

DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: DECEMBER 22, 2006

**SUBJECT: CASE NO. IPC-E-06-32 (Idaho Power)
DEMAND-SIDE MANAGEMENT (DSM) INCENTIVE PILOT PROGRAM**

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 only applied to a single DSM program for a three-year period. 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 Decoupling Mechanism).

Proposed Pilot Program

Idaho Power in this Application 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.

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 Idaho Energy Division (IED) 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 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. 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.

Idaho Power recommends that the Commission process its Application under Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. The Company stands ready, however, to present its testimony and support the program in a technical hearing if the Commission determines that such a hearing is required.

COMMISSION DECISION

Idaho Power has requested that its Application requesting authorization of a three-year DSM incentive mechanism pilot program be processed pursuant to Modified Procedure. Staff concurs in the Company's request. Does the Commission agree that Modified Procedure is appropriate?

Scott Woodbury

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