REVISED MINUTES
(Approved by the Committee)

ENERGY, ENVIRONMENT & TECHNOLOGY INTERIM COMMITTEE

Wednesday, September 17, 2008

Capitol Annex, Room 204, Boise, Idaho

The Energy, Environment & Technology Interim Committee was called to order by **Co-chairman Curt McKenzie** at 9:32 a.m. on Wednesday, September 17, 2008. Members present were: Co-chairman Senator Curt McKenzie and Co-chairman Representative George Eskridge; Senators: Patti Anne Lodge, Russ Fulcher, Kate Kelly and Elliot Werk; Representatives: Maxine Bell, Eric Anderson, Bert Stevenson, and Wendy Jaquet. Members excused were: Senator Mike Jorgenson and Representatives: Ken Andrus, Bob Nonini, Elaine Smith and Ad Hoc Member Representative Mark Snodgrass. Staff members present were Mike Nugent and Twyla Melton.

Others present were: Representative Dell Raybould, Co-chairman of the Natural Resources Interim Committee; Commissioner Jim Kempton, Donald Howell, Idaho Public Utilities Commission (IPUC), and Randy Lobb, IPUC and Idaho Association of Commerce and Industry; Paul Kjellander and Ken Eklund, Idaho Office of Energy Resources; Rich Hahn, Idaho Power; Russ Hendricks, Farm Bureau; Andrea Shipley, Ken Miller, and Liz Woodruff, Snake River Alliance; David Hawk, Energy Analysis & Answers; Ken Baker, Association of Idaho Cities; John Weber, Westside Body Works; Micah Kormylo and Jeremy Pisca, Evans Keane; Jerry Deward, Capital West; John J. Williams, Bonneville Power Association (BPA); Martin Bilbao, Connolly & Smyser Ltd.; Beth Markley, Idaho Council on Industry and Government; Kelsey Nunez, Green Leeders; Brian Whitlock, INL; John Gifford, SRA; Sam Boyd, Ridgeline Energy; Justin Hayes and Betsy Bridge, Idaho Conservation League; Holli High and Roy Eiguren, Exergy Development Group; Brenda Tominaga, Idaho Irrigation Pumpers Association; Colby Cameron, Sullivan & Reberger; Neil Colwell, Avista Corp.; Ron Williams, Idaho Consumer Owned Utilities Association; and Dan Olberley, Idaho Grain Producers.

NOTE: All copies of presentations, reference materials, and handouts will be on file at the Legislative Services Offic (LSO).

Co-chairman McKenzie called for a motion on the minutes from June 26, 2008. Representative Stevenson moved to accept the minutes as printed. Senator Werk seconded the motion and the motion carried by unanimous voice vote.

The first topic for discussion was regarding incentives for hybrid, high mileage cars. **Representative Bell** stated that she brought this topic to the committee on behalf of the automobile industry in her area and **John Weber**, Manager, Westside Body Works, reviewed a

handout on the benefits and downfalls of both the hybrids and electrical vehicles (on file at LSO). **Mr. Weber** and his crew have designed, built, and now operate a car in Boise with a speed of 45 mph and a 40 mile range that covers the average commute in this area of 11.5 miles at a cost for electricity of about two cents per mile. The cost of production of a chassis is currently the only obstacle to building this car economically. **Mr. Weber** went on to explain that the state could find it economical to use more hybrid and electric vehicles for certain uses, but not eliminating gas vehicles altogether; **Mr. Weber's** activities in this area have drawn national and local attention. The objective of Westside is to obtain a ready-built chassis without any of the gas fuel requirements added and convert it to an electrical driven car that could be built to sell somewhere in the low $20,000 range. **Mr. Weber** asked for questions.

Senator Kelly stated the benefits of the electric vehicle and then asked about the generation of the electricity. **Mr. Weber** agreed that the electricity had to be generated and put into the cars. There are ways to conserve electric generation by re-energizing the car using baseload power.

Senator Werk asked for more detail on the cost of maintenance for the hybrid versus conventional gas-driven vehicles. **Mr. Weber** said that typically the biggest maintenance cost is the filter used to filter air going into the air conditioning system for the batteries. Those vehicles used in dusty conditions such as back-country usage, use more filters which run about $28 each and are only available through Ford Motor Company. NAPA should have these available soon in the $7-$8 range. Other than that, he said there is not a lot of extra maintenance. So far, no batteries have needed to be replaced. A battery runs about $5,000 and are supposed to have a life of 8-10 years. Hybrids do not require maintenance as often, and the oil change cycle goes longer because the vehicle is driven by electricity half the time.

Representative Jaquet inquired about the number of electric cars that are now on the road. **Mr. Weber** responded that there are probably less than ten on the road in this area and most of those are "do it your selfers." The conversions now are so much better because the parts are better and will continue to improve exponentially.

Representative Bell appreciated hearing **Mr. Weber's** explanation and his thoughts on establishing a manufacturing facility and having some credits for that type of activity. The current objective of the automobile industry is just to sell more hybrids., and there is a downside to that too. There is already a shortage of gas tax for the roads. Investigation is being made to find ways to gain an adequate revenue stream for the roads, so, on one hand, there is a tax break for buying a hybrid and then less gas is being used and there is not enough gas tax to maintain the roads.

Representative Jaquet was intrigued that Idaho could possibly be a center for conversions and/or manufacture of hybrid cars. The state is always looking for new kinds of opportunities, especially in manufacturing; it is also interesting to see what the INL testing will find. There should be more research and development which would be more appropriate that looking at a credit or deduction. **Mr. Weber** said they are more interested in getting manufacturing and distribution set up in

Idaho. The INL is testing plug-in hybrid conversions that are expected to get up to a 30 mile range on electric at a cost of $10,000-$15,000. There is already a car available that will get 50 plus miles on electric and the whole conversion cost is $15,000. It is not economical to convert current hybrids into plug-in hybrids and the conversion batteries are not very good at this time. Currently, the biggest requirement is to be put in contact with a manufacturer that would be willing to provide a rolling chassis or glider for a small car that would hold four people. One other opportunity would be to invite a Norway company that has shown interest in this area of energy-efficient cars to come to Idaho to assemble their cars.

Representative Jaquet asked **Mr. Weber** who he was working with at the Department of Commerce and upon his response that no one had been contacted, she suggested that a committee member might look at this company and work with the Commerce Department to see if there are some incentives that may be available to them.

Co-chairman McKenzie stated that if the issue is getting the rolling chassis, this may be a good time to get U.S. manufacturing to provide them. However, maybe the Legislature is not the right venue but the Department of Commerce and Congressional delegates may be a better way.

Senator Fulcher said that, coming from the tech world, existing challenges for "planned obsolescence" is similar to the products being discussed. He asked if this industry has matured far enough that improved replacement technology is being offered as it becomes available to allow for a much larger buy-in from the consumer. **Mr. Weber** stated that he is seeing a larger variety of equipment that is available for these cars, for instance, improvement in batteries. In the future, there probably won't be batteries in electric cars; they will be replaced by capacitors which do not wear out and can be charged very quickly. At this time, a capacitor doesn't have enough capacity. He said there is a big demand for these cars and the answer is to find a company who will produce the rolling chassis so the cars can be built economically to meet local, national, and international demand.

Co-chairman McKenzie asked if there would be a market for this mass production of 50,000 to 100,000 cars. **Mr. Weber** responded that there would be a worldwide market for at least 100,000 per year.

Co-chairman Eskridge referred to the hybrid and asked if there is a federal incentive available. **Mr. Weber** thought there was a federal incentive for the hybrid and it is based on how many vehicles are sold per year, adding that it may expire this year.

Co-chairman Eskridge asked how the Prius compared in cost to other vehicles, how much is the difference and what is the gas mileage. **Mr. Weber** said the cost is about $3,000-$3,500 more because of the battery and the technology as compared to a plain, gas car. The Prius gets about 43 mpg which decreases with the use of studded tires. **Co-chairman Eskridge** asked about the cost and environmental consideration of disposing of the batteries and how often the batteries must be replaced. **Mr. Weber** responded that at this point there have not been many batteries that fail but

the manufacturers are taking the batteries back for the hybrids. The batteries used in the electric cars are also returned to the manufacturer and 98% of the material in the batteries are recyclable. **Co-chairman Eskridge** asked how often the batteries have to be replaced in a hybrid. **Mr. Weber** said that the batteries in the hybrids are being advertised as having a life of 8-10 years, about 100,000 miles, and in the electric car, about 40,000 miles, but the cost is much less for the batteries.

Co-chairman Eskridge asked **Mr. Williams** to yield to a question. **Co-chairman Eskridge** requested information on the status of the electric car project that Bonneville Power was working on a few years ago. **John Williams**, BPA, responded that the program has been put "on the back burner."

Representative Jaquet stated that her Prius gets about 54 mpg. She asked **Brian Whitlock**, INL, for an update on their research project.

Mr. Whitlock explained that INL, as an unbiased research entity, works with industry and government to help develop standards and evaluate technologies. INL is looking at internal combustion engines that burn advanced fuels such as 100% hydrogen and hydrogen-compressed, natural gas leaded fuels. They looked at hybrid electric, pure electric, and hydraulic drive systems. Significant work is being done with advanced batteries and engines which are key elements in the plug-in hybrids and pure electric vehicles. They are concentrating on batteries, but are also working on some of the ancillary systems. **Mr. Williams** distributed a handout on a project being conducted in Washington that tests plug-in hybrids. (On file at LSO.) The INL Web site has data results on this study. The math, science, and data is being provided by INL and then the state can make the policy decisions based on that information plus the cost effectiveness of the technology to the consumer. INL is involved in plug-in hybrids, neighborhood electric vehicles as well as hydrogen fuel. The Web site allows access to data collected from around the country; industry, government, and the consumer has access to this information.

Representative Bell inquired if a state might have to provide a tax credit of some kind to offset the cost to encourage the use of this type of vehicle. **Mr Whitlock** responded that after the testing and research is completed and the data is available, that is for the policy makers to determine. INL does't have an opinion on what the states may or may not do.

Senator Kelly referred back to the conflict between incentives and revenue streams and agreed that this is an intriguing policy question. The energy plan set a priority for conservation and efficiency on all sides. This question is appropriate for this committee considering the issues with transportation funding. It is important to provide incentives to encourage behaviors and promote economic development to meet policy goals. These issues must all be addressed.

Representative Stevenson provided an example of the Kodiac snowplows and how they found a way to have a chassis built and volunteered to introduce **Mr. Weber** to the Kodiac people so that he might benefit from their experience.

Co-chairman Eskridge inquired about the 2010 Olympics and the "hydrogen highway" running from California to Vancouver, B. C., asking how close is the possibility of having this type of scenario. **Mr. Whitlock** stated he would get specifics. There is work being done in relation to the 2010 Olympics, but **Mr. Whitlock** is not sure of the status. **Co-chairman Eskridge** thought this would be a great demonstration project and he would also be interested in the cost of producing the hydrogen. It is also a great opportunity for nuclear energy. **Mr. Whitlock** agreed, and said that is one of the items involved in the next generation.

Co-chairman McKenzie followed up on what **Senator Kelly** and **Representatives Jaquet** and **Stevenson** were saying about incentives. It looks like there are three kinds of incentives being discussed:

- Incentives for the consumers to buy;
- Recommendations to the executive branch to buy;
-Getting more chassis to the manufactrer.

Co-chairman McKenzie said that from a policy perspective, it seems getting the chassis is the easier of the three. He asked if there was any other discussion by the committee and does the committee want to pursue this project and help facilitate some access to the rolling chassis or glider.

Senator Werk stated that the danger for a company such as Ford, if they send gliders out to another company, their name becomes associated with a product they have no control over, and that may be an issue. Losing control of a primary vehicle would be a major issue.

Representative Jaquet asked if **Representative Stevenson** could expand his conversations with Kodiac to also include the Department of Commerce. **Representative Stevenson** agreed.

Representative Bell asked for unanimous consent that this issue be tabled for the time being. He said that we know a little about what other states are doing but we do not know the offsets to their tax base. Idaho must do some work on the revenue base for transportation, another hole should not be put into that base. **Co-chairman McKenzie** stated that the unanimous consent would be to table this issue at this time and to continue to get information with respect to what other states have done with both the costs and the benefits from incentives on the consumer side. Hearing no objection, so approved.

Mike Nugent, LSO, distributed some sample statutes from other states (on file at LSO) from the perspective of definitions of hybrid car, alternatives fuel car, and incentives.

Senator Kelly asked if the research brought forward any discussion of the dilemma of fuel tax generation and incentives for purchase of cars that will decrease that revenue. **Mr. Nugent** responded that many of these statutes were passed when gas was $2.00/gal. and with the increase to $4.00/gal, people are buying a lot less. In this environment, there would probably be a different scenario dealing with funding issues. **Senator Kelly** added that there may be a natural incentive

for people to buy more efficient cars which would mean a natural market without any incentives.

Senator Werk entered this discussion of balancing the funding of roads when cars are going to be much more fuel efficient in the future. The gas tax will not work in the future because it will not keep up with the demand. An idea of a "propulsion energy tax" has been brought forward. There is a possibility of cars never going to the gas station and a "plug-in" car is using energy as well as a gas car, that being an interesting question.

The second speaker for the day, **Senator Werk,** distributed a rough draft of legislation addressing energy costs for Idaho schools (copy at LSO). There have been previous discussions on energy-efficient buildings using two different processes that result in higher performing buildings: 1) Integrated Design and 2) Fundamental Commissioning. A bill was presented to the Senate State Affairs Committee last session that required school districts to use these processes and provided the money to pay for Fundamental Commissioning through the bond levy equalization program. The discussions in the committee were robust; there was much dissension about mandating the use of Fundamental Commissioning and Integrated Design. The committee requested an incentive- based program instead of a required program. Using these designs create at least a 20% energy efficiency in a building before any other incentive occurred. The rough draft being looked at today is very similar to what was introduced and discussed last year and this committee is asked to provide opinions and suggestions before the draft is finalized. **Senator Werk** provided a brief overview of the draft. As a part of this bill, the Division of Building Safety has been asked to promulgate rules to specifically define the two processes so the schools would have a clear blueprint as to what they have to do to comply. There also must be a building optimization plan by the schools for maintaining the facility and the minimum scope would be defined by the Division of Building Safety.

Incentives would be the building maintenance requirement introduced in the 2006 HB 735. The school districts currently must set aside 2% of the value of the school buildings for maintenance of those buildings each year. Referring to page 3, Section 33-1019 of the draft bill, there are many factors as to how much help each district gets from the state's matching funds such as demographics, value of properties, etc. The incentive has been created to refrain from using state general funds; there just are not any available. The benefit to the school district, if they build this building, is that its share of the maintenance match could be used for other needs such as aides, computers, books, etc. This money used for the maintenance match is "freed up" to use elsewhere. The incentive tapers off over five years. The first year, no money will be put into the maintenance fund; second year is 100%, but then it is graduated downward–80%, 40% and 20%, so the school district puts in 0% the first two years, 20% the third year and so on.

The basic outline is: if a building is built using these processes as defined by the Division of Building Safety and optimizing the building each year, the opportunity will be provided to free up the matching funds to use elsewhere in the district for a five-year period of time.

Co-chairman McKenzie asked if the school districts have been asked for input at this point.

Senator Werk said there have been some discussions and there was an email sent out to the school districts through the Association of School Administrators to ask school districts to think about and provide suggestions about what kind of incentives they would like to see. The discussions about turning this into an incentive program has been well received by the different school organizations. This draft has not been distributed to the school districts yet. The idea is to get input from this committee about what they think before going out to others.

Co-chairman Eskridge inquired if this covered just new buildings or if it will be for remodels too. **Senator Werk** responded that it would be new buildings only, but there is a process for performance contracting for upgrading school buildings.

Representative Bell requested clarification of references to 33-905 (3) and 33-1018 B in the draft bill on page 3, Section 33-1019. **Senator Werk** suggested that the best person to explain is **Jason Hancock**. The state general fund and the lottery funds provide some of the match for the school districts so the scale is sliding depending on the value of the property within a district with a wide variation in how much each school district gets in matching money from the state.

Representative Bell stated that in actuality, this is just a redirect on funding that is already in statute. **Senator Werk** agreed.

Representative Jaquet asked for confirmation that the school matches for the maintenance monies would be used for other needs if a new building was built using these processes. **Senator Werk** concurred. **Representative Jaquet** saw this as a problem since the maintenance fund was created to assist school districts that could not afford maintenance and now these funds will be redirected. "Have you looked at a private sector kind of approach to this issue?"

Senator Werk addressed the first question relating to what kind of loss is associated with not providing a full maintenance fund set-aside for the maintenance of the building. The maintenance funds set-aside will be minimized for the first five years of occupation of the building. In smaller districts there is usually more matching funds coming from the state. There is not going to be a time when funds are not flowing into that maintenance account; it is just decreased by the amount of the incentive package. If better buildings are built, they will need less maintenance and will last longer. Using this kind of offset, there is the impact on the set-aside, but it is a sliding scale so there is only one year the district is not contributing to the fund. It cannot be denied that there is a question of there being enough maintenance money being set aside.

Senator Werk responded to **Representative Jaquet's** other question stating that the private sector approach referred to was performance contracting. There are issues in this area. All these companies are claiming that they are meeting these goals and everything is wonderful but that portrayal is not entirely correct. **Senator Werk** is open to any idea that could be done in the private sector to provide incentives for the use of these processes that will result in better buildings. However, for the design and implementation of construction, performance contracting is not available except for timing.

Representative Jaquet inquired about a certification or registration for the funding of the commissioning because there could be the same kind of issues on non-performance. The legislation might be expanded to cover that. Also, one district in her area just passed a bond plant facility levy because they were going to be closed when an inspection of the building found multiple problems. There is a concern about using that special maintenance fund.

Representative Eskridge asked for clarification on the concept. The concept was basically to cover the cost of integrated design and fundamental commissioning resulting in higher efficiency buildings. "Is that the objective to be covered?" **Senator Werk** agreed. **Representative Eskridge** questioned if that would be a substantial enough amount over that five-year period giving them a far greater monetary advantage than just covering integrated design and fundamental conditioning in the cost of construction. **Senator Werk** said that the level of incentive will work for some buildings and won't work for others. It will depend on size of building, overall construction costs, and the relationship to the state's match in the maintenance fund. The nature of the incentive without using substantial general funds would not cover every instance of every building in every district.

Representative Eskridge found it difficult to think that eighty school districts using this program would have a windfall by not setting aside this extra money. All the incentive is for is encouragement to build a better building and just trying to cover that additional cost. "Is there a real possibility of a windfall?" **Senator Werk** stated that the idea in last year's legislation wasn't to provide a windfall but to make sure that those costs were covered for something the district was required to do. In this instance, in some cases, the incentives would more that cover the added costs of fundamental conditioning. The hope is to get some districts to use these processes and then the success stories would percolate out so all the districts could see the benefits of using these processes and take advantage of the incentives available. Other incentive-based packages may need to be considered that provide more money than the districts would ever spend using these processes to build their buildings.

Representative Eskridge liked the concept and said that the interest of the school district should be to build the best building they can with the money that is available and not an incentive to provide them extra money for whatever reason. There should not be a deviation from that task when talking about additional revenues. A program should be supported that will cover the additional costs of commissioning and integrated design and the extra cost of construction that it takes to build an energy-efficient building with an economic benefit. The problem with the school districts is that they can't get enough money up front to do that so this type of incentive addresses that problem. **Senator Werk** agreed that districts think about building a building, owning a building, and running a building, also look at the life cycle costs of operating the building. A district may be able to take advantage of this incentive and look at their return on investment in terms of the energy efficiency being built into the building and a better performing building and see that five years down the road the district would be better off.

Representative Jaquet stated that we are paying the O & M bill right now on an ongoing basis.

It may be prudent to fund a "dog and pony" show to present this idea across the state making it clear and explaining why it is so important, since it is a difficult concept to understand. **Senator Werk** stated that it was difficult to educate the school districts on performance contracting because of the ongoing changes in personnel, even with the cooperation of School Board Association and their training programs. Anything that can be done to educate districts so that they see that when a building is built to last fifty years, the best and most efficient building should be built because the costs of operating the building exceeds the cost of building the building. **Representative Jaquet** commented that there needs to be a way to get administrators better educated in this area and as a committee, suggested figuring out a way to do that.

Representative Eskridge reminded everyone that some kind of incentive package should be implemented in the near future because opportunities are being lost. There are real possibilities with this program, it is voluntary and the Division of Building and Safety could support such a program in an advisory capacity.

Senator Werk asked **Representative Bell** to yield to a question. **Senator Werk** asked if it would be possible to add to this incentive given that the bond levy fund may be in trouble. **Representative Bell** reported that the bond levy fund is already in trouble and there are some programs already in place the state can't afford. Incentive funds are not available for a new program, so maybe this is the year for education. If this program is put into place, the districts will assume that the state will back it up with dollars. This is not the year that programs can be broadened or increased; they are doing well to stay afloat.

Representative Eskridge wanted confirmation that this does not require any state funding. **Senator Werk** concurred stating that only the district's contribution was involved.

Representative Bell wanted confirmation that the question was for new incentive money. **Representative Eskridge** emphasized that was not the case. The request was for confirmation that the state would not give more money.

Representative Stevenson followed up on **Representative Jaquet's** question. Part of the problem is a school board and superintendent meeting with engineers and concluding they can't afford the expenditure and trying to decide how to get a bond issue through, not understanding the commissioning and the benefits. Until there is a mechanism so they understand, then building these buildings with the energy efficiencies will be a hard sell.

Representative Eskridge reminded everyone that this is voluntary; if a school district can see merit, they will take advantage of it. If they can't convince themselves or their public, then they will not do it, but at least the tool has been provided if they want to use it. **Representative Stevenson** proposed that this may be a way to get the information to the school districts. It is a voluntary program if they want to participate. **Senator Werk** said that putting money on the table may be a way to get their attention.

Co-chairman McKenzie raised a question about the language on line 23 of page 4 of the draft. It said to qualify the building has been constructed pursuant to the provisions of subsection (6). Should subsection (6) refer to Code 33-356 because that is where it says if you use fundamental commissioning and integrated design. **Senator Werk** affirmed that was correct.

Co-chairman McKenzie stated that this is a proposal to keep following up on last years proposed legislation without using general fund monies or the bond levy equalization fund which are more than tight right now. He said that this view of education is important and that maybe this is a tool to learn more about the process so more school districts will realize the value. He asked if the committee wanted to put this out for information for now and reconsider at a future meeting. **Senator Werk** agreed. The idea was to put this draft before the committee; there are some additional ideas for an educational component to be added as well as a certification process. **Senator Werk** asked for permission to take this out, find out what the districts and organizations think and come back with a little more information, bringing another draft before the committee at a later date.

Representative Jaquet added that the school boards and administrators are meeting right now and that may be an opportunity to get the information out to them.

Co-chairman McKenzie directed that a follow-up be scheduled for the next meeting.

Representative Stevenson addressed the third topic on the agenda, draft legislation for electric and gas utility rates (on file at LSO). Over the years, there has been a struggle to devise methods where new development would pay its own way. This legislation would give the PUC authority to address that issue by allowing at least part of a new facility to be allocated to new growth as it comes. During the discussion, the IPUC may not be able to discuss tiered rates because of a rate case that is before them at this time.

Commissioner Jim Kempton, IPUC, opened the discussion about rate increases explaining that the IPUC has been "slapped on the hands" by the Supreme Court twice when they tried to make some changes to allow for the cost to build. The Legislature faced this in the past with development impact fees where some of the costs would go back to the general public. This is the same thing on the gas and electrical side. There is the example of the user who has had no change in equipment or usage and the rates increase because of new growth. There were two rate cases that went before the Supreme Court trying to address this issue and in both cases the utility was told "no" because there could be no distinction between old and new. Because of this, there is a new sentence amending *Section 61-315, Idaho Code* regarding <u>New Capital Investment. (2) With the approval of the commission, a public utility may establish reasonable non-recurring charges for new customers to partially recover the costs of public utility capital investment in new facilities to serve new customer growth.</u>

This is a partial recovery of a reasonable amount of a non-recurring charge; the question is, what is reasonable. Reasonable could best be defined in this case as what standards the Legislature puts on existing or future legislation.

Tiered rates have not been implemented in Idaho although it has been considered. It is incorporated in the new Idaho rate case so that can't be discussed here and the specifics are not germane to this discussion today. The question here is, if you are allocating different rates within the same class of customers because of a tiered rate philosophy, then some portion of the costs of new development (generators) are accorded the same tiered concept, so someone using more power would have to pay more of the utility costs. The language is simple, it does not bind the Legislature, it opens the IPUC's possibilities to try and investigate some areas and have hearings, moving away from the adverse reactions from the court.

Representative Jaquet referred to an instance of line construction in Fairfield where the cost for distribution lines would have been $1.0 million per mile. "Is this an example of a non-recurring cost?"

Commissioner Kempton explained that the distribution lines coming from the main line into a new development generally are charged to the development. The items being discussed today are hookup fees and larger generating facilities, in conjunction with the tiered rate process that separates new and old customers.

Representative Jaquet asked if this was an impact fee idea. **Commissioner Kempton** said it is not quite an impact fee, but the concept is basically the same where new developments come in and pay some part of cost through processes that would have to be worked out with the utilities. That would be in line with what the Legislature required, and it is more effective in a tiered rate environment than in specific allocations and is spread over a larger population base. **Representative Jaquet** said that discussions in the Property Tax Committee indicated that growth should pay for itself and this is another way of trying to address that issue. The concern is that small communities that want to encourage development would be prohibited from expanding because of this type of tiered rate environment. Growth should pay for itself ,but not discourage growth in communities working hard to grow. **Commissioner Kempton** stated that tiered rates would apply across an entire class, not to a specific development. When talking about the development side with the $1.0 million, **Commissioner Kempton** was not sure about how those costs are stipulated.

Randy Lobb, IPUC, explained how the cost of distribution lines are allocated. The distribution costs are basically charged against the customer requesting service; it is a cost causation. This legislation addresses the general cost of adding new generation units that can't be assigned to a particular customer so that costs need to be spread over all customers or do an assessment. **Commissioner Kempton** asked if this applied to distribution from the main line to a development which was the question **Representative Jaquet** asked. **Mr. Lobb** said that for a residential subdivision, there are rules the Commission established that define what rates are required to support transmission and distribution lines and all costs above what the subdivision will generate in new revenues to cover those costs will be paid by the developer. The developer pays all costs up front and when a new customer hooks up and generates revenue to the utility, the developer gets a refund because the company now generates revenues for that investment and they don't need the capital contribution from the developer anymore. These are the two ways costs are

covered:

1) Collect up front from the developer;
2) Revenues are generated by new customers.

Commissioner Kempton stated that this is an issue when presenting a rate case.

Representative Jaquet didn't understand what was meant by having a tiered system that all the people within that category would pay that tier adjustment asking how that helps people who are downsizing or making no changes in usage at all to keep rates down. **Commissioner Kempton** took subdivisions out of the picture because they are just a part of the major growth across Idaho. When there is a rate case and looking at a tiered rate structure, there is a charge up to a certain amount, it is stair-stepped upward in cost as usage increases. Within those, there is also the possibility of charging new construction costs, applying at the same ratio as the steps in the tiered rate system, and allocating more of the plant facility costs to the high-use customer than to the low user. This would only be considered after group meetings and discussions occurred.

Co-chairman McKenzie stated that this would apply to new customers, not necessarily the higher-use customer. **Commissioner Kempton** understood the language to say partially cover the costs of public utility capital investment for new facilities to cover customer growth. The facilities for new growth cannot be allocated to just those specific new people. The Supreme Court says that cannot be done.

Representative Eskridge asked if the rate that is being discussed is separate from the tiered rate. This is a separate, one time charge, to a new customer to compensate the utility for transmission or generation investment. **Commissioner Kempton** responded "yes, it is for the investment the utility makes." The only reason tiered rates were being discussed was as an example of how the current issue might be considered as a possible way of implementing this language; there could be other methods. The language clearly states that there can be no discrimination between classes of service or localities. Whatever is proposed must be reasonable, non-recurring charges associated with new development requirements in terms of utility costs for generation or transmission. **Representative Eskridge** pursued his question. In terms of generation, existing customers increase the generation requirements of a utility and he asked how to differentiate between the growth in demand being created by existing customers and the growth and demand as a result of a population increase or new subdivision. The tiered rate concept may be better because the more you use, the more you pay, and that covers all consumer classes whether new or old.

Commissioner Kempton explained that, given the cost of service study done for every rate case, the new utility facility costs could be broken out and applied to every bill based on the prorated percentage of the utilities costs. It might be applied based on square footage of a house where the larger the residence and the more energy that is used would get a larger percentage of the cost causing a heightened awareness of energy usage by the consumer. It then becomes a conservation issue and the court did find that a distinct difference could be made between classes in areas of conservation; also, by using this concept, it takes it away from the old versus the new. This is a concept only and is intended to be discussed further.

Senator Kelly asked if this could also apply to water. **Commissioner Kempton** said that water is already being charged in tiered rates. In the smaller towns this is particularly true due to watering yards, the more that is used the higher the cost. **Senator Kelly** referred to an earlier reference to a case in Washington state. **Commissioner Kempton** stated that case was one where the PUC tried to apply all of the costs of one plant development to one subdivision. **Senator Kelly** reiterated that tiered rates are not being considered here but capital investment, one time, non-recurring, asking if this wouldn't change that situation. **Commissioner Kempton** responded that it could change it, if it was determined to be reasonable after going through the process and "reasonable" would be established through discussions, workshops and meetings with the Legislature.

Senator Kelly asked if there would be rules adopted to define all the terms used. **Commissioner Kempton** said that there possibly could be rules and probably would be rules developed. Typically rules are generated where clarification is required.

Senator Kelly stated that this would apply to new growth that is commercial or residential, it doesn't matter. **Commissioner Kempton** said that the way it is written now, it would.

Senator Werk asked how this would affect people with decreased usage through use of other energy systems asking if they get a credit; he also asked if a new customer could be an old customer who moved to a new house. **Commissioner Kempton** answered that if someone goes to a new development, there may be additional costs related to that development; otherwise, those are established charges that are currently in effect.

Representative Jaquet asked for some comments from **Don Howell**, Office of the Attorney General, that related to some of the questions about rules and also about clarifying the statute so that it would be more specific. **Mr. Howell** explained that the single sentence in the draft was only to address new customers and the costs caused by new customers. It doesn't have anything to do with tiered rates or line extensions to subdivisions. It is to allow the Commission to have another tool. In the utility world, non-recurring means hookup fees. A brand new customer would incur a hookup fee. What the court is clearly saying in the two rate cases is that all the costs of new growth or new capital investment cannot be assigned to new customers and that is why the words "partially recover" is used in this sentence. This would also deal with water companies. If there was an established water company with established customers being served by existing wells and a new subdivision was added that meant digging a new well, then the IPUC could ask for a new hookup fee so that those customers in the new subdivision would pay for the cost of the new well, not all of it, only a part of it because usage does increase, even with existing customers. This doesn't have anything to do with tiered rates; concepts are the same, but it does not address tiered rates. The Commission already has authority for tiered rates. Also, in response to **Representative Jaquet**, all of those items would be covered in the rate case. **Commissioner Kempton** clarified that this is not about hookups only. The only question is new customer growth and what is intended by that and how reasonable that is; it is more expansive that just hookups.

Representative Stevenson stated that this is an issue that must be dealt with at some point in time. This should go through the process. When there is a rate case hearing, there is a stringent process including intervenors and they cover every facet of the application. This language allows them to confront the impact of growth.

Representative Stevenson moved to refer this amendment to the Energy and Environment Committee for a full hearing. Representative Bell seconded the motion.

Representative Eskridge stated his concern because the utility business is very capital intensive and rate making in the past has been predicated on the fact that money is being borrowed to build facilities now and in the future. Existing customers are paying part of that tab and new customers, as they come on, are paying part of those costs. There is a concern that there is a distinction, especially in terms of generation, where part of the generation cost is being carved out and being assigned to new customers. Part of that responsibility for new generation also lies with existing customers. He is not comfortable with the way this is apportioned out in the way that it is being discussed. More time is needed to study the concept before we forward this on to the germane committee with the idea any of this committee could discuss this, believing it wass a concept worth discussing and addressing.

Representative Anderson was also confused about the language. Some of the testimony seemed to conflict with the Commission Counsel and the Commissioner as well. He did not understand how, outside of a hookup fee, one could ever go back and get more money. There is a need, but there is a question on how the draft is written, stating that it does need some work.

The above motion passed by unanimous voice vote.

Co-chairman McKenzie called the Committee's attention to a correction in the minutes. The motion this morning only included June 26 instead of both June 25 and 26. Also, on June 26 minutes, Senator Werk instead of Senator Kelly proposed legislation in regard to school buildings. Representative Stevenson, the originator of the motion, agreed to the changes. The changes were approved by unanimous voice vote.

The fourth speaker **Paul Kjellander,** Office of Energy Resources, presented some project ideas on renewable energy zones developed along with Idaho's Strategic Energy Alliances. The first idea deals with the creation of the Idaho Renewable Energy Zone (IREZ). The concept is to create appropriate tax incentives and relief in order to "kickstart" a new industry within Idaho. The first IREZ to be considered is the bio gas industry in the Magic Valley region to help advance some of the work already being done to convert dairy waste to high quality natural gas. The state of Idaho has the distinction of being the third largest dairy state in the nation. Idaho has a lot of cattle and a lot of potential to produce bio gas. With this specific concept, an attempt is being made to look for ways in which the state would provide some appropriate incentives and tax relief as well as attract more research and development funding. There is also an opportunity to look for other uses of some of the product that is produced. The Idaho Strategic Energy Alliance Task Force focused on bio gas for electricity and for high quality natural gas. They would be eager to continue their work and provide assistance as the legislation is moved forward.

Mr. Kjellander said that compressed natural gas will require some specifications in statute as it relates to its sale in the marketplace in terms as to how it is regulated. This is a forward-thinking project as people talk about transportation fuel replacement. This first step will be a template that can be expanded to other technologies. Magic Valley was chosen because of the large number of cattle there.

Some of the other benefits going to the dairy industry which could also spin over into some of the economic development projects for the state would be dealing with the odor issue in the region as well as the waste issue. Other prospects may appear when some of the intelligence from the INL research is considered such as chemical components that could enhance the fertilizer industry. By taking one small step first, not only would there be the opportunity to look at dairies in other regions of the state, there would also be a template of how to look at assisting some of the advancements in alternative fuels and renewable resources within the state. If Idaho is the first state in the nation to make pipeline quality gas from dairy waste and if this concept can be put before the nation's eyes, more research dollars may be attracted to this area.

Mr. Kjellander said that the second piece of legislation also ties into the dairy industry. Several years ago the Idaho Biofuels Infrastructure Grant (BIG) Program was initiated which looked at ways to help make biofuels available at service stations. That program is working and it is at a point where the next steps must be considered. From **Mr. Kjellander 's** perspective, the next steps would be to encourage expanding past biofuels and expand to alternative fuels. To have an alternative transportation fuels infrastructure grant program would provide the ability to act as more alternative transportation fuels come to market and become a possibility. The advantage of the grant program may be to enable a quicker reaction to the marketplace.

The other opportunity may be in the area of compressed natural gas for transportation fuels. If the scope could be broadened beyond biofuels and more money put into that mix, there is the opportunity to move more rapidly. There would be the opportunity to provide more economic development and the potential to let consumers find alternative fuels.

Representative Jaquet asked if the Office on Energy was partnering with the University of Idaho Livestock Center group, and **Mr. Kjellander** stated that they were. Some of the same people with the task force are involved with that group. The Chairman of the task force works with that group so there is a direct connection. **Representative Jaquet** followed up with some information that came from a recent meeting with the dairy industry regarding waste that came from the digester that was mixed with other materials for compost. She asked if there was a possibility that the legislation will include rules for the waste from the digesters just so the Department of Agriculture can address that issue. Another opportunity, she said, is to create training for a variety of energy jobs and partner with the College of Southern Idaho. **Mr. Kjellander** responded that all the universities in the state that are involved with the Center for Advanced Energy Studies (CAES) are beginning to accelerate discussions on energy education. Every institution also has another "energy arm" that is separate but has some of the same functions. There is some confusion as to how this is supposed to inter-relate. Care must be given not to replicate some of the important and crucial components as this cause is advanced.

Representative Jaquet has been receiving emails from CNG and wanted to know who the entity is that is creating the templates for these emails. **Mr. Kjellander** stated that there is a lot of interest across several different sectors and they will all have to come to the table and be a participant in drafting legislation.

Representative Stevenson asked for information on the kind of incentives that are being talked about, whether money incentives or opportunities for consolidating. **Mr. Kjellander** responded

that it is a broad range including tax incentives, tax relief, and tax credit. It also looks at property tax and how that fits in. Is there something government can offer to help move this along? There may be some discussion about regulatory treatment for a zone without setting precedence across the state. Also, once the facility is built, there may be opportunities for incentives for other technologies to use that natural gas product either before processing or after it is compressed. There may be siting incentives and opportunities to avoid building multiple small generating facilities, building facilities closer together to avoid larger transmission requirements.

Senator Kelly referred to Cargill and questioned the need for tax incentives. **Mr. Kjellander** explained that Cargill is related to generating electricity and could look at pipeline quality natural gas. What is missing are the distribution systems so the incentive would go to the actual pipeline going to that area, first at distribution level and then to the pipeline itself. The dairy project that exists today can produce pipeline quality natural gas but the pipeline is located six miles away. **Senator Kelly** observed that there is so much opportunity for renewable energy within the state, asking why is this a priority. **Mr. Kjellander** stated that there are several reasons. There are transmission constraints in the region so, when a zone is targeted, those issues won't be resolved for several years. The idea is to develop the concept of the enterprise zone so the template will be ready when the transmission capacity will be available. The target is: 1) Doesn't have to be encumbered by lack of transmission capacity and, 2) Exploit a burgeoning new industry within the state of Idaho. This also takes advantage of a growing dairy industry and of opportunities outside the energy sector.

Representative Jaquet asked if other federal grants look at enterprise zones. **Mr. Kjellander** said he was not aware of any. There are some states looking at renewable energy enterprise zones but most are concentrating on transmission lines. The incentives can be put out but someone has to build the lines and those decisions must be economic. If the load is not in the area, an investor will not go out and build just for the incentives. The approach being looked at today is different and is based on what is happening within the state. **Representative Jaquet** said that there has already been work done on transmission in the Magic Valley area. **Mr. Kjellander** stated that this was a perfect opportunity to take advantage of some of the entrepreneurship and the research that has been done there.

Co-chairman Eskridge asked if there was an existing tax incentive for the digester for electricity. **Mr. Kjellander** answered that he was not aware of any. There is one with interim digesters relating to smaller projects through PURPA. There is a federal mandate for the purchase of the output. There is no PURPA requirement for bio gas; instead ,there is something else to exploit. Intermountain Gas worked very closely with a company called Intrepid and they signed a contract for the output in order to get capital. Intermountain Gas no longer has control of its own natural gas resources; it is all contracted out. This is a much different industry and matrix. As far as existing incentives, he is not familiar with those. **Co-chairman Eskridge** asked **Mike Nugent**, LSO, to yield to the question.

Mr. Nugent stated that several years ago the Legislature passed *Section 63-3622qq* related to sales tax and the generation of electricity which says that purchases of machinery and equipment used in generating electricity by alternative means would qualify for sales tax rebate. That may need to be clarified (on file at LSO).

Co-chairman McKenzie introduced **Representative Dell Raybould**, Chairman of the House Environment, Energy and Technology Committee. **Representative Raybould** commented that last year a tax bill related to property taxes on wind generation made a kilowatt tax rather than a property tax that extended over a period of years and gave an incentive for up-front investment on wind generation. That provision could be applied to generation from the bio gas to give some incentive to natural gas energy production.

Co-chairman Eskridge referred back to his question, saying that there is a tax incentive for digester facilities. "Is that having any impact on the development of those resources?" The whole purpose was to create an opportunity to take care of the dairy problem at the same time they were generating electricity. This is the same concept; take care of the social problem at the same time a new industry is developed. "How successful was the first attempt?"

Representative Stevenson responded that this is such a new thing, a result has not been seen on the tax incentives as yet. He said that Cargill will probably move into that area considering what they are doing, but there has been no evidence that those incentives have been used. Intrepid didn't use it because they were going into natural gas instead of generating electricity.

Mr. Kjellander interjected a point related to the question. For developers, who may be interested in this concept, what is going to be beneficial, what is going to move this forward, and what is just window dressing. This is a good opportunity to bring the right people to the table and explore those questions.

Co-chairman Eskridge stated that they are trying to get some concept of the tax incentives and the benefit to the state in terms of solving the "moo" problem and opportunities in employment, income tax, etc., so there must be an understanding of that as progress with this concept is made. If there is going to be a tax incentive in view of the concern for revenues, what is the tradeoff to show a benefit in a win-win situation. **Mr. Kjellander** said that is the reason this concept has been brought forward. This Committee has the ability to assemble the right entities and help write those promoters.

Representative Jaquet asked what kind of generation Intrepid was involved in at Westpoint Dairy. **Mr. Kjellander** said that has been broken down, for instance, how many pounds it takes to produce a therm, but he did not have that information. **Representative Jaquet** said if there is a 25 capacity unit, it may be too high or too low, so that needs to be looked at so that good decisions can be made setting limits for electricity, gas, and other options. The Office on Energy may have already done that. **Mr. Kjellander** responded that the renewable energy enterprise zone has been brought forward as a pilot project with one specific technology which is not electricity. It is easy to miss something when making the legislation apply to all available resources. By confining the project to pipeline quality natural gas, there is the ability to look closely and make better decisions and then as other renewable resources are looked at with this concept, there may be specific adjustments and monitoring needed for each resource. **Representative Jaquet** stated that two enterprise zones might be considered because of the potential with solar energy in Eastern Idaho. **Mr. Kjellander** agreed that solar energy is one that needs to be looked at. There is a task force within Idaho but that resource will not be available by next session. **Representative Jaquet** inquired if legislative members could sit in and participate in these meetings, asking if they are

open. **Mr. Kjellander** explained that the task force is specific and limited to ten people; he said that as ideas mature, they are expanded out and get broader involvement. There are a dozen or more task forces operating right now and there will be more. There can be involvement through the minutes and the Web site.

Senator Kelly stated that there is virtually nothing on the Energy Resources Web site right now on this topic, so it would be extremely helpful to have more information there. She was curious about the process and why there are no legislators participating in the structure that has been created in the Office of Energy. "How are you anticipating getting the buy-in of this third branch of government?" **Mr. Kjellander** responded that was his purpose now, to bring information forward as it becomes ripe. He added that legislators around the state have been contacted for conceptual ideas, some being used and some not. He said that draft legislation had not been brought forward yet because it is still conceptual. It is the hope that other concepts will be in the Governor's package and be more fully vetted. **Senator Kelly** asked what "more fully vetted" meant. **Mr. Kjellander** said there will be other pieces of legislation that will take different forms and different venues, adding that "fully vetted" is whether or not the Governor wants to move forward with it.

Co-chairman McKenzie wanted to know what the next steps would be to take this concept and start putting a framework around it, asking where the committee should go from here. **Mr. Kjellander** put the same question back believing that would be up to the committee. However, he would like to meet with **Mr. Nugent** and other members of the committee to come up with a draft to circulate and begin the process. **Co-chairman McKenzie** said the committee will probably be meeting again in mid-November and that would be a good time to look at the framework for some legislation before going into the session. There will be no committee action now, and the Co-chairmen should be contacted before the next meeting to move forward referring contact to **Mr. Nugent** to get started.

Senator Kelly asked that **Mr. Kjellender** be asked to brief the committee more thoroughly on what the task force is doing at the mid-November meeting. **Co-chairman McKenzie** agreed to extend that invitation.

Mr. Kjellander responded to the Web site question. INL has volunteered to develop that site and it should be up soon.

Representative Jaquet inquired if **Mr. Kjellander** was going to speak about transmission. **Mr. Kjellander** said that transmission is the most important component for electricity and the future load within the state of Idaho and the region. Most recently, he said there has been a great deal of movement on the Gateway West project which involves Rocky Mountain Power and Idaho Power running all the way through southern Idaho, through Wyoming and into the Wasatch front. There is another line that comes out of Utah and goes to the Malad area and connects to the Populas Station which is part of the main branch line throughout the southern part of the state. That line is now under the supervision of the Bureau of Land Management (BLM) out of Wyoming. From the perspective of the application process with the federal government, that project is moving forward. With related federal lands, the project seems to be in decent shape and there is no indication of huge stumbling blocks for the short term.

With regards to the counties and local siting, the Office on Energy has been working with the Association of Counties discussing ways to get a voluntary approach to consolidating the siting and permitting processes from county to county. **Ken Estep**, Power County, has been very instrumental in bringing people to the table. A meeting was held last month where many county commissioners attended and were updated on the significance of those projects. There are prospects of positive outcomes from those meetings. The counties, along the pathway of the Gateway West project, know that the project is coming and they must review their planning and zoning comprehensive plans. The point was stressed that it doesn't matter what resource should/will be built, it will not be possible without transmission. That piece was put before the working group. The Gateway West project will probably drive the activities in large part because it is two investor owned utilities that serve the states and they are statutorily required to serve their customers and they need new transmission.

Representative Jaquet followed up stating that Blaine County is having hearings on a proposed ordinance with regard to a preferred corridor which is the existing corridor for the railroad. The concern is that many of the counties are not ready. There was the hope that there might be some funding available to help the counties go through the process of crafting the ordinances as was done with the roads and there would be federal money along with general fund money. There is a letter from **Debra Johnson** that Utah actually has utility corridors as a model that might be used. This is voluntary and the state needs to provide some expertise to the counties.

Representative Stevenson referred to the direction for **Mr. Nugent** and asked that **Mr Kjellander** narrow the focus. **Mr. Kjellander** responded that was the direction of this concept.

Co-chairman McKenzie relinquished the gavel to **Co-chairman Eskridge**.

Co-chairman Eskridge announced the fifth topic of discussion, the draft of the Joint Memorial regarding gas prices and asked for direction from the Committees. **Mr. Nugent** provided a summary of the memorial. **Mr. Nugent** noted that **Commissioner Kempton** provided a lot of research data for this Memorial (copy at LSO). During the last meeting, **Commissioner Kempton** presented some views of what was causing the price of oil to rise almost exponentially to the increase of gasoline and other petroleum products resulting in this draft memorial. **Mr. Nugent** continued with a discussion of the "whereas" section on page 3. In the early 2000's, the Enron loophole was enacted which greatly reduced the requirements regarding future contracts for oil or other commodities and the hedge fund was relatively minuscule. That is one of the theories of why the price of oil has escalated.

Co-chairman Eskridge commented that he had talked with **Commissioner Kempton** and asked if this was still an issue with the fall in the price of gas and the belief is that this is still an issue. Gas lines were non-existing and there was not a shortage of gas prior to the rise in prices. There was a world market demand that was escalating. Speculation has created part of the problem. This is still a timely resolution that should be considered as a committee to send forth to the Legislature.

Senator Werk agreed and said that although oil prices are coming down which hurts speculators, because of the economic conditions there will be pressures on oil prices and the possibility of

speculators "diving" in, adding that oil prices could go far beyond what we have seen so far. This harms Idaho consumers and business and the ability to conduct business. There has been an excess of greed in financial markets for short-term payouts. He said that we should be asking Congress to try and moderate that kind of behavior so our citizens are protected.

Representative Jaquet wondered if the committee would be interested in not only endorsing this for the session but put it in the form of a letter to Idaho's congressional delegates right now.

Co-chairman Eskridge said that could be done. A letter can be sent without legislative action and we could, as a committee, send such a letter. **Senator Werk** requested that **Mr Nugent** be asked to formulate this into a letter for review at the next meeting.

Senator Werk moved that the Committee endorse the idea of sending this draft Memorial to the germane committee for consideration in the next legislative session. Representative Bell seconded the motion and the motion carried by unanimous voice vote.

Representative Eskridge asked the committee if they were agreeable to have **Mr. Nugent** formulate a draft letter for the next meeting that would be sent out to the congressional delegation, and the committee agreed.

Representative Stevenson suggested that **Mr. Nugent** email a copy of the drafted letter for review and then it would be in a form they agreed upon before the next meeting.

Representative Jaquet called attention to several corrections in the draft Memorial:

1) Line 29, page 2, should be "oversight therefore" establishing . . .
2) Line 24, page 1, the acronyms are reversed, they should be CFTC instead of CTFC.

Topic six is legislation for high-efficiency buildings and homes. There was some confusion as to who was going to make this presentation. **Co-chairman Eskridge** stated that the Office of Energy Resources was to make a presentation and now they are not here. **Co-chairman Eskridge** yielded to **Mr. Baker.**

Ken Baker, Association of Idaho Cities, also expected **Mr. Kjellander** to address this issue. **Mr. Baker** has drafts of some legislation. The goal was to combine three pieces, residential, commercial and alternative energy, into one package to review. They do have three pieces that came out of the subcommittee and that has been worked on by the task force for the 25 x 25 or Strategic Energy Alliance; those should be considered. The two pieces, residential and alternative energy devices are updates from the 1976 tax law. In meeting with the Tax Commission, **Dan John** brought out how much it was costing the state per year. A good economic analysis has not been done but we know what they are costing the state, and it is something like $100,000-$200,000 per year; these are tax deductions. People are not making big investments in this. The third piece of legislation is not in statute right now, it's for a commercial building tax credit which would stimulate buildings being 30% above whatever code is at the time.

Representative Eskridge introduced **David Hawk**, Energy Analysis & Answers, who will provide more information on the energy enterprise zone. **Mr. Hawk** spoke about bio gas as it relates to dairy digesters, there are three potential economic streams:

1) Gas: **A**) The gas that comes off the digesters. The state that it comes off the digesters has to be cleaned before it can be used in a pipeline and that reduces the stream by about 40%. **B**) The gas into the pipeline. There is only one facility that does that, the Intrepid digesters at the Whitesides Dairy east of Rupert. This was accomplished by going through the Gas Technology Institute (GTI) in a joint venture between Intrepid and Intermountain Gas Company and GTI to set up the rigorous certification standards that had to be done. **C**) The gas can be used in its raw state and can be used for electricity or heating on site. In this state, there are greatly reduced BTUs that reduce the ability to generate electricity.

2) Digested Fibre: There is no odor associated with this product. It is very clean and can be used for bedding at the dairies or can be a soil enhancement or amendment, the same kind of thing as peat moss.

3) Greenhouse Gas Credits: These are the offsets that have become available in the last 18 months; it is a very complicated measurement.

Mr. Hawk said that as a taxpayer and citizen there are benefits and issues associated with being one of the largest dairy producers in the country. The digestive process helps to clean up the odor and clean up the water and hopefully, it will create some jobs and economic opportunity for the state and provide more tax base for the state. Cargill has been very active, but the only ones actually turning out natural gas right now are Whitesides outside Rupert and Westpoint Dairy outside of Wendell. It has not been economical to just generate electricity. Rates are going to change. The PUC has made a study looking at the gas-fired combined cycle plant and they found the cost of that plant is higher that what was in the plan; at the same time the efficiency of that plant is higher that what was planned. There are indications that there will be a higher avoided cost rate which may make electricity more of an opportunity.

Mr. Hawk said that there are not a lot of people using a great deal of propane in the world and natural gas can be used in those places where Intermountain Gas has not been able to reach and likewise in the Avista territory. This can be trucked and could displace propane. The main use over all the dairies is to get a central gathering system and put it into an existing line. There is not enough need on site to use all the gas produced at a dairy, so the best way to disburse the gas is to have it go into a pipeline.

Senator Lodge asked for confirmation that the odor would be cleaned up. **Mr. Hawk** said that there is a distinct difference in the air quality and there is the ability to clean the air dramatically.

Representative Stevenson stated that one of the things people expect as soon as the digester is in place is that there will be no odor at all. It takes a little time to get the digester adjusted to change the odor from the putrid dairy odor to a more livestock type odor.

Senator Lodge commented that the odor comes from the lagoons and they will be utilized in a different way; that will help and alleviate some of the complaints from constituents. **Mr. Hawk** agreed, but there are many uncertainties. **Senator Lodge** asked what the cost of a digester would be and **Mr. Hawk** declined to say. He said that would be better coming from someone else and a visit could be arranged, but it is in the range of millions of dollars.

Representative Jaquet asked about CNG in regard to vehicles, adding that she is receiving emails on this. She asked if **Mr. Hawk** had any idea where those are coming from. **Mr. Hawk** responded that the CEO of Chesapeake Bottled Gas out of Oklahoma City has been very proactive for the last five years as a natural gas turbine developer. He said they have been a large proponent of utilization of natural gas for electricity and the utilization of compressed natural gas for vehicles. He said that **T. Boone Pickens** is also talking about natural gas vehicles and taking the natural gas used today to make electricity and use that by putting in national filling stations all around the country for cars. **Mr. Hawk** said that as rate payers, we are already currently paying for those gas-fired combustion turbine, adding that they are both right. The concept of CNG is correct. He said that Intermountain Gas had done major studies in the 1970s, and that there is a limit as to how much natural gas can be put in a car. There must also be gasoline just like a hybrid, and there is a cost affiliated with using natural gas fuel. If there were natural gas stations throughout the U.S., along with electric cars, this whole thing would come together and work. If the goal is to be self sustaining, all those things must be used. **Representative Jaquet** pursued the email issue. **Mr. Hawk** asked her to send him one and he would research it and get back.

Ken Eklund discussed the draft legislation on tax incentives (on file at LSO). This legislation is going through the Governor's office and the intent was to keep it there for now. There was some confusion whether or not this would be before the committee today. It has come up with the Strategic Energy Alliance which is 25 x 25 and the Conservation Committed chaired by **Ken Baker**. There is a priority that some legislation like this be brought to the Legislature this session or sometime soon. **Mr. Eklund** provided a brief description. There are three pieces: 1) Updating tax deductions for energy efficiency upgrades to residential buildings. Right now the building has to be older than 1976. 2) Updating/addition to the alternative energy device deduction which adds air source heat pumps if they are energy stars certified and if they are commissioned according to a standard promulgated by the Northwest Power and Conservation Council. 3) Proposed brand new tax credit for commercial buildings, both new and retrofitted/remodeled from an energy point of view. These are the contents of this draft.

Representative Eskridge pointed out a problem he had on the first page starting at line 37: "Energy efficiency upgrade measure means an energy efficiency improvement to the building envelope or duct system that increases existing energy efficiency to meet or exceed the prescriptive value for the improved building component . . ." He asked why this has to meet the code, adding that the code is out there and they should already be meeting the code. He said It would be more comforting to exceed the code but not a tax incentive to meet the code which should already have been done.

Mr. Eklund explained that there are many homes going from 1976 forward that do not meet the code that is in place now and the goal is to get them at least that far. Any home that was built now is already at that code level and they are going to have to exceed it to get anything. **Representative Eskridge** stated that it doesn't seem like a proper use of a tax incentive to pay people for something they should have already done, which is bring homes up to the codes in existence. If it was the 1980 code, then that would be okay to give an incentive to bring it up to current code. **Mr. Eklund** interjected that was exactly what the bill will do and if the bill isn't clear about that, they will make it clear. **Mr. Baker** clarified that there were no energy codes until 1992 and that was just a standard, not a code; 2002 would have been the first commercial codes. **Representative Eskridge** requested that the bill should read that the incentive would only apply

by going above whatever code was in existence when the house was built and **Mr. Eklund** concurred.

Representative Stevenson recollected that all counties were not required to meet that code, adding that it was a voluntary thing. **Mr. Eklund** stated that the Idaho Energy Residential Standard was mandatory, but there was no local enforcement requirement. It was a certification to the Division of Labor and Industrial Services that the code had been met before they could get electric service hookup.

Representative Jaquet asked for a short definition of an air force heat pump. **Mr. Eklund** explained that an air force heat pump is one that extracts the heat from the outside air, concentrates it through the refrigeration cycle, and delivers it to the inside. This is opposite of what is already in the alternative energy device tax deduction which is a ground source heat pump which gets its heat from the ground, the ground exchanger, or water that has been in the ground rather than the outside air.

Representative Bell stated that it was her understanding at this point that this issue was not to come before this committee. She said that something is being worked on and will come before the committee later. **Mr. Eklund** responded that the committee had a sneak preview.

Co-chairman Eskridge emphasized that, although this is the Governor's action, anyone or any member can bring forth legislation. Out of courtesy to the Governor, the committee would not be expected to advance this legislation.

Senator Werk stated that **Ken Baker** has worked very diligently chairing the energy conservation piece of the 25 x 25 task forces and wanted to extend appreciation for that work.

Co-chairman Eskridge thanked both **Ken Baker** and **Ken Eklund**. He said this has merit since the whole object here is to determine those areas where incentives might make sense, especially in light of the energy policy that was adopted two years ago. He said the stumbling block is what can the state afford and what the revenue projections are.

The meeting was adjourned at 4:40 p.m. until 8:00 a.m. Thursday morning, September 18, 2008.