IDAHO POWER
An IDACORP Company

Utility Investment in Demand-Side Resources

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Workshop on Energy Efficiency

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Creating an Environment Which Supports Demand-Side Investment

1. Program Investment Cost Recovery

2. Recovery of Authorized Fixed-Costs

3. Performance-Based DSM Incentive

✓ Energy Efficiency Rider

Energy Efficiency Rider

- Schedule 91 in Idaho & Oregon
  - 1.5% of base revenue
  - Monthly caps
    - Residential customers – $1.75/meter/mo.
    - Irrigation customers - $50.00/meter/mo.
  - Approximately $8.5 million in funding annually

✓ Fixed-Cost Adjustment

True-Up Mechanism
(Decoupling)

Ratemaking Basics

- Revenue Requirement = Expenses + Return on Rate Base
  - Expenses = Fuel + Other Variable Costs + Fixed Costs
    - Fixed Costs = Fixed Operating Costs + Depreciation + Taxes + Interest
- Rate Design
  - Energy, Demand, and Service Charges by Rate Class

The Nature of the Problem

- Fixed costs recovered through volumetric rates (Energy Charge)
- Rates based upon assumed level of energy sales (Test Year)
- If energy sales are less than expected, fixed costs are not recovered
- If energy sales exceed assumptions, shareholders benefit

NEVERTHELESS…

The Nature of the Problem

EVERY reduction in energy sales yields

a corresponding reduction in the utility's fixed cost recovery!

CONCLUSION

Without a true-up mechanism, every reduced kWh

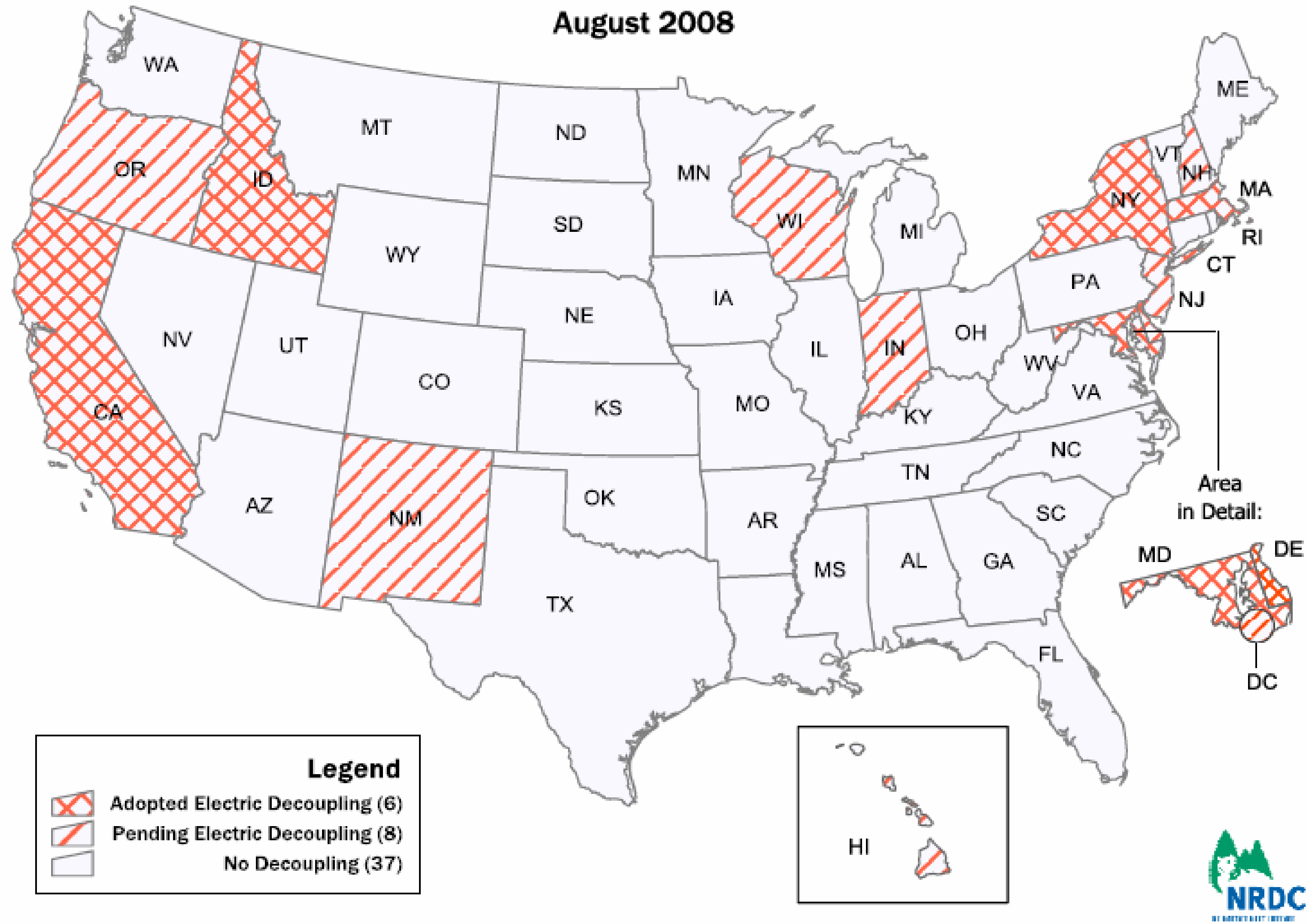
is a detriment to the Company's shareholders.

Decoupling Has Two Parts

1. First Decouple:
   - Sever link between revenues and energy sales

2. Then Recouple:
   - Must link revenue recovery to something else:
     - Number of customers
     - Inflation
     - Determinants of fixed costs (cost of capital, labor rates, etc)
     - Forecasts of billing determinants
     - Other

Electric Decoupling

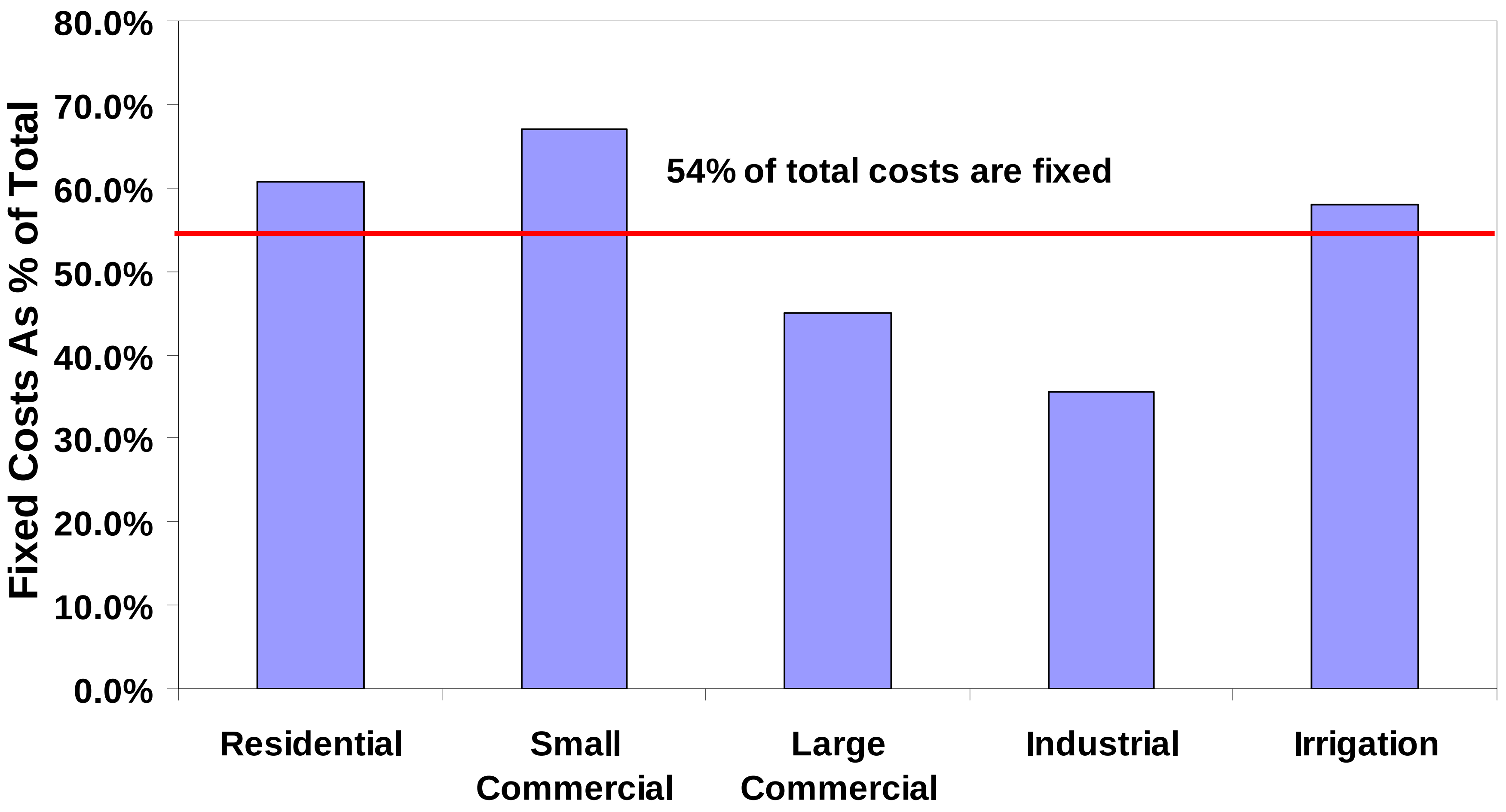


Classes Differ Substantially

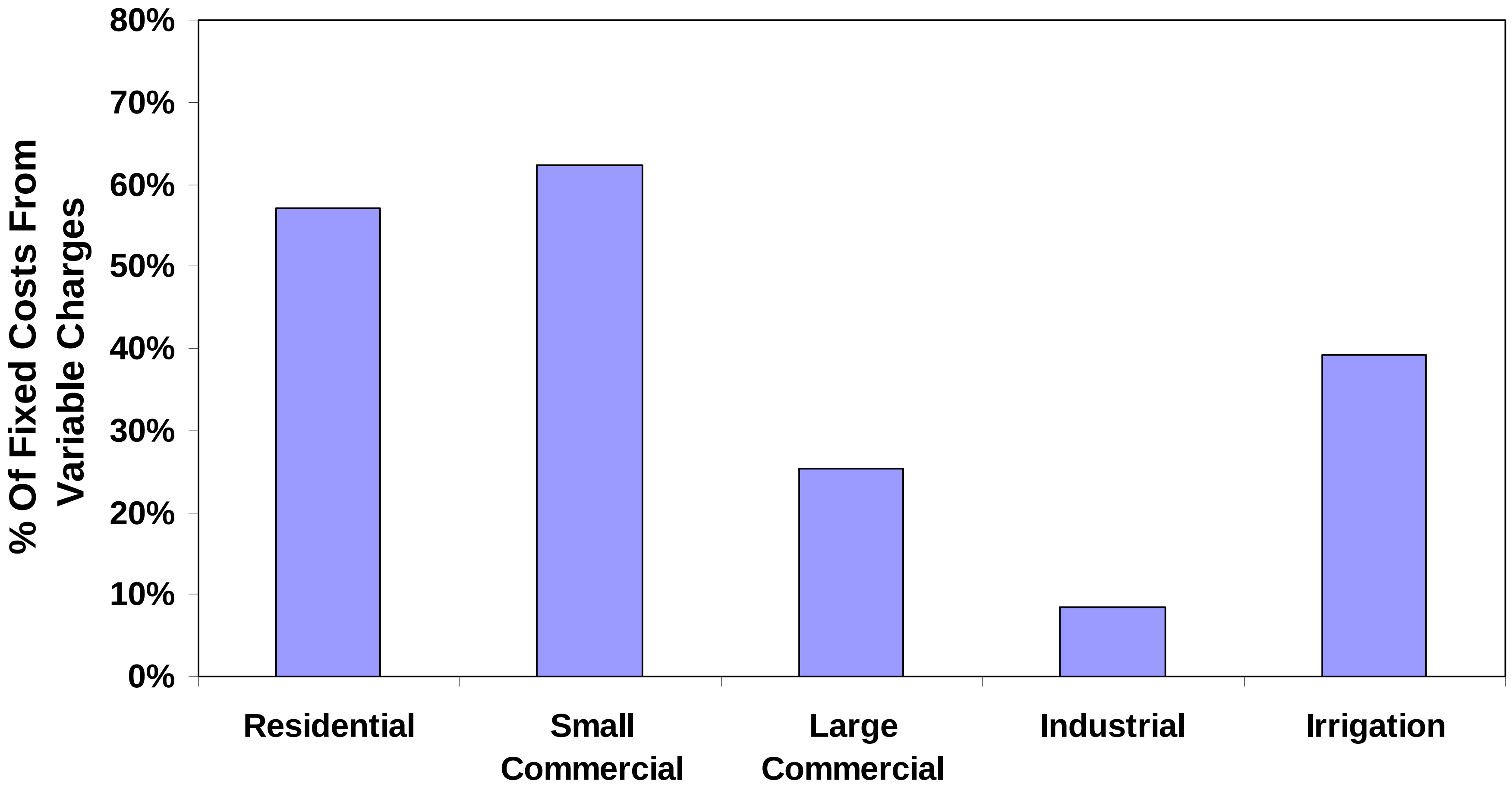
(5 classes account for 99% of revenue)

	% of customers	% of energy
Residential (1)	84	38
Small general (7)	8	2
Large general (9)	4	28
Large Power (19)	0	18
Irrigation (24)	3	14

Percentage of Revenue Requirement



Percentage of Fixed Costs from Variable Charges



Basics of True-up Mechanism

- Bill customers under current tariffs to determine ACTUAL fixed cost recovery (existing service, demand, and energy charges)
- Calculate ALLOWED fixed cost recovery using the true-up mechanism (based on $/customer)
- Put differences between ACTUAL and ALLOWED fixed cost recovery in a balancing account
- Refund (surcharge) amount in balancing account the following year

FCA Formula

$$\text{FCA} = \underbrace{(\text{CUST X FCC})}_{\text{Allowed Fixed Cost Recovery}} - \underbrace{(\text{NORM X FCE})}_{\text{Actual Fixed Cost Recovery}}$$

Where:

FCA = Fixed Cost Adjustment;

CUST = Actual number of customers, by class;

FCC = Fixed Cost per Customer, by class;

NORM = Weather-normalized energy, by class;

FCE = Fixed Cost per Energy, by class.

Fixed Cost Adjustment

- IPUC Docket No. IPC-E-04-15 – Order No. 30267
  - Adopted FCA Stipulation as agreed upon
  - 3-year pilot – January 1, 2007 – December 31, 2009
  - Residential and Small Commercial Classes
  - First rate adjustment – June 1, 2008
  - 3% cap on annual increases
  - Close monitoring by Commission Staff and other interested parties
  - Either Staff or Company can request discontinuance of pilot
  - Company expected to demonstrate enhanced commitment to energy efficiency and DSM

✓ Performance-Based DSM Incentive Pilot

What is a Performance-Based DSM Incentive?

- A “Performance-Based DSM Incentive” is a mechanism designed to reward the company for performance above its DSM program goals and impose a penalty for performance below agreed-upon levels.

Background

- Parties to the Fixed-Cost Adjustment (FCA) case recommended that IPCo implement a performance-based DSM pilot to operate in parallel to the FCA.
- IPCo developed a performance-based mechanism with input from the Idaho Commission Staff and FCA parties.
- Pilot was filed with the IPUC Dec. 18, 2006 (Case No. IPC-E-06-32).
- Commission issued Order No. 30268 authorizing the implementation of the pilot over a 3-year period (2007 – 2009).

Why Implement a Performance-Based Incentive Pilot?

- FCA removes a financial disincentive to DSM acquisition; performance-based mechanism creates an incentive.

- A pilot allows for testing of the mechanism on a limited basis.

- Experience with the pilot may lead to a performance-based incentive program that can be applied to the company’s entire DSM portfolio.

Pilot Structure

- ENERY STAR® Homes Northwest is the DSM program being tested under the Pilot.

- IPCo will earn an incentive when the program exceeds its market-share goal (7% in 2007, 9.8% in 2008 & 11.7% in 2009[1]).

- IPCo will incur a penalty when the program does not reach at least the market-share achieved in 2006 (expected to be 4.9%).

- IPCo will not earn an incentive or incur a penalty for program performance between the goal level and the penalty level.

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1. NEEA's regional goal for utility-funded ENERGY STAR Homes 2007 - 2009.

Incentive Mechanism

- Incentive will be calculated as a share of the present value net benefits resulting from the program.
- IPCo can earn up to a 10% share of PV net benefits using a sliding scale approach.
  - For example, the incentive would be 1% of net benefits for achieving 101% of the goal, 2% for 102%, etc. The incentive will be capped at 10% of net benefits.
- Simulated incentive amounts under the pilot range from $ 5,000 to $120,000.

Penalty Structure

- Penalty will be calculated as a fixed 50% share of the “lost” net benefits resulting from an unsatisfactory performance level.
  - For example, if the program achieves a 2.5% market-share level in 2007 resulting in net benefits of $100,000 and the net benefits at 4.9% market-share threshold are equal to $150,000, the penalty amount would be $25,000 or 50% of the difference in net benefits.
- Simulated penalty amounts under the pilot range from $ 5,000 to $120,000.

Implementation

- Program performance will be evaluated annually to determine the market-share achievement[2].

- IPCo will submit performance results each year to the IPUC by March 15.

- Any incentive or penalty will be applied to customers' bills through an energy-based rate or credit under the Conservation Charge line item for presentation purposes.

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2. Total housing starts will be determined based on the number building permits issued in IPCO's service area as reported by Wells Fargo Bank Idaho Construction Report.

Questions…Answers…Comments

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