avoid a penalty. That is, since the Company's future market share achievement is computed using the same calculation method, the relationship between the market share achievement and the penalty threshold remains unchanged.

Using the revised market share calculation, the Company preliminarily estimates that it achieved a 4.4% market share of new Energy Star homes to total new homes constructed year-to-date through September 2007. The calculation of this market share value is also detailed on Attachment 1. Based on the market share estimate as of the third quarter of 2007, the company expects to achieve a market share within the market share dead-band under the pilot for 2007.

The Company views this modification to the DSM Performance-Based DSM Pilot program as an improvement to the pilot program's metrics. The Company will continue to monitor and report the progress made under the pilot program and remain open to other possible enhancements that will serve to maximize its informational benefits. If you have any questions regarding this report or if the Commission feels this revision should be filed in a more formal manner, please feel free to contact Tim Tatum at 388-5515.

# ATTACHMENT 1

Idaho Power Company  
Performance-Based DSM Incentive Pilot - ENERGY STAR® Homes Northwest  
Revised Market Share Calculation

Year	Original Derivation of Market Share			Revised Derivation of Market Share				Proposed Calculated Market Share (G / F)
	A Wells Fargo Single-Fam. IPCo Area	B Homes Completed (1)	C Original Calculated Market Share (B / A)	D IPCo Total New Resid. (2)	E Wells Fargo Single-Fam. Ratio (3)	F IPCo Single- Fam. (D x E)	G Homes Completed (1)	
YTD Sept. 2007	N/A	209	N/A	5,866	80.9%	4,746	209	4.4%
2006	8,860	439	5.0%	12,462	86.0%	10,717	439	4.1%

**Notes:**

- (1) "Homes Completed" for 2006 is the number reported in the 2006 DSM Annual Report.
- (2) New active residential metered service points with annual usage greater than zero.
- (3) Ratios of single-family dwelling units to total residential dwelling units for 2006 and year-to-date 2007 are based on new home permit data reported by Wells Fargo Bank, twelve months ending December 31, 2006 and June 30, 2007 respectively. Ratios include only data collected from sample areas within Idaho Power's service area.