

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 PILOT)
PROGRAM) ORDER NO. 30268
)

On December 18, 2006, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority 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 applied only to a single DSM program for a three-year period. Idaho Power has selected the ENERGY STAR[®] Homes Northwest program as the DSM program to be used as the pilot. The Company's Application is separate from but related to the Joint Motion for Approval of Stipulation filed December 18, 2006 in Case No. IPC-E-04-15 (Application to Implement a Fixed Cost Adjustment Decoupling Mechanism). The Commission in this Order approves the DSM incentive pilot program.

Proposed Pilot Program

Idaho Power in this Application requests authority to implement a DSM incentive mechanism that 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 be earned only 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 falls below previously agreed-upon goals.

Based on discussions between the parties in the IPC-E-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 essential feature of

this program is a prescriptive building standard, also called a building option package or BOP that establishes building standards that will result in approximately 30% greater energy efficiency than existing Idaho residential building codes. Under the program, the Company provides an incentive payment of \$750 to the builder for each home built to the higher standard and also provides marketing to encourage participation in the program. The Energy Division of the Idaho Department of Water Resources certifies that homes are built to the standard and conducts a quality assurance process. The Northwest Energy Efficiency Alliance (NEEA) provides the builder outreach and training components of the program. On average, a home constructed to the ENERGY STAR[®] standard in Idaho will save 2,078 kilowatt hours (kWh) annually as measured at the meter or 2,305 kWh including line losses. This estimate is based on an engineering simulation study conducted for the Company in early 2004 by Ecotope Consulting to determine the program savings potential in Idaho.

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 filed with the Application.

Idaho Power is proposing a three-year pilot beginning in January 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 for which construction permits are issued in Idaho Power's service area in 2007, (2) exceeds 9.8% of newly permitted homes in 2008 and (3) exceeds 11.7% of newly permitted homes in 2009. These percentage levels are 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. 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% preliminarily estimated as achieved in 2006.

On January 4, 2007, the Commission issued Notices of Application and Modified Procedure in Case No. IPC-E-06-32. Under Modified Procedure a case is processed by written

submission rather than by hearing. Reference IDAPA 31.01.01.201-204. The deadline for filing written comments was January 31, 2007. Comments were filed by the Industrial Customers of Idaho Power, NW Energy Coalition, Commission Staff and one of the Company's customers. Comments can be summarized as follows:

Public Comment

The customer filing comments summarizes the Company's two filings in Case Nos. IPC-E-04-15 and IPC-E-06-32. One, he states, would allow an annual increase to customers' electric rates if Company investments in energy efficiency programs increase Company costs. The other, he states, would give the Company financial incentives for meeting performance levels in a program to encourage energy-efficient home construction.

As the customer recalls, the most recent rate increase allowed to Idaho Power was justified by the increase in demand for electricity. Now, as he understands it, Idaho Power is seeking a rate increase if demand is decreased by conservation or efficiency measures. The customer concludes that ratepayers are being asked to pay for both increased and decreased usage.

NW Energy Coalition

NW Energy Coalition recommends approval of the DSM Incentive Pilot as filed by Idaho Power. The Coalition was an active participant in the workshops held in the IPC-E- 04-15 docket, which evaluated both a fixed-cost adjustment mechanism and performance incentives for DSM.

The Coalition expresses its long belief that electric utilities should be rewarded for providing excellent customer service and securing the least-cost and least-risk resources for its customers. The Coalition contends that the DSM Incentive Pilot is consistent with that goal.

One of the main criticisms of DSM performance incentives, the Coalition contends, is that they tend to place enormous importance on the audit of the DSM program's actual energy savings. The ENERGY STAR[®] Homes program, it states, is a good choice for the pilot because of the active involvement of the Idaho Energy Division. The program's level of success, it therefore states, will be transparent.

The Coalition supports the DSM Incentive Pilot additionally because it is structured in such way that it believes Idaho Power will need to show excellent performance in order to share in the net benefits of the program. The Coalition claims that the Northwest Energy

Efficiency Alliance (NEEA) market-share goals are significantly higher than the Company's level of performance in 2006. If the Company's 2007 performance is better than 2006, but not up to the NEEA goals, no penalty or incentive payment will occur. The Coalition believes this "banding" approach is appropriate because of the dynamic nature of the construction industry.

Lastly, the Coalition believes the Company proposes a reasonable approach to exclude costs incurred by the NEEA when calculating the ENERGY STAR[®] program's net benefits in Idaho.

Industrial Customers of Idaho Power

The Industrial Customers of Idaho Power (ICIP) requests that the Commission deny Idaho Power's Application to implement the DSM Incentive Pilot Program. ICIP contends that customers should not be required to pay Idaho Power to induce it to undertake cost-effective conservation activities. ICIP understands that the amount of money that may be at issue under the proposed pilot is relatively small. Despite the modest dollar amount, however, the principle at issue in this proceeding, it contends, is quite significant and troubling to ICIP.

Although Idaho Power's Application for the DSM Incentive Program is in a separate docket from its Application to implement a decoupling pilot program (Case No. IPC-E-04-15), ICIP notes that the two are related. ICIP states that it agreed to not actively oppose Idaho Power's request for a decoupling mechanism. The purpose of the decoupling mechanism is to remove disincentives that may be keeping Idaho Power from achieving conservation that it otherwise would, absent those disincentives. The DSM Incentive Pilot Program would go further by affirmatively adding financial incentives for Idaho Power to achieve conservation. ICIP believes that if the Company cannot or will not make every effort to achieve cost-effective conservation without incentive payments from its customers, the Commission should assign that task to a third-party provider of conservation.

ICIP further contends that a DSM Incentive Pilot Program (IPC-E-06-32) should not be implemented during the decoupling pilot program (IPC-E-04-15). Doing so, it contends, will combine the risks that would be associated with each pilot program individually, and may confound and contaminate the information derived from the decoupling pilot proposal. It is difficult to understand, it states, how either pilot program could be separately and objectively evaluated at the end of the pilot period if both have the same end goal and were tested during the same period.

Commission Staff

Staff recommends that the proposed pilot incentive mechanism be approved, contingent upon quarterly progress reports being filed by Idaho Power, and a clear understanding that the pilot's metrics may need to be refined or otherwise modified, or the pilot eliminated, before the end of the three-year trial.

Rewarding Idaho Power for exceptional achievement in encouraging construction of homes that are cost-effectively built to reduce both overall energy consumption and peak demand, Staff contends, is conceptually appealing. Clearly, Idaho Power's customers, it states, will benefit if more homes in the Company's Idaho service area are built to ENERGY STAR® standards, as opposed to minimum building code standards.

Despite its approval recommendation, Staff notes that the proposed DSM Incentive Pilot suffers technical difficulties in the following areas: (1) arbitrariness in setting reasonable, "average" achievement goals; (2) uncertainty in measuring the actual Energy Star homes percentage achieved; (3) ambiguity in determining what constitutes "exceptional" and "poor" levels of achievement; (4) potential for rewarding or penalizing Idaho Power due to factors unrelated to its program efforts; (5) necessary but problematic exclusion of regional marketing costs and benefits; (6) calculating the incentive or penalty using allocation of joint costs based only on heating and cooling degree days, not on actual energy savings or peak reductions; and (7) uncertainties of average savings per home and base percent of Energy Star homes achieved in 2006.

The numerous challenges identified by Staff, Staff cautions, warrant close monitoring of this pilot. None of the problems by themselves, or even all of them combined, Staff contends, rise to the level of negating the benefits of cost-effectively building more energy efficient homes. All of the technical difficulties and uncertainties, Staff contends, are metric issues that should remain negotiable among the Staff, Idaho Power, and other parties during the course of the pilot incentive mechanism. Staff expects that any modifications to the pilot would be presented to the Commission for its approval before any incentives or penalties are incurred.

Commission Findings

The Commission has reviewed the filings of record in Case No. IPC-E-06-32 and the related filings and recommendations. Based on a review of same we continue to find it

reasonable to process this case pursuant to Modified Procedure, i.e., by written submission rather than by hearing. IDAPA 31.01.01.204.

It is the Commission's belief that all customers will benefit from the cost effective construction of more energy efficient homes. We find that the potential benefits of the proposed three-year DSM Incentive Pilot Program outweigh any disadvantages in implementing this pilot contemporaneous with the three-year pilot Fixed Cost Adjustment (FCA) mechanism we approve in Case No. IPC-E-04-15 (Order No. 30267). As identified by Staff there are numerous challenges presented in the ENERGY STAR[®] Homes Northwest program that warrant close monitoring of the pilot. We accordingly find Staff's recommendation regarding quarterly progress reports to be reasonable.

ICIP contends that if decoupling alone is not sufficient to encourage implementation of cost effective DSM and conservation measures, that a third party should be designated to select and run the Company's DSM and conservation programs. The Commission understands ICIP's position and believes that a more prudent course is to monitor the Company's efforts. We address the customer's concerns in our FCA Order. The Commission finds it reasonable to approve the pilot program as proposed. We anticipate, however, that we may be asked to accept changes to the pilot's metrics before any incentives are paid or penalties are assessed. We also understand that the program may perhaps be eliminated if successful monitoring metrics cannot be established.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over this matter and over Idaho Power, an electric utility, pursuant to the jurisdiction granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

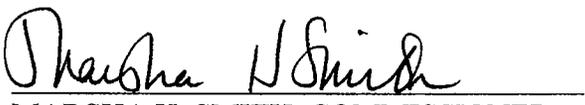
ORDER

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and the Commission does hereby approve the proposed three-year Demand-Side Management ENERGY STAR[®] Homes Northwest Incentive Pilot.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

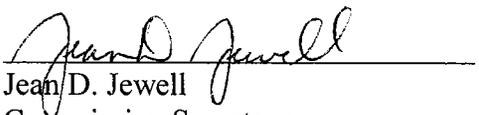
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th
day of March 2007.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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