

Taking Utility Energy Efficiency Programs to “the Next Level”

Nevada DSM Incentive

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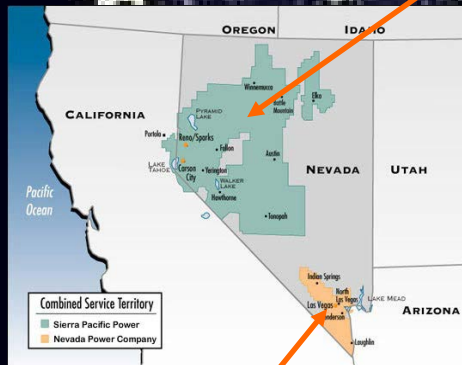
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Introduction

- **Who**
- **Alignment**
- **Enhanced Rate of Return**
- **Financial Analysis**
- **Reasonable Certainty**

Where are we?



- **Service Territory:**
 - 1.2M Customers
 - 7,800 MW Peak
 - 3% Growth





Public Policy Objectives

- Net benefit to customers
- Fair distribution of benefits among customers
- Balanced risk/reward for utility providers
- Reduced dependence on fossil fuels
- Market transformation



Alignment

- Public Policy Objectives
- Interests of customers
- Interests of utility providers



Nevada Incentive Mechanism

- Capital recovery
- 5% adder to equity portion of authorized return



Nevada Incentive Mechanism

- Project approval process
 - Part of Integrated Resource Plan
 - DSM savings are incorporated in load forecasts
 - Cost/benefit analysis required
 - Budget
 - Energy and capacity savings targets
 - Delivery process
 - Measurement and verification plan



Nevada Incentive Mechanism

- Projects are delivered to customers
 - Energy Education
 - Low income
 - Demand Response
 - Residential
 - Commercial
 - Market and Technology Trials



Nevada Incentive Mechanism

- Cost Accounting
 - Costs are collected in Account 183.2 (Regulatory Assets)
 - Costs are listed by project
 - Program design and costs of regulatory approval are not included
 - Carry charge of 1/12 of authorized rate of return is applied to the balance each month



Nevada Incentive Mechanism

- General Rate Case
 - The balance of the 183.2 account is included in the filing of each general rate case
 - The Public Utilities Commission approves only reasonable and prudent expenditures for capital recovery



Nevada Incentive Mechanism

- Cost Recovery
 - Three year amortization
 - Incentive provides a 5% adder to the equity portion of the authorized return
 - Authorized rate of return without adder is 9.06%
 - Authorized rate of return with adder is 11.43%



Sharing the Net Benefit

(Nevada Power Company - 3 years)

Cost Recovery Mechanism	Net Benefit to Customers	% of Net Benefit to Utility
Expensed	\$121,849,262	-
Capital Recovery	\$113,988,045	6.5%
Enhanced Capital Recovery	\$111,931,634	8.1%



Financial Model

- PortfolioPro

- Based on California Standard Practice Manual
- Total Resource Cost Test
- 8760 hour avoided energy and capacity costs
- DSM program costs
- Incremental additional costs for customers
- Additional costs and savings for customers
- Energy and capacity savings
- Freeridership impacts



Reasonable Certainty - Customers

- Comprehensive Measurement and Verification
 - Third party M&V contractor
 - Results used to adjust future projections and refine programs
- Annual DSM Update Report
- Only prudent and reasonable costs are approved by the Public Utilities Commission



Reasonable Certainty - Utility

- DSM Plan based on Commission approved projects and budgets
- Prudent and Reasonable costs will be recovered
- Similar to capital investment in wires and hardware
- Simplicity



Budgeting

- Nevada is fast growing state
- Strong competition for utility capital dollars
- DSM gets priority treatment for internal resources
- All proposed DSM program increases have been funded



Alignment - Results

- Renewable Portfolio Standard
 - 20% of sales in 2015
 - 12% in 2010
 - 1/4 of the requirement may be met by energy efficiency measures
- DSM energy savings will exceed 1/4 of the 12% requirement by 70% in 2010



Thank you

Questions?

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