105

 1 BEFORE THE

 FLORIDA PUBLIC SERVICE COMMISSION

 2

 DOCKET NO. UNDOCKETED

 3

 In the Matter of

 4

 ENERGY EFFICIENCY AND DEMAND

 5 SIDE MANAGEMENT OPPORTUNITIES

 AND ACCOMPLISHMENTS.

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 BEFORE: CHAIRMAN LISA POLAK EDGAR

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 18

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 REPORTED BY: MARY ALLEN NEEL, RPR, FPR

 25

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 1 P R O C E E D I N G S

 2 CHAIRMAN EDGAR: We are going to come back

 3 from lunch break and get started.

 4 Okay. Would you like to go to the -- we had

 5 some excellent presentations this morning, and I know we

 6 will have more discussion this afternoon, but we'll go

 7 ahead and move into our next speaker on the agenda, and

 8 that is Ms. Katrina Pielli with the U.S. Environmental

 9 Protection Agency. Ms. Pielli has traveled to

 10 Tallahassee to be with us here today. She has presented

 11 before us before and has been working with our staff,

 12 and our staff with some of her staff.

 13 And, Katrina, it's so nice to see you again.

 14 Thank you, and we're ready to get started.

 15 MS. PIELLI: Great. Thank you all for having

 16 me. Is this on? No? Okay. Am I good now?

 17 CHAIRMAN EDGAR: You're good now.

 18 MS. PIELLI: Great. To give the same

 19 introduction just for folks who might not have been here

 20 the last time I was here, the office I come from at EPA

 21 is the side of the voluntary programs, so we're not the

 22 side that does enforcement. We're the Climate

 23 Protection Partnerships Division. We do house the

 24 ENERGY STAR program for EPA, and we also support the

 25 National Action Plan for Energy Efficiency, which you

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 1 heard a little bit about this morning. So what we do,

 2 our role is really to provide assistance to state

 3 policymakers across the country, looking at best

 4 practices and lessons learned, looking at clean energy,

 5 so renewable energy, energy efficiency, and combined

 6 heat and power.

 7 So we'll jump right in. This is what I would

 8 like to focus on today, the bulk of which being the

 9 issues garnering increased interest. And I would just

 10 like to set the stage really with just a quick overview

 11 of a lot of the things that we've been hearing, why

 12 people are more interested in efficiency now than they

 13 were, say, five years ago, and then briefly move into

 14 some resources that are available from our end. So

 15 we'll just get started.

 16 Quickly, this is probably no surprise to

 17 anyone here or any of you, but there's -- many of the

 18 energy challenges facing us today really can be served

 19 from increased efficiency, from reliability issues,

 20 carbon risk, to the energy demand growing, the

 21 volatility of natural gas prices. Efficiency really is

 22 a quick, cheap, and clean resource. And here is just a

 23 sampling of the benefits, really, of energy efficiency.

 24 And these are all things that we've heard cited from

 25 policymakers and other stakeholders across the country.

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 1 What this slide shows you are just a handful

 2 of the studies that have come out in the past few years

 3 really heralding the large potential for increased

 4 investment in efficiency. The McKinsey Global Institute

 5 found that from existing technologies, we could cut

 6 global energy demand by half or more over the next 15

 7 years. ACEEE did a study released in May '06 showing

 8 that doubling efficiency could cut load growth by

 9 two-thirds by 2024. And the Western Governors

 10 Association found that by adopting their best practice

 11 scenario in their 18 states, they could cut load growth

 12 by 75 percent or more over the next 15 years.

 13 But despite all this potential, utility

 14 spending has declined. And the caveat I'll give with

 15 this slide really is that the trend as of late has been

 16 to focus on savings, not on spending. We saw in

 17 Minnesota, for example, a shift in their focus from

 18 savings to spending -- excuse me, from spending to

 19 savings. But I think this is still useful for an

 20 illustration of the trend that we've seen over the past

 21 15 or so years.

 22 There are a number of programs. I know you

 23 all got a presentation this morning about the programs

 24 that are happening here, and this is just a quick

 25 snapshot from some of the ENERGY STAR programs. But

 110

 1 really, I think it's important to note that there are

 2 still utility barriers that remain despite the potential

 3 and despite the successful programs that are being run

 4 across the country.

 5 So really now I would like to jump into the

 6 bulk of the presentation, which is looking at trends.

 7 The first one that I would like to talk about -- and I

 8 will be brief. I know it's not quite the focus, really

 9 are these quick start programs, since you all have been

 10 running programs here for a while. But this is

 11 something that has become more important as states look

 12 for near-term, quick results. They want something that

 13 can provide them with the results that they're expecting

 14 in the short term, and then they can build on those for

 15 the future going forward.

 16 So really, what we did is, working with the

 17 Arkansas Commission, they ran a successful collaborative

 18 that resulted in efficiency rulemaking, and we drafted

 19 up a Quick Start Program Guide. And the idea really was

 20 to provide a listing or some suggestions of the

 21 residential and commercial programs that are proven that

 22 provide quick results. And the result of the Arkansas

 23 docket was, the utilities did file, and they did approve

 24 a suite of programs, and the cost recovery is allowed

 25 through a rate rider.

 111

 1 So the quick start residential programs are

 2 here. I won't go through them verbatim. Essentially,

 3 suffice it to say that it's promoting different ENERGY

 4 STAR qualified products teamed up with targeted

 5 incentives and consumer outreach and education. These

 6 are -- really, the first three are tried and true, and

 7 the last two are suggesting perhaps taking a look at

 8 some -- on a pilot basis, some of the more elaborate

 9 programs that you really do see successful when you roll

 10 out a comprehensive suite of programs. So it's looking

 11 at home performance with ENERGY STAR for existing homes

 12 and ENERGY STAR qualified new homes, both for built and

 13 manufactured.

 14 And for commercial programs, it really is a

 15 similar combination, in the sense that you're looking at

 16 providing incentives for qualified products, to build

 17 good lighting and HVAC, and again with the education,

 18 and for the commercial programs, some of the technical

 19 assistance that can be provided by the utilities or by

 20 the ESCOs.

 21 The other component when you talk about

 22 commericial really is to look at the ENERGY STAR

 23 building performance rating system, which is getting a

 24 lot of attention in California right now. They passed

 25 legislation that really will require the utilities to

 112

 1 incorporate a rating, an ENERGY STAR rating onto the

 2 bill so that the customer can see where their building

 3 falls in relation to the suite of other buildings

 4 nationwide in their similar class to help them

 5 understand the opportunities that are available for

 6 efficiency.

 7 So now I would like to move on to aligning

 8 utility incentives with efficiency. And really, this is

 9 a broad topic that we've been hearing a lot of increased

 10 interest from. We heard from Paul earlier today, and I

 11 unfortunately only caught half of his remarks. I had a

 12 flight that came in this morning. But I think really

 13 what we've been hearing, the bulk of interest from

 14 utility regulators, from legislators, and from other

 15 stakeholders, like nonprofit groups. And really, when

 16 we talk about aligning utility incentives, we talk about

 17 it from a three-legged stool. It's providing cost

 18 recovery, it's addressing the throughput incentive, and

 19 it's considering providing an incentive, a performance

 20 incentive.

 21 What I would like to focus on here is really

 22 the last two. It's not so much looking at cost recovery

 23 in the traditional sense for your programs. It's more

 24 about addressing the throughput incentive and the

 25 performance incentive. So what I've listed here are

 113

 1 just a quick handful of recent activities.

 2 The Idaho Commission recently approved a

 3 decoupling pilot for Idaho Power, which is an electric

 4 IOU in the state, which I'll talk a little bit more

 5 about in a moment.

 6 In Connecticut, there was legislation passed

 7 that requires the Commission to institute decoupling

 8 when the utilities come in for their next rate case.

 9 And this was in response to a docket that the Commission

 10 had out previously, where they decided that they weren't

 11 interested in doing decoupling, and the Legislature

 12 responded to that.

 13 In New York, there's legislation that

 14 specifically is requiring the utilities to file

 15 decoupling when they come in for their next rate case.

 16 And specifically, in Minnesota, there is

 17 legislation, recently passed legislation that authorizes

 18 decoupling. It doesn't require the Commission to do

 19 anything.

 20 The other thing I'll just note, in our

 21 discussions with folks around, lost revenue adjustment

 22 mechanisms really don't seem to be getting a lot of

 23 attention lately. They did have a lot of attention in

 24 the past, and just for a variety of reasons, we're not

 25 hearing a lot of folks ask questions about that or want

 114

 1 assistance on that.

 2 When you move into talking about performance

 3 incentives, there are any number of ways to slice that,

 4 and I just put here a handful of approaches.

 5 One is the very recently announced California

 6 approach which they announced in September. It's a

 7 rewards and penalties mechanism. And really, it's

 8 geared towards (1) how well the utility did meeting the

 9 goals that the Commission established for energy

 10 savings, and (2) also the net benefits that were

 11 achieved from that portfolio.

 12 In Nevada, they've had an enhanced or bonus

 13 rate of return for years now. They're one of the only

 14 states that is actually implementing it. There were a

 15 handful of states that it's still on the books,

 16 Washington and Montana, and I think there's another one

 17 as well, but they're really not using it. And the

 18 reason is that essentially capitalizing efficiency has

 19 just kind of fallen out of favor, so it's not really

 20 something that they're looking at doing.

 21 And Xcel Energy recently filed in both New

 22 Mexico and Colorado decoupling mechanisms that are

 23 currently under consideration.

 24 I'm going to take a moment -- we do support

 25 the National Action Plan for Energy Efficiency, and the

 115

 1 report was released, which we were very excited about,

 2 last summer. And we did on November 12th release the

 3 Aligning Utility Incentives with Energy Efficiency

 4 report. And I apologize. I didn't bring some down for

 5 folks. If I knew it was going to be such a big focus, I

 6 would have brought some down. It is on the website for

 7 folks that want to read it.

 8 And essentially, if you'll permit me for a

 9 moment, I would like to just respond a handful of things

 10 that Paul had said in his presentation. One is really

 11 in the Aligning Utility Incentives paper. It's very

 12 clearly stated that the overarching objective in every

 13 jurisdiction that considers an efficiency investment

 14 should be to generate and capture substantial net

 15 economic benefits. So the savings target is often

 16 megawatt or percentage, and once that is established,

 17 then you look at the mechanism.

 18 The straight fixed-variable rate design does

 19 break the link between throughput and revenue, and in

 20 that way, it's comparable to decoupling. However, it

 21 has a substantial disadvantage if one's objective is to

 22 achieve efficiency that is in the long-term economic

 23 interest of the ratepayers. Thus, it potentially

 24 improves the utility's commitment to efficiency, while

 25 reducing the end user's commitment, a balance that has

 116

 1 not been viewed as a net positive approach for increased

 2 investment and cost-effective efficiency from the

 3 electric utility regulators. That's from the Aligning

 4 Utility Incentives paper.

 5 From the original report that was released

 6 last summer, one more quote, and then I'll move on. The

 7 lost margin issue arises because some or all of the

 8 utility's current fixed costs are recovered through

 9 volumetric charges. The most straightforward resolution

 10 to this issue is to design and implement rate structures

 11 that allocate a larger share or all of fixed costs to

 12 fixed charges. This becomes more problematic when

 13 applied to an integrated electric utility than an

 14 integrated gas utility.

 15 Given the overarching objective of capturing

 16 the net economic and environmental benefits of

 17 efficiency investment, straight fixed-variable design

 18 can significantly reduce a customer's incentive to

 19 undertake efficiency because of the associated reduction

 20 in variable charges. These alternative rate designs

 21 such as straight fixed-variable are more problematic

 22 when applied to integrated electric utilities.

 23 For example, the need for base load capacity

 24 is driven by the level of energy consumption as much or

 25 more than by the need for base load capacity. It is

 117

 1 more difficult to allocate all fixed costs to a fixed

 2 customer charge simply because such costs can be very

 3 high, and allocation to a fixed charge would impose

 4 serious ability to pay issues on lower income customers.

 5 I hope that made some sense. There's a lot

 6 more that I could go into, and in my limited time, I did

 7 just want to provide a few quotes, but I think that --

 8 I'm not the expert who wrote the paper. We do have

 9 access to the expert who did write the paper, and I

 10 would happy to put him in touch with folks if they want

 11 to hear more about that. So I would like to move on.

 12 What this chart shows you is from that

 13 Aligning Utility Incentives paper, and it's just a quick

 14 snapshot. The data was collected over the summer of

 15 where things stand when you look across the country at

 16 the issue of the throughput incentive and also

 17 performance incentives. And what you see is that

 18 currently there are over 10 states that have opened

 19 decoupling investigations. There are 16 states that

 20 have electric or gas decoupling for at least one

 21 utility. And the caveat with that number, some of them

 22 are pilots, like Idaho. There are six states currently

 23 that have LRAM, lost revenue adjustment mechanism, and

 24 18 that have performance incentives.

 25 And this table, I know it's a bit hard to read

 118

 1 for folks. It is in the paper, so if folks are

 2 interested in seeing that, you can download that online.

 3 I did want to spend one moment on the Idaho

 4 Power pilot, because it is very new, and it is getting

 5 increased attention. Marsha Smith is the Commissioner

 6 from Idaho, and she's also the current president of

 7 NARUC, and so because of that, I would just like to talk

 8 about this for a moment.

 9 What it is, it's technically not a decoupling

 10 mechanism in the broadest sense. It's really a fixed

 11 cost adjustment mechanism. And really, what happened,

 12 the Commission had a very long process, stakeholder

 13 process that started in 2004 and ended with the company,

 14 Idaho Power, filing for a fixed cost adjustment

 15 mechanism in 2005, and the Commission did approve that.

 16 But what I would like to talk about for one

 17 moment is a report that came out of this collaborative

 18 process. And really, what they found is that before

 19 they advocated the company filing for their fixed cost

 20 adjustment mechanism, they did note that the development

 21 of a true-up simulation to track what might have

 22 occurred if decoupling or a true-up mechanism had been

 23 implemented for Idaho Power at the last general rate

 24 case would be wise so that they would know what it would

 25 have been if they had had this mechanism implemented in

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 1 the past before they went forward with it. And then

 2 they said, given that, we would be interested in Idaho

 3 Power filing a pilot for this type of recovery

 4 mechanism.

 5 So the parties agreed -- and this was a

 6 diverse stakeholder process. The parties agreed to go

 7 ahead and conduct the simulation, and the Commission,

 8 based on the results of the simulation, they found that

 9 the throughput incentive was a problem for Idaho Power

 10 when you looked at their incentives to invest in

 11 increased efficiency. So the Commission approved a

 12 three-year decoupling pilot, decoupling meaning fixed

 13 cost adjustment mechanism.

 14 And what the next slide shows you is, it

 15 originally got filed in January of '06, and it became

 16 effective this past January in '07. It's slated to go

 17 through the end of 2009, and the first adjustment

 18 mechanism is slated to happen June 1st of '08.

 19 They do have very preliminary results right

 20 now that they are looking at which show that Idaho

 21 Power, the use per customer is up, based on the

 22 forecast. So as it currently stands, if the trend

 23 continues, Idaho Power will have over-recovered the

 24 fixed costs, and the customers will get a refund.

 25 That's just a preliminary result, and we'll see what

 120

 1 happens in the summer.

 2 But I think it's important to note that with

 3 the Idaho Power mechanism, they do have a 3 percent cap,

 4 so they do have a deadband of sorts. So that's an

 5 important component that came out of the stakeholder

 6 process and also the filing. But it's a 3 percent cap

 7 on annual increase of any unrecovered deferred costs.

 8 One other thing to note with the Idaho Power

 9 example, it's just for residential and commercial,

 10 because those two classes really represent the bulk of

 11 the fixed cost exposure for the company, so it in no way

 12 influences or affects their industrial customers right

 13 now through this pilot program.

 14 The other component that I would like to talk

 15 about briefly -- one more quick comment on Idaho Power.

 16 I apologize. Another component that the Commission made

 17 clear when they filed -- excuse me, when they approved

 18 the filing was that it should demonstrate an enhanced

 19 commitment to efficiency investment because of the fixed

 20 cost adjustment mechanism. So they specifically cited

 21 that it should include making efficiency and load

 22 management programs widely available, supporting

 23 building code improvements, actively pursuing appliance

 24 standards, and expanding their DSM programs.

 25 I know consumer advocates came up this

 121

 1 morning, and really, when you talk to the consumer

 2 advocates that we have in the Midwest, it's very

 3 important from their perspective, the ones that we've

 4 had conversations with, that to look at any type of

 5 decoupling or throughput incentive really needs to be

 6 tied to increased efficiency, that the overarching goal

 7 is to lead to more efficiency to receive those benefits,

 8 and so to do any type of moving the throughput incentive

 9 without actually looking at tying that to the increased

 10 efficiency investment, that has not been something that

 11 some of those consumer advocates in the Midwest are

 12 interested in.

 13 So now moving on to California, the Commission

 14 in September issued a very new and innovative and

 15 sweeping decision that really was a risk and reward.

 16 And this is a simplified summary of it, but essentially

 17 what happens is, the Commission sets individual savings

 18 goals for each of the investor-owned utilities. And if

 19 the utility receives -- excuse me. If the utility

 20 achieves 85 percent of the goal, they receive a reward;

 21 if they achieve 65 percent or less, they receive a

 22 penalty; and if they're in between, there's no reward or

 23 penalty, so 65 to 85 is a deadband. The reward really

 24 is a shareholder reward, 9 percent, up to 9 percent of

 25 the total net benefits from the efficiency portfolio.

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 1 And if you get 100 percent or more of the goal, you

 2 receive 12 percent.

 3 What I would like to show you here briefly,

 4 and then we'll go back, this chart shows you on the

 5 vertical axis the savings and on the horizontal axis the

 6 year, so historical and projected. The top line shows

 7 you 85 percent of the Commission's goals and 65 percent.

 8 So as you can see, even the limit for a penalty is very

 9 aggressive if you look at what they've achieved in the

 10 past.

 11 The other important thing to note is that the

 12 rewards and the penalties are both capped at 450

 13 million, and that's a total for the three-year cycle.

 14 The penalty component is really tied to again

 15 65 percent or less, so in their opinion, a poor

 16 performance of the utility, and it can be either the

 17 larger of the per unit penalty or the net positive costs

 18 of the efficiency portfolio. And this is unique in the

 19 sense that it provides a penalty, which no other

 20 commission currently does.

 21 So I'll move on Hawaii. Hawaii had a very

 22 long process. It was two years between when they

 23 initiated the docket and when they reached the decision.

 24 And they really did come to decisions on nine very key

 25 topics, and I'll give you the listing here and then give

 123

 1 you a little bit more information on a handful.

 2 The decision was released in February, and

 3 they established goals for HECO, which is a collection

 4 of three utilities in Hawaii, the large IOU on the

 5 islands. So they established the goals, they selected

 6 the appropriate market structure, they determined the

 7 cost recovery mechanisms, they determined the

 8 appropriate costs and cost tests, they established the

 9 appropriate incentive mechanism, and they also decided

 10 that based on the filing, the modified filing that HECO

 11 put forward, they thought they could achieve those goals

 12 and savings. So the efficiency goals that were decided

 13 on for HECO was based on the megawatt and megawatt-hour

 14 savings that they had put forward that were modified. I

 15 have listed them here for you for commercial and

 16 industrial and residential. And again, in the filing,

 17 the Commission determined that this would lead to -- the

 18 programs that they put forward would lead to achieving

 19 these savings.

 20 They did decide that a third-party or a

 21 non-utility market structure would be the most favorable

 22 for reaching these goals on the islands. And one of

 23 their reasons that they cite for doing that is, they

 24 decided that facilitating the introduction of innovative

 25 programs really do lead, in their mind, to having a

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 1 third-party administrator. They also expect the

 2 third-party administrator to result in improved

 3 penetration in hard to reach and underserved segments,

 4 and they also expect it to improve the

 5 cost-effectiveness of administering the programs.

 6 The Commission did decide to not address

 7 decoupling during this proceeding. It was part of the

 8 comments that were filed and part of the discussion, and

 9 they decided to defer that.

 10 They also decided as an incentive mechanism to

 11 institute shared savings.

 12 And regarding cost-effectiveness tests, they

 13 decided to use all five of the California Standard

 14 Practice Manual tests, with the most weight given to the

 15 Total Resource Cost Test, the caveat being that all of

 16 the program portfolios that would be filed had to have

 17 benefit-to-cost ratios above 1 for each test except for

 18 the RIM test, the Ratepayer Impact Measure.

 19 So now I would like to move into talking about

 20 incorporating efficiency as a resource in planning.

 21 This has been getting a lot of attention really, and

 22 California again was one of the first states that did

 23 this, in the sense that in their energy master plan,

 24 they designated efficiency as the resource of highest

 25 priority or resource of first priority.

 125

 1 Washington State actually recently passed a

 2 voter ballot initiative. It was tied to a portfolio

 3 standard, but it did determine that conservation was the

 4 resource of first choice.

 5 And the North Carolina Commission recently

 6 passed new IRP rules that require comparison of a

 7 comprehensive combination of both demand and supply-side

 8 resources, and it requires the Commission to determine

 9 and the utility to determine an IRP that offers the

 10 least-cost, long-term set of resources to meet the

 11 system needs. The important thing to note here is that

 12 it doesn't require a direct tie between demand-side

 13 resources and transmission investment.

 14 ISO New England, which is the independent

 15 system operator for New England, they really are on the

 16 cutting edge as far as the ISOs and the RTOs go across

 17 the country in implementing demand resources, as far as

 18 capacity resources, level or equal to supply-side

 19 resources. So what they did was, again through a

 20 stakeholder process, they created a forward capacity

 21 market that allows supply and demand resources to bid in

 22 to provide that resource. And again, they had over

 23 2,000 megawatts of demand resources that expressed

 24 interest. And this is very important, because it is the

 25 first in the country. But the other thing to note here

 126

 1 is that the first auction will be conducted in February

 2 of '08, with the first commitment period being June 1st

 3 of 2010. And Commissioner Wellinghoff of FERC has

 4 expressed large interest in seeing how the FCM goes and

 5 has suggested that if it goes well, he might look to

 6 encouraging some of the other ISOs and RTOs to institute

 7 something similar, so there's a lot of folks that are

 8 watching that.

 9 The other thing I'll just mention is TVA.

 10 They have their new strategic plan, and their board

 11 recently approved a new goal of 1,200 megawatts demand

 12 reduction over five years, which they've tied to being a

 13 similar capacity to their Watts Bar unit. And they

 14 really have expressed through some stakeholder processes

 15 that they've been having an interest in doing more

 16 efficiency and really trying to take that next step.

 17 Wisconsin has also -- recently the Legislature

 18 passed a bill requiring the Commission to conduct

 19 efficiency planning every four years and to incorporate

 20 that into their strategic energy assessment, and this

 21 really will help. In addition, the docket that the

 22 Commission opened helped develop a regional approach to

 23 planning and also incorporating efficiency in planning.

 24 So that's something that's new and that's happening the

 25 Midwest.

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 1 And then finally, that Arkansas decision that

 2 I previously talked about, as part of that decision,

 3 they talk about resource planning and talk about giving

 4 the comparable weight or comparable consideration to

 5 demand and supply-side resources, looking at IRPs going

 6 forward, and to identify and investigate resources

 7 including efficiency, conservation, demand-side

 8 management, and price responsive demand.

 9 What this slide really shows you is just a

 10 quelling of the best practice findings from the National

 11 Action Plan document, the Guide to Resource Planning

 12 with Efficiency. And what it really does show you is

 13 that there are the necessary data and tools available to

 14 help utilities and states to incorporate efficiency in

 15 planning, that there are energy, capacity and non-energy

 16 benefits that can help to justify more robust programs,

 17 and also that the sooner you are able to integrate

 18 efficiency into the planning process, the better to

 19 capture the full value. And there's a report that was

 20 done by Lawrence Berkeley National Lab looking at the

 21 Western states and their IRPs that specifically provided

 22 a lot of information on that that we can provide if

 23 folks are interested.

 24 And on cost-effectiveness tests, I won't spend

 25 a lot of time here. I know Mark talked about this this

 128

 1 morning, but I would like to just give a brief mention

 2 of it, largely because we've gotten a lot of questions

 3 and discussions with some folks across the country on

 4 this very issue, particularly tied to the idea that we

 5 want to do more efficiency. I've heard from people

 6 that, "Our cost-effectiveness test is a problem. What

 7 can we do?" And so a number of the National Action Plan

 8 reports touch on cost-effectiveness as a component. And

 9 really, what's important, I think, to note is that some

 10 people really feel there's one that's better than the

 11 other, and from what we've found, it's all a matter of

 12 perspective. They're all very valid, and they all

 13 provide you with very valid results. It just depends on

 14 what perspective you're looking from.

 15 What this shows you here is a sampling. It

 16 doesn't include all the states, so it's not a full

 17 sampling. Fifteen states we weren't able to get to, but

 18 over the summer, we just did a quick survey as to how

 19 states were looking at cost-effectiveness tests, and it

 20 was tied to some of the work we were doing under the

 21 National Action Plan. And what we found is that 10

 22 states actually don't require any specific test when

 23 they're looking at their energy efficiency or DSM

 24 program portfolios. Five -- excuse me. Six states

 25 require all five tests, the California standard manual

 129

 1 tests. And then the table at the right shows you that

 2 there's 20 states that do a little bit of everything,

 3 and it's interesting to note that over half of them do

 4 require the Total Resource Cost Test to be administered,

 5 most of them, as you can see, in conjunction with some

 6 of the other tests as well. And if you'll note, it's

 7 not entirely -- I don't think you can even see it. The

 8 X's that have a little star next to them, that's meant

 9 to denote that those states put the most weight on TRC,

 10 those that do it in this rubric.

 11 So these are the questions and the

 12 perspectives that I referred to, and this is directly

 13 from the Guide to Resource Planning. And really what it

 14 does is just, I think, help people see that each test is

 15 designed to give you a specific answer when you think

 16 about the program portfolio.

 17 And I think what I would like to highlight is

 18 that when you think about the Utility Cost Test, that

 19 the adoption of efficiency that's cost-effective under

 20 this test will reduce the utility revenue requirement

 21 relative to traditional utility procurement, and related

 22 to the Total Resource Cost Test, that all efficiency

 23 that passes TRC will reduce the total cost of energy in

 24 the region. The one thing I'll note is that the TRC

 25 tests don't include the direct costs and the benefits,

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 1 so there's no externalities. If you want the

 2 externalities, you need to look at the Societal Cost

 3 Test.

 4 There are additional components to this

 5 discussion which you might have touched on earlier, but

 6 again, there's more resources that we can provide to get

 7 into more detail on this.

 8 And there's two states quickly that I did just

 9 want to profile, because it's a nice tie between the

 10 policies that were in place that led to programs. So I

 11 won't spend a lot of time here, but really, I would like

 12 to just take a quick look at Arizona and Nevada.

 13 And in Arizona specifically, back in '99 the

 14 Commission created a system benefit charge to provide

 15 money to fund DSM programs. And what ended up

 16 happening, it was largely used to fund renewable energy

 17 under their portfolio standard, but the Salt River

 18 project, which is one of the largest IOUs in the state,

 19 wanted to use some of that money to support their

 20 efficiency program, so that was approved by the

 21 Commission. There's also up here a couple of different

 22 state building or lead-by-example goals that were put in

 23 place over the years as well.

 24 And the Arizona Public Service Commission

 25 (sic), which is another IOU in the state, in 2003 filed

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 1 an application for a rate increase, and there was

 2 numerous discussions and settlement agreements that

 3 happened over the years, and the settlement was actually

 4 issued in April of 2007. And it required a $10 million

 5 base rate for demand-side management, and it also went

 6 further and said you in addition need to spend on

 7 average at least another 6 million a year on approved

 8 DSM items, and those additional items would be recovered

 9 through an adjustment mechanism.

 10 These are a sampling of the programs that

 11 they're currently implementing, and I put them here

 12 really to reference back to that quick start discussion

 13 and to show sort of how the suite of programs ties up

 14 with some of the policies that are in place. They're

 15 all ENERGY STAR related, but there are additional

 16 programs that they have in place for some of the

 17 commercial customers, and then at the bottom also, just

 18 to give you a sense of what goals they have put out

 19 publicly for them to achieve for their efficiency

 20 program portfolio.

 21 Nevada is a slightly different story, in that

 22 they enacted a portfolio standard in 2001, and the

 23 utilities were having a hard time meeting their

 24 requirement the first few years, and so the requirement

 25 was revisited, and it was decided that efficiency could

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 1 participate as an eligible resource. And in addition to

 2 making that change, the goal amount was increased, so it

 3 was increased to 20 percent by 2015, and efficiency

 4 could meet one-quarter of that. So because of that,

 5 they really did an aggressive approach from the

 6 utilities' standpoint to maximize the use of efficiency

 7 in meeting their portfolio goals, and that was also tied

 8 to the idea -- as I mentioned before, they do have a

 9 bonus rate of return, so that's the other piece of the

 10 Nevada puzzle.

 11 So the utility investments really are a

 12 product of their planning process, and it really is

 13 designed to help them maximize their requirement, but

 14 they really do maximize this planning component, so

 15 you're treating it as a resource. And it's really

 16 interesting to note that the cost recovery is part of

 17 the statute of the state and that the utility can try to

 18 or petition to recover the costs associated with not

 19 only the programs, but the labor, the overhead, the

 20 materials, and the incentives. In some cases, depending

 21 on the state, there's a different way to slice and dice

 22 that.

 23 This is a listing of the programs that Nevada

 24 Power and Sierra Pacific Power have in place right now.

 25 And then it also shows you again the goals that they

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 1 were hoping to meet as far as in their historic. And I

 2 don't have the future goals. I can get those for you.

 3 I apologize. I thought those were on this slide.

 4 So the resources, there's a suite of National

 5 Action Plan resources that are available now. They were

 6 released on November 12th. There's also a Clean Energy

 7 Environment Guide to Action that the EPA put out a few

 8 years back, and there's also that Quick Start Program

 9 Guide that we have available as well. On any of these,

 10 we could provide subject matter experts to address

 11 follow-up questions or to work with you all going

 12 forward on.

 13 So I think really, in summary, that you're not

 14 the only state that's looking to do more with

 15 efficiency, and there's certainly a lot of activity

 16 happening across the country. And the issues that I

 17 touched on are really just those that we've been hearing

 18 the most interest from folks on, and I'm sure that

 19 there's other elements and other components happening,

 20 but I just was happy to be able to share with you a

 21 little bit about what we're seeing when you look across

 22 the country.

 23 CHAIRMAN EDGAR: Thank you, Katrina. And I

 24 expect there will be a few questions. I'll go ahead and

 25 start us off.

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 1 In one of your slides you mentioned, and I

 2 appreciate this comment, about perhaps a misconception

 3 in some areas, or with some, being that one test or one

 4 form of measurement being the right way, and that

 5 sometimes that's kind of how you view it with the

 6 different tools that are available, depending on the

 7 perspective that you're bringing to it. And I was just

 8 wondering if you could elaborate on that a little bit

 9 and on some of those varied perspectives that can

 10 contribute to perhaps a different perspective.

 11 MS. PIELLI: It really does depend, I think,

 12 largely on what you're trying to achieve. So when you

 13 look at the program portfolio that's put in front you,

 14 it really does just depend on what element you're trying

 15 to maximize. Is it really most important to you that

 16 the societal benefits, for example, are included? Is it

 17 more important to you that the utility is kept whole at

 18 the lowest possible cost? Is it very important to you

 19 that you're looking across all of the different ways

 20 that you slice it?

 21 I think at the Southeast meeting that

 22 Commissioner McMurrian was at, Commissioner Wise from

 23 Georgia was very excited to hear folks say that all five

 24 tests are valid and that it's a policymaker's decision,

 25 when you look across the results, it's the policymaker's

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 1 decision to make that call as to what's important to

 2 you. And I think that from our perspective, we

 3 completely agree with that, that it's important to

 4 understand what the perspectives are so that you can

 5 make an objective decision.

 6 And I think we can provide you with more

 7 information on that. There's another chart that I

 8 didn't put in from the planning guide that shows you a

 9 little bit more information or you can view the

 10 different tests and what outcomes they give you, and I

 11 can certainly follow up with staff and provide that to

 12 them.

 13 CHAIRMAN EDGAR: Thank you. Commissioner

 14 McMurrian.

 15 COMMISSIONER McMURRIAN: Thank you, Chairman.

 16 I actually had a question about the Arizona

 17 Public Service Company's settlement agreement. And if

 18 it's something -- we can also follow up on it later if

 19 it's something that we need more information on. But

 20 discuss the annual $10 million base rate DSM allowance,

 21 and I think 6 million annually after that. Was the goal

 22 to -- and I realize this is a settlement agreement, so

 23 that's a little bit different than a commission making a

 24 decision. But was the goal to just increase the amount

 25 spending on DSM, or was there still some kind of

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 1 cost-effectiveness test on the amount of DSM programs?

 2 Do you --

 3 MS. PIELLI: I don't know, but I would

 4 certainly ask my colleague who worked with them on this,

 5 and I can get back to you on that.

 6 COMMISSIONER McMURRIAN: Okay. I guess it

 7 always strikes me when I see goals about the level of

 8 spending on DSM, because it -- I just always wonder if

 9 there's another part about the cost-effectiveness,

 10 because I think we could throw out numbers and say the

 11 utilities need to spend more, but I'm not sure spending

 12 more is really the goal. It's about getting the results

 13 we need.

 14 MS. PIELLI: And we've certainly seen that

 15 happen more and more. I would note that the settlement

 16 was two years ago, and so I'm not sure of the specifics

 17 of this case. But I've definitely seen, specifically in

 18 the Midwest, that issue become very prevalent, where

 19 people will want you to hit a megawatt or a percentage

 20 savings, and then they'll work on setting a cap or

 21 giving you a budget, but it's really more important to

 22 set the goal up front. But I can get back to you on

 23 that.

 24 COMMISSIONER McMURRIAN: Thank you.

 25 CHAIRMAN EDGAR: Commissioners, any further

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 1 questions? No. Okay.

 2 Katrina, thank you very much. Thanks for

 3 coming to Tallahassee.

 4 Okay. We are at the point on our agenda where

 5 we will open it up and ask for discussion and

 6 information from the stakeholders who have signed up to

 7 speak, so I'll go to that list here in just a moment.

 8 I did want to mention a couple of things as we

 9 kind of move into this next stage of our agenda. As I

 10 was thinking about some of these issues at lunch, I was

 11 reminded of a quote that I have actually used a couple

 12 of times, and this is from Dr. Neal Elliott, who

 13 represents the American Council for an Energy Efficient

 14 Economy. And he knows that I've used this quote of his

 15 in other forums, so I think that means it's okay if I

 16 use it today. But he has been quoted as saying, and I'm

 17 going to read his quote, "The biggest roadblock to wiser

 18 energy use in Florida is the way the State regulates

 19 electric utilities. We just need to change the

 20 regulatory business models that the investor-owned

 21 utilities operate under." And again, he knows that I've

 22 used that quote in other things, and he agrees that he

 23 said that.

 24 And that's one of the things I had kind of

 25 wanted to throw out there as we have this discussion

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 1 today and see, you know, in what direction, if any, we

 2 want to continue discussion as this Commission looks at

 3 what types of tools and models we want to continue to

 4 use or bring into our cost-benefit analysis. We've

 5 heard discussion this morning about different pricing

 6 structures, about incentives, financial and performance,

 7 and other perhaps different or innovative regulatory

 8 schemes. I'm not sure I agree completely with what

 9 Mr. Elliott said, or Dr. Elliott, but I do think that

 10 that kind of charge to continue to look thoughtfully and

 11 creatively at how we regulate is very interesting, and I

 12 hope we'll continue that.

 13 And then I also would draw our attention to

 14 one of the recommendations that came out of the

 15 Governor's Action Team, and I'll read that as well. And

 16 that says that, "The Action Team finds that the current

 17 regulatory structure for the electric utility sector

 18 within Florida may pose disincentives for investments

 19 yielding greater energy efficiency and thus reducing

 20 utility sales." And there again, that's a finding that

 21 has generated a lot of discussion, and I hope -- I find

 22 thought-provoking, and I hope that we can, you know,

 23 continue and have some discussion amongst us about those

 24 sorts of ideas.

 25 And so with that, we can move on to the

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 1 stakeholder portion, public forum of our agenda. And

 2 the first person that I have signed up to speak on the

 3 list is John McWhirter. Mr. McWhirter, please come

 4 forward and join us.

 5 MR. McWHIRTER: Thank you, Madam Chairman. As

 6 always, it's a pleasure to be here, and I found this to

 7 be quite an educational and interesting session. I

 8 didn't know what it was going to hold when I first saw

 9 the workshop agenda, but listening to it, I was quite

 10 impressed.

 11 But when I was trying to prepare my remarks, I

 12 went back to my law school days, and one of the things I

 13 didn't understand about going to law school was that the

 14 first thing you do is try to identify the problem that

 15 you're going to solve. And I think the purpose of this

 16 workshop is to get the advice and consent of

 17 stockholders, or stakeholders, as to identifying the

 18 problem, and then the best way that government can

 19 assist in solving that problem.

 20 But then I concluded that the stakeholders may

 21 have differing interests, and so I tried to identify

 22 what those interests are. And obviously, global warming

 23 is in the forefront. The need to reduce consumption of

 24 limited fuel resources is part of the problem. The

 25 nature of the fuel being burned, whether it's coal or

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 1 gas or nuclear energy, is important. The need to

 2 assimilate funds for capital investment by electric

 3 utilities is an extremely important point. How does

 4 price elasticity come into play in designing the rates

 5 that you're going to be thinking about to deal with

 6 this? And the one that's always nearest and dearest to

 7 the hearts of my clients, and consequently to me, is

 8 high rates, and that's of interest to all consumers.

 9 The title of the workshop, interestingly,

 10 didn't deal with electricity efficiency. It dealt with

 11 energy efficiency. And in dealing with energy

 12 efficiency, the first thing you need to know is what is

 13 energy. And, of course, you know that energy is

 14 measured in Btus. And so if we're going to be energy

 15 efficient, you want to use the least number of energy

 16 Btus to get to the final point that you want to achieve.

 17 And also in preparing, I went to the DOE

 18 website, and they have a program called the Industrial

 19 Technology Program, and the Industrial Technology

 20 Program talks about the energy delivered to industry in

 21 order to produce its final output, and it deals with

 22 working with industry in a way that we can get the best

 23 efficiency out of that energy.

 24 And I have with me today a fellow by the name

 25 of Bob May from CF Industries, and his company has

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 1 worked with the Department of Energy and their experts

 2 to deal with what his company can do to improve their

 3 energy utilization. And I think you'll find his report

 4 to be far more interesting than mine, but I'm going to

 5 go ahead and give mine anyway.

 6 But one of the tables in the DOE report was

 7 absolutely appalling to me. The manufacturing industry

 8 in the United States as a whole uses over 24 trillion

 9 Btus, or it's a big number. But when it dealt with the

 10 types of energy that industry gets, they get fuel from

 11 gas and oil and other sources, and electricity. But the

 12 electricity thing was most intriguing to me, and that

 13 was that in order to deliver 3,102 trillion Btus of

 14 electric energy to industry, the electric utility must

 15 burn 9,546 Btus of fuel. In other words, if you're

 16 looking at energy efficiency, that doesn't look too

 17 efficient if you're going to reduce 9,500 Btus to 3,100

 18 to deliver your final product.

 19 So one of the things that wasn't discussed

 20 here today, is there anything we can do with the

 21 electric utilities themselves to improve their

 22 efficiency?

 23 And then I wondered, is that a correct number?

 24 And I found out from further study that actually it is a

 25 correct number. As you know, each year in your cost

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 1 recovery proceedings, you also consider generation

 2 performance incentive factors to reward the utilities

 3 for using their most efficient generation. And when

 4 we've got a coal-burning utility or one with an old gas

 5 operation, you reward the utility if it's able to

 6 convert 10,000 or 11,000 Btus into a kilowatt-hour.

 7 Now, to understand the significance of that, a

 8 kilowatt-hour has an energy factor of 3,500 Btus. So

 9 you presently under your rules reward utilities if they

 10 have a 65 percent loss in their energy conversion to

 11 convert the fuel into electricity.

 12 Since '92 when we started with more innovative

 13 models of energy, the combined cycle plants came out,

 14 and those plants now are in the range of 7,500 Btus to

 15 convert to a 3,500 Btu kilowatt-hour of electricity.

 16 That's a loss of only 53 percent. It doesn't consider

 17 the loss in transmission and generation, which the

 18 Department of Energy considers.

 19 So that's a real problem, and so when you're

 20 considering conservation programs, maybe the entity that

 21 delivers, the utility, you ought to consider its energy

 22 efficiency compared to the energy efficiency of a

 23 customer converting energy. And if the customer can do

 24 it better, perhaps you should give serious

 25 consideration, as the Department of Energy has done in

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 1 its Industrial Technology Program, to coming up with

 2 ways to encourage industry to do the right thing.

 3 Now, industry, as long as I've known it, has

 4 done the best it can to conserve energy. You have --

 5 the key factor there is, is the cost of electric energy

 6 a significant part of its overall cost of production.

 7 And if it is, they pay a lot more attention to it than

 8 other industries that don't have a big electric cost.

 9 So with those concerns in the background, I

 10 listened carefully to the presentations this morning and

 11 what the Commission is presently doing with DSM programs

 12 and what it's attempting to achieve and what it has

 13 achieved. And Mr. Ballinger said he has been around

 14 since the early '90s when the goal studies started, and

 15 I reflected a moment and realized I had been around

 16 since the early '80s when they first started talking

 17 about conservation things and the things we talked about

 18 then. And the things we talked about then -- how many

 19 years ago? Twenty-seven years ago -- were much the same

 20 that Ms. Pielli talked about just a moment ago. They

 21 were the same concepts.

 22 And the big deal then and one that frightened

 23 the utilities and also my clients the most was the Total

 24 Resource Cost Test. And Mr. Futrell explained to you

 25 what that was, but his explanation was different than

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 1 the explanation I heard of the Total Resource Cost Test

 2 back in the 1980s, and the reason that we resisted that

 3 approach and favored the rate impact approach. And the

 4 reason we resisted it was that the people that came in

 5 supporting TRC at the time said you've got to consider

 6 all of the costs of producing electricity, including the

 7 very important environmental externalities.

 8 Well, I didn't hear that today. And maybe the

 9 way that Mr. Futrell and his team evaluate TRC, they've

 10 taken out environmental externalities. But if that is a

 11 cost that has to be considered, it is appalling, and

 12 it's more appalling to me today than it was yesterday,

 13 because on the way out to the Commission this morning, I

 14 was listening to public radio, and an FSU professor

 15 testified that -- or has done a paper that I guess you

 16 -- it will come to you sooner or later, as to the cost

 17 of global warming. And he said the cost of global

 18 warming to the State of Florida will be $384 billion a

 19 year.

 20 Well, if that cost is a cost that's going to

 21 be considered in the total resource cost approach, then

 22 you better look out if you're concerned about high

 23 rates, because almost any conservation program will meet

 24 that criteria, and it will throw the utility industry as

 25 we know it today into disarray, and I hope we'll give

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 1 that serious consideration.

 2 The other thing I heard Mr. Futrell say was

 3 the rate impact test. And we strongly endorsed the rate

 4 impact test when it began because we felt that was an

 5 appropriate way. If a conservation program caused the

 6 rates to the general customers to go up, then maybe, you

 7 know, there was no general benefit. That was back in

 8 times when we weren't quite so concerned about the

 9 environment.

 10 But what we found out was that it's not a rate

 11 impact test. It's a revenue impact test. And that's --

 12 keep that in mind very carefully when you listen to

 13 Mr. May's presentation, because the utility's costs, as

 14 you well know, is composed of the base rates it collects

 15 plus the fuel costs that it collects, and now you've

 16 added a bunch of other cost recovery items to it so that

 17 the guaranteed revenue that the utility is entitled to

 18 is -- last year it was 70 percent. This year it was

 19 only 63 percent of their total revenue.

 20 And decoupling struck me as -- decoupling is

 21 the icing on the cake that will give them 100 percent of

 22 their revenues guaranteed. So when that happens, you

 23 don't need to worry about the high returns that are

 24 currently awarded. You can reduce the returns

 25 substantially closer to the government rate of return.

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 1 And I think that's probably why utilities have resisted

 2 decoupling in the past, because you'll also examine the

 3 return they're getting and ensure that it's commensurate

 4 with the risk.

 5 In any event, the total resource -- the RIM

 6 test as we have it today knocks out good programs, and

 7 Mr. May is going to tell you about a good program it

 8 knocks out, a program that he has that has no fuel cost

 9 with it, it has no environmental impact, and it provides

 10 electricity to the utilities at a lower cost than most

 11 of the things that you've seen in the renewable

 12 portfolio standards, and he'll tell you why that is.

 13 But the interesting part is that that doesn't pass your

 14 current cost-effectiveness test, and that's because the

 15 RIM test is flawed, and it's not a rate impact test,

 16 it's a revenue impact test.

 17 So the utility may totally displace its cost

 18 of fuel, but if it loses revenue, then the program may

 19 not pass the test. And you don't look at whether that

 20 loss of revenue impacts rates or not, because a utility

 21 can be earning a 16 percent return on its investment,

 22 and yet if it loses revenue, the conservation program

 23 might go down the tubes. So one of the things you need

 24 to think about as part of this, of your further studies

 25 is, is the rate impact test making disincenti – making

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 1 you not want to do some things you might otherwise do.

 2 Mr. Masiello did a beautiful job and made me

 3 feel like there wasn't anything wrong, that we've had

 4 great activity with respect to conservation programs,

 5 and they're going full blow, and we've only spent,

 6 according to the charts, some $3.5 billion on

 7 conservation programs to date. But the interesting

 8 thing to me is, from the time I remember back in 1980,

 9 where the annual consumption of customers was around

 10 12,000 kilowatt-hours a year, it's now up to over 14 and

 11 15,000, or it was 10,000 and it's up to 12,500. So what

 12 has happened is, with conservation in place, the

 13 consumption of the average customer -- and I'm not

 14 talking about taking into consideration the new people

 15 that came in, but the average customer consumes 25

 16 percent more kilowatt-hours than they did back in 1980.

 17 And always in my mind is, what's that all

 18 about? Well, obviously, it's about some of the things

 19 that Mr. Ballinger told you about. We have more

 20 appliances and TVs, HDTV uses a lot of electricity, and

 21 so forth and so on.

 22 Mr. Sotkiewicz came out with -- talked to you

 23 about revenue decoupling, as did the EPA lady. And

 24 apparently, that's a hot topic again, as it was right

 25 after the Vietnam War. I remember right after the

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 1 Vietnam War, one of my clients said -- I said, "What is

 2 this revenue decoupling, this RD all about?" He said,

 3 "Johnny, RD is worse than the VD that we got in

 4 Vietnam." And I said, "My goodness." And then he went

 5 on to explain it, and what happened, the explanation

 6 kind of bears out what ELCON has come up with in its

 7 policy report that we gave -- I gave copies to you, and

 8 I'm not going to go into that.

 9 But that's a very interesting study, and that

 10 study, surprisingly, tracks exactly what Mr. Sotkiewicz,

 11 the academician, came here today and told you. He said

 12 that properly structured rates will ensure revenue

 13 stability, and you may not need the other stuff, but if

 14 you want to do the other stuff to cross-subsidize some

 15 customer classes and make the rich pay more for the poor

 16 and so forth, that's still available to you.

 17 My concern about that is, the people that

 18 consume the most electricity are poor people in poorly

 19 insulated houses with big families, and they aren't rich

 20 people, and the people that consume the least

 21 electricity are the people who live in condominiums and

 22 have come down here as snow birds.

 23 So if you set rates the way Mr. Sotkiewicz

 24 said -- it's very interesting. He says, "Set them so

 25 that your fixed costs cover your fixed costs." And

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 1 they's not a novel idea. You've been doing that in

 2 water and sewer cases for as long as I can remember.

 3 You have a base facility charge and a consumption

 4 charge. The base facility charge covers fixed costs,

 5 and the consumption charge covers the water you consume.

 6 Well, the other biggest problem that I

 7 visualize -- and I'm going on too long -- wasn't spoken

 8 about today, but it was addressed tangentially.

 9 Mr. Masiello told you that there are 1.2 million of his

 10 customers that engage in demand-side management

 11 programs, and statewide, I think there are over -- maybe

 12 that's statewide. I thought it was just about a

 13 million, but he said a million 2.

 14 But what that means is, the demand-side

 15 management programs they have, you can cut off the heat

 16 on the coldest day of the winter or the cooling on the

 17 warmest day in the summer, but they ameliorate that by

 18 passing it around. But the reason it's bad is not

 19 because those people are disturbed when they can't get

 20 cooling or heat when they want it. It's bad because it

 21 gives you artificial price signals.

 22 In Florida, when they measure a thing called

 23 reserve margin to see if we have enough capacity to meet

 24 our demand, what happens is, they don't count this

 25 1.2 million residential customers. And those 1.2

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 1 million residential customers, if they get upset, they

 2 can get off that program with 30 days notice, and then

 3 you've got a demand. When you look at the capacity

 4 margin as opposed to reserve margin, like most other

 5 states in the United States do, we have a capacity

 6 margin of about 2 percent. So we have a serious

 7 capacity problem that no one is really addressing here

 8 today, but conservation is a good way to deal with that

 9 if we can do it effectively, and that's a big burden and

 10 a big chore for you to do.

 11 But I'm going to tell you what some of my

 12 clients have done, and that deals with price elasticity.

 13 When I first started representing industrial customers,

 14 Tropicana was the largest customer of FP&L. Tropicana

 15 left the system and went to cogeneration. In the Gulf

 16 Power territory, Monsanto was far and away the biggest

 17 customer. It left the system and began to sell power to

 18 Gulf Power because the price got too high. Florida

 19 Steel moved away from Tampa, went to Jacksonville and

 20 got into the JEA area. Anheuser-Busch closed its

 21 brewery in Tampa. Several cement companies have gone

 22 out of business, and they import cement from Mexico and

 23 other places rather than manufacture it, although

 24 they've started manufacturing again.

 25 But those people respond to price, so if you

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 1 think you can shift the cost of electricity to the

 2 industrial sector, it probably won't happen. Tampa

 3 Electric tried it in 1986. They came up with a rate

 4 methodology that went after the interruptible customers

 5 and raised their rates. Within five years, those people

 6 constructed 600 megawatts of their own capacity, and

 7 they made their own electricity more efficiently than

 8 the utility was able to provide it.

 9 Now, Mr. May is going to elaborate on this.

 10 And I've talked too long. But this is an exciting time

 11 here, and probably this time is more exciting than any

 12 time since I've been doing this job many years ago. And

 13 you are kind of like an open book learning, and you

 14 bring in to you people who know about this stuff, but

 15 you always need to think about the rest of the story.

 16 And as long as I'm around, I'll try to tell you the rest

 17 of the story.

 18 Now it's my pleasure to introduce Bob May with

 19 CF Industries.

 20 CHAIRMAN EDGAR: Thank you, Mr. McWhirter.

 21 Mr. May.

 22 MR. MAY: Thank you very much. I would like

 23 to thank the Commission for the opportunity to come and

 24 speak with you this afternoon. And let me just give you

 25 a little overview of what I would like to discuss with

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 1 you this afternoon. I want to tell you a little bit

 2 about CF Industries, who we are, what we do, give you a

 3 few examples of energy efficiency that we employ and how

 4 we generate renewable energy at our complex in Plant

 5 City, and also talk to you more importantly about some

 6 of the challenges and issues that we face as we look to

 7 improve the energy efficiency of our facilities and as

 8 we seek and consider the generation of additional

 9 renewable energy at our facility.

 10 Let me give just a little bit of an overview.

 11 We have -- CF has four Florida facilities, one at Plant

 12 City. That's where our chemical plant is located. We

 13 have a mine in Hardee County, which produces 100 percent

 14 of the rock for our chemical plant. We also have a

 15 warehouse and ammonia terminal in the Port of Tampa.

 16 And then we have a facility at Bartow where we've closed

 17 the gypsum stack, and that facility is actually being

 18 demolished at the present time.

 19 These facilities consume approximately 581

 20 million kilowatt-hours of electricity annually. Our

 21 products, we produce about 2 million tons per year of

 22 dry granular fertilizer products. And we cogenerate at

 23 Plant City about 260 million kilowatt-hours from waste

 24 heat from sulfuric acid production. And I'll talk a

 25 little bit more about that in detail.

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 1 On average, we're exporting about 2 megawatts

 2 to our utility, TECO. And the things that we're looking

 3 at right now is, we have a strategic plan to increase

 4 fertilizer production by about 10 percent by 2009. We

 5 have the capital approved. We have the permits

 6 approved. And as we increase production, we're going to

 7 have the opportunity to generate additional renewable

 8 energy, and that's something we want to talk more about.

 9 And the last bullet I've got up there, we're

 10 also considering additional fertilizer production

 11 increases of another 10 percent. And, of course, to

 12 support that production, we will need additional

 13 sulfuric acid production and will have additional

 14 opportunities to generate additional renewable energy

 15 electricity.

 16 Let me give you a couple of examples. I

 17 mentioned cogeneration, and I'm going to explain exactly

 18 what that is to you. But basically, we generate

 19 electricity at Plant City. About 30 to 32 megawatts of

 20 electricity are used by the complex itself, and we

 21 export on average to our utility about 2 megawatts.

 22 The second item I want to discuss is natural

 23 gas consumption. We've recently in the last five years

 24 reduced our natural gas consumption by about 1 million

 25 therms per year, and that has happened in the last five

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 1 years as the price of natural gas has continued to

 2 increase. But if you go all the way back to, let's say,

 3 the early 1980s, when the price of natural gas was

 4 originally deregulated, we originally installed dry air

 5 preheaters that used low pressure steam that reduced

 6 natural gas consumption by about 4 to 5 million therms

 7 at that point in time. So basically, at this point in

 8 time, we use very little natural gas at our facility.

 9 I would like to take a few minutes and explain

 10 how we generate electricity at Plant City. The facility

 11 has three basic raw materials. We have sulfur, we have

 12 phosphate rock, and we have ammonia. And what we do is,

 13 we take the sulfur, and we need to produce sulfuric acid

 14 as an intermediate chemical in this fertilizer

 15 production process, and in that sulfuric acid production

 16 -- we have four sulfuric acid production plants at the

 17 facility. And in that process, there is a tremendous

 18 amount of waste heat that's generated, and we have to do

 19 cooling, and that cooling takes place and creates steam.

 20 We use the steam in our process plants, and we also use

 21 that steam in a steam turbine and a generator just like

 22 a utility to generate electricity.

 23 So you can see, there are no emissions. We're

 24 not burning a fossil fuel specifically to generate

 25 power, so there are no emissions from the process.

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 1 We're making sulfur -- we're burning sulfur as part of

 2 our fertilizer manufacturing process. We're going to do

 3 that whether we produce electricity or not. Really, the

 4 electricity for us is a by-product as such. So we're

 5 merely looking at the economics of is it economic to

 6 generate additional electricity.

 7 If you look at the schematic, you see -- from

 8 the sulfuric acid plant, you see an arrow that says

 9 waste heat from cooling towers. That's our energy

 10 efficiency opportunity. Today we can recover more of

 11 that heat in the form of steam and generate more

 12 electricity, but obviously, it requires capital

 13 investment, so we need to talk about that a little bit

 14 more.

 15 Benefits of cogeneration, I touched upon

 16 those. There are no environmental emissions associated

 17 with our cogeneration facility, and there is no

 18 consumption of fossil fuel resources. We're burning the

 19 sulfur in that process as part of our fertilizer

 20 production process. The sulfur itself only has

 21 emissions associated with that process. There are no

 22 emissions associated with the cogeneration unit.

 23 So why do we have a current opportunity to

 24 generate additional electricity? We're looking at

 25 increasing sulfuric acid production in support of this

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 1 10 to 20 percent increase in our production of

 2 fertilizer, and to do that, we're going to make more

 3 sulfuric acid. We're going to generate more steam.

 4 We're going to have the opportunity to generate more

 5 power. It takes capital investment.

 6 As part of the decision-making process, you

 7 know, I mentioned that we had four plants at the

 8 facility. Some of those plants are 40 years old. They

 9 were built in 19 -- built in the 1960s. They do not

 10 lend themselves well to energy retrofits where we could

 11 recover more energy from the process, so we're looking

 12 at maybe replacing those plants, and that requires

 13 additional capital investment, obviously.

 14 We also have -- the plants that we have today,

 15 we're considering the retrofit of what's called heat

 16 recovery technology into these sulfuric acid plants.

 17 It's a technology that has been used in the industry for

 18 a number of years. We have not employed it as yet to

 19 improve our energy efficiency because we just really

 20 haven't been able to get, you know, the economic

 21 incentive to be able to make that investment. But if

 22 you look at what we're talking about in our strategic

 23 plan, depending on where we go and what the incentives

 24 are, we have the potential to increase our net export of

 25 power somewhere between about 10 and 37 megawatts.

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 1 So what's the problem, and what's the

 2 solutions? Okay. Well, from our perspective, I can

 3 tell you that we're looking at improving our energy

 4 efficiency and producing more renewable energy, but the

 5 problem is, we feel like we do not get the fair market

 6 value for the energy that we produce. I mean, you can

 7 look at things like, you know, rate structure

 8 incentives. Certainly if you have an energy source that

 9 does not burn fossil fuel, it does not generate

 10 emissions, certainly there should be some incentives

 11 there.

 12 There have been solutions talked about such as

 13 net billing or wheeling. And obviously, we have other

 14 facilities within the state, so we could take advantage

 15 of a strategy such as that. And the only thing I can

 16 say here, I guess to summarize and kind of conclude my

 17 remarks, is to say that we would just ask that you would

 18 take a look at the facts that we've presented and

 19 consider as you move forward on improving energy

 20 efficiency and providing incentives for renewable energy

 21 that you would consider these things as you move forward

 22 on renewable energy issues.

 23 That basically concludes my remarks. If you

 24 have any questions, I'll be happy to take them.

 25 CHAIRMAN EDGAR: Mr. May, sir -- and, of

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 1 course, it's right here in front of me, but from what

 2 you've said, from the perspective of your company,

 3 regulatory changes that would be more favorable to net

 4 billing and to wheeling would be helpful in encouraging

 5 your --

 6 MR. MAY: Certainly.

 7 CHAIRMAN EDGAR: -- company to produce

 8 additional megawatts --

 9 MR. MAY: Certainly.

 10 CHAIRMAN EDGAR: -- beyond what you're already

 11 producing.

 12 MR. MAY: Certainly.

 13 CHAIRMAN EDGAR: Commissioners, any questions

 14 for Mr. May? No. All right. Thank you so much.

 15 MR. MAY: Okay. Thank you.

 16 CHAIRMAN EDGAR: And the next person that has

 17 signed up to sleep -- to speak. I hope everybody is

 18 awake. Is Mr. David Christian.

 19 MR. CHRISTIAN: Thank you, Madam Chair.

 20 CHAIRMAN EDGAR: Thank you.

 21 MR. CHRISTIAN: Good afternoon, Commissioners.

 22 My name is David Christian. I'm the Vice President of

 23 Regulatory Affairs at Verizon.

 24 As you know, our company, Verizon, is a

 25 broadband network company. Our wireless, landline, and

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 1 global IP networks create a web of connectivity that

 2 supports broadband applications and the people that use

 3 them to conduct their daily business. Our networks

 4 include the only large-scale fiber optic network in

 5 America called FiOS, a wireless broadband service that

 6 is available to more than 200 million Americans and a

 7 global enterprise network. No matter what you are

 8 doing, whether you are on the road or in your home,

 9 advances in technology allow us to get more productivity

 10 out of our days and decrease the amount of energy we

 11 use.

 12 For example, broadband facilities facilitate

 13 video conferencing and teleconferencing, which helps

 14 individuals and businesses substitute the exchange of

 15 information and ideas for physical travel and reduce

 16 energy. It enables smart building strategies that allow

 17 customers to remotely monitor and adjust the energy

 18 efficiency of their residences and businesses. As we

 19 heard about this morning from Mr. Masiello, this is

 20 exactly the strategy that Verizon believes our broadband

 21 networks will be able to foster, even greater

 22 applications that haven't even been dreamt up yet.

 23 These are just a few examples of how our broadband and

 24 IP services can assist individuals and businesses

 25 globally to increase their productivity, reduce their

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 1 energy use, and minimize the impact of their activities

 2 on the environment.

 3 We've commissioned a paper from the American

 4 Consumer Institute that primarily focuses on how

 5 broadband technology can reduce greenhouse gas

 6 emissions, but it also addresses how IT and broadband

 7 applications will and can reduce energy consumption even

 8 more, and we would just like to share that study with

 9 you today.

 10 And those are my remarks.

 11 CHAIRMAN EDGAR: Thank you. You want to go

 12 ahead and pass out some copies? Thank you, David.

 13 Obviously, of course, be sure and give some to our

 14 staff. Thank you.

 15 And our next speaker is Mr. Bob Krasowski.

 16 Mr. Krasowski.

 17 MR. KRASOWSKI: Good afternoon, Commissioner.

 18 It's so nice to see you again. My name is Bob

 19 Krasowski. I'm here as a 27-year resident of Florida

 20 and also a member of the Florida Alliance for a Clean

 21 Environment, a small group that is active in advocating

 22 for clean environmental policy.

 23 I want to thank you for a very, very

 24 interesting meeting. It's so good to see that these

 25 type of meetings occur in Florida. These are very, very

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 1 important issues that we deal with. I've learned a lot

 2 through the presentations of the utilities and the other

 3 speakers, and I just wanted to get up and make a few

 4 points and questions that will roll on into the future

 5 that we'll looking for answers for.

 6 There was a question about the population

 7 projections that Mr. Ballinger mentioned earlier. That

 8 has always been of interest to us, and I think we all

 9 need to know, have a real good assessment of that,

 10 because so much is based on that. He mentioned a

 11 thousand people a day, more or less. But I also was

 12 aware of a newer report I think had it down to 750 or

 13 something. And then with that trend, we don't know

 14 where it's going to go, and I don't want to say the sky

 15 is falling. Actually, the sea is rising now. But, you

 16 know, we don't know exactly what the future might hold

 17 for us. And we have to -- I think it's really important

 18 that we try to find some assortment of sources to give

 19 us a good idea what the population is as far as a

 20 projection, because it is going to be a matter of

 21 discussion in the future. And as we know, in the past,

 22 other projections of population from the experts have

 23 not been accurate. Okay?

 24 And then, let's see. There was a question

 25 Commissioner Carter asked as to whether or not DSM

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 1 programs should be mandatory or voluntary. And the way

 2 we look at it, we think that what we should be doing is

 3 taking advantage of what the marketplace and the people

 4 who have been active in the marketplace have provided

 5 for us over the years as far as innovations and

 6 efficiencies. And I'm talking about everything -- let's

 7 use appliances. In the past 20 years, the efficiency of

 8 appliances has increased enormously, refrigerators or

 9 washing machines, so we should raise the standard to

 10 meet those efficiencies. And I know an efficient

 11 refrigerator is a lot more expensive than an inefficient

 12 model. Sometimes there are not justifiable reasons for

 13 that in terms of the difference in cost of producing

 14 those, so it's something we should look at.

 15 So along those lines, I feel that DSM should

 16 be mandatory, although Mr. Masiello earlier mentioned

 17 how when the standard was raised, it kind of killed the

 18 DSM program in replacing strip electricity with heat

 19 pumps. Well, that's not a bad thing necessarily. It is

 20 if it stops the replacement of the old with the new, but

 21 -- and I'm not suggesting that was his point, but we

 22 shouldn't look at the raise of the standard as a

 23 negative thing, although we do have to look at the cost.

 24 So I just want to be real sensitive to the DSM programs

 25 and whether or not efficiency -- implementation of

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 1 higher standards has a negative impact on them.

 2 There was a comment about the program to trade

 3 out old freezers, people bringing in new higher energy

 4 efficiency. Well, we could couple the benefit of doing

 5 that along with the requirement that the old freezer has

 6 to be removed and returned for recycling, so that's a

 7 pretty easy thing to do. It's sort of like when you get

 8 a new starter for your car. You have to bring in the

 9 core to get the better price on the new starter.

 10 Let's see. Just in general terms, once again,

 11 I've certainly enjoyed this. But as far as the PSC's

 12 role and the utilities' role in providing our community

 13 with needed power, I think we're still kind of inside

 14 the box here. Okay? Because while DSM programs show to

 15 be beneficial in savings, there are a lot of things,

 16 external impacts of power and opportunities for solar

 17 and other things outside of the realm of the PSC.

 18 So I wonder -- you know, this is all good, and

 19 I appreciate it and think you're doing a good job, but I

 20 wonder if this arena here is enough to really pull off

 21 the transition that we need to get away from the old

 22 dirty power to new power. And it might be. I don't

 23 know. I'm still cloudy on that and trying to kind of

 24 envision what we might to do to expand this, because

 25 there's more -- of course, everybody knows there's more

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 1 than just our interests, the PSC's interest or the

 2 utilities' interest at heart here. And if we're going

 3 to believe global warming and climate change and all of

 4 those things, and the new report about the cost of doing

 5 nothing, and then, of course, the other -- the clean,

 6 nuclear, carbon-free option that has a lot of other

 7 issues associated with it, we just have to, I don't

 8 know, sort of think out of the box.

 9 But enough for me. Nice to see you all again,

 10 and I appreciate your attention to my comments.

 11 CHAIRMAN EDGAR: Mr. Krasowski, thank you

 12 again for your participation. And just to respond to

 13 your kind of comments there at the end, generally I

 14 don't -- let me put it this way. I don't always

 15 appreciate being told I'm in the box. But at this

 16 point, I understand your comments, and I do think it

 17 certainly all goes beyond us and beyond some of the

 18 issues that we're talking about. But one of my personal

 19 goals for the discussion today was to look at what our

 20 piece of the puzzle or piece of the box, to mix

 21 metaphors, may be, because it does all go beyond us,

 22 certainly, but yet I think it is very much my

 23 responsibility as one Commissioner and ours collectively

 24 to look at what is our piece of it and continue our own

 25 analysis and discussion.

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 1 Commissioners, other thoughts before the next?

 2 Okay. We'll move on to the next person on the list,

 3 which is George Cavros. George.

 4 MR. CAVROS: Good afternoon, Commissioners.

 5 George Cavros with the Southern Alliance for Clean

 6 Energy and the Natural Resources Defense Council. It's

 7 a pleasure to be with you this afternoon. My comments

 8 are going to be very brief, because I have a plane to

 9 catch.

 10 First of all, I want to thank you for holding

 11 this workshop. Energy efficiency is so, so important,

 12 especially given the goals that we're trying to meet,

 13 the benchmarks that the Governor has set out. As you

 14 know, energy efficiency is critical to reducing our

 15 carbon footprint. It's the fastest, the cheapest, the

 16 most effective way to reduce our greenhouse gas

 17 emissions, plus it shrinks the demand pie, which makes

 18 the renewable portfolio standard that you're working on

 19 so much more viable.

 20 My main concern today and the reason I'm

 21 speaking was that I didn't -- I kind of want to give you

 22 sort of a complete picture or try to complete the

 23 picture on where we are today on energy efficiency in

 24 Florida. I didn't want you to leave with the impression

 25 that, you know, we're doing a great job on energy

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 1 efficiency in Florida, and all we have to do is maybe,

 2 you know, tweak a program here or tweak a measure there.

 3 With all due respect to the representatives

 4 from the utility industry that are here today, our

 5 energy efficiency programs and the way the incentives

 6 are designed right now produce very, very, very average

 7 results. And one of the reasons for that is a

 8 regulatory barrier called the Rate Impact Measure test.

 9 I think that Mr. Futrell put it best in his presentation

 10 when he said that programs with relatively higher

 11 kilowatt reductions will result in higher revenue losses

 12 and reduce the potential to be cost-effective under the

 13 Rate Impact Measure. And simply put, the Rate Impact

 14 Measure doesn't capture the most aggressive energy

 15 efficiency measures. And I think you realize that,

 16 because from time to time, you do grant utilities cost

 17 recovery on programs that don't pass the Rate Impact

 18 Measure, but probably do pass the Total Resource Cost

 19 Test.

 20 So, you know, we look forward to engaging in

 21 the conversation as we go forward regarding, you know,

 22 what is the proper test. Often the argument is made --

 23 the argument that's made for the Rate Impact Measure

 24 test is that there is no cross-subsidization of rates.

 25 And at least in my mind, I find that to sort of be an

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 1 unfair argument, because if we don't use aggressive

 2 energy efficiency, we're going to have to go out and

 3 build a new power plant, and when we build new supply

 4 generation, everyone is cross-subsidized. So I don't

 5 understand what the fear is for cross-subsidization when

 6 it's applied to demand-side measures, and I would like

 7 to see a more level playing field in that regard.

 8 There were a couple of things in

 9 Mr. Masiello's presentation, a couple of statistics.

 10 The first one was that Florida placed two utilities in

 11 the top ten of nation in megawatt on ER -- on EE and

 12 load management. Well, to put that in perspective,

 13 that's a total megawatt savings, a total cumulative

 14 megawatt savings. And Florida being one of the larger

 15 states, it should be in the top ten on total megawatt

 16 savings. But when you look at per person or per

 17 customer savings, you find that we're somewhere in the

 18 middle of the pack.

 19 Additionally, there was a slide that showed

 20 three pies. One of them showed the percent of customers

 21 that we have, which is 6.5 percent. You might remember

 22 that slide. And the other one was percent total from

 23 energy efficiency and load management is 17 percent.

 24 You may remember that slide. I'm just curious how much

 25 of that is from load management, you know, just

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 1 basically shifting load from one point to another point.

 2 There's an implication in one of the later slides that

 3 as much as 16 percent of that 17 percent might be from

 4 load management, and it would be nice if we had a

 5 clarification on that.

 6 Lastly, it's important to note that on any

 7 given year, any Florida utility in order to meet its

 8 demand will meet that demand with energy efficiency, but

 9 that energy efficiency will be less than -- much less

 10 than 1 percent of what that total demand is on any given

 11 year. And there have been, you know, utilities in other

 12 parts of the country with aggressive energy efficiency

 13 measures that capture quite a bit more. San Diego Gas &

 14 Electric in 2005 caught 2 percent of their total demand

 15 for that year from energy efficiency measures.

 16 Likewise, Southern California Edison captured 1.7

 17 percent of their demand that year through energy

 18 efficiency measures. That was 2005. And Massachusetts

 19 Electric Company captured 1.3 in 2005 through energy

 20 efficiency measures. So we have the potential here in

 21 Florida to increase our energy efficiency by a magnitude

 22 of three to four times, and that's the kind of

 23 reductions we will probably have to see in order to

 24 reach certain greenhouse gas reductions and renewable

 25 portfolio standard targets.

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 1 So in closing, we look forward to working with

 2 you as you move forward to establish an energy

 3 efficiency framework. We do support decoupling, and we

 4 look forward to further discussion on that as well.

 5 Thank you.

 6 CHAIRMAN EDGAR: Thank you, George.

 7 The next person who has signed up to speak is

 8 Dee Barton, if I'm saying that right, Dee Barton. No?

 9 Okay. Arthur Annis.

 10 MR. ANNIS: Good afternoon, Madam Chairman and

 11 Commissioners.

 12 CHAIRMAN EDGAR: Good afternoon.

 13 MR. ANNIS: I work for AirEnalasys Corporation

 14 and Enalasys Corporation, which does a lot of the

 15 verification service providers from California and

 16 Nevada Power & light. And the one thing that I want to

 17 bring out this morning, we just got this information in

 18 from -- and this came from Pacific Gas & Electric. By

 19 using the verification service provider and the

 20 verification performance incentives, they have saved

 21 50 megawatts of electricity this year. So that shows

 22 there -- you know, that's Pacific Gas & Electric

 23 stepping out and saying it. It's not me saying it.

 24 It's readily available for everybody.

 25 The rebates not being used by 25 percent of

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 1 the people, that upsets me, because that's money that is

 2 allotted them for, you know, saving that energy and

 3 upgrading their systems. And using verification service

 4 providers, that actually gets filled out by the third

 5 party and gets sent in for the homeowner, and it gets

 6 directly mailed to them. So that's out there that will

 7 cut down on that lost money going to the homeowners.

 8 And the question that I had for the committee

 9 is in regards to deemed, you know, savings versus

 10 verification performance incentives. Is there a greater

 11 credit that would be given to the utilities for using a

 12 performance based incentive versus deemed savings? So

 13 that was my question to the committee.

 14 CHAIRMAN EDGAR: Thank you.

 15 Leon Jacobs.

 16 MR. JACOBS: Good afternoon, Commissioners.

 17 Thank you for the opportunity to appear before you. My

 18 name is Leon Jacobs, and I'm appearing here also on

 19 behalf of the Natural Resources Defense Council and for

 20 the Southern Alliance for Clean Energy.

 21 I want to echo the sentiments of the other

 22 speakers in thanking you for taking on this subject.

 23 This is truly, I believe, a watershed event, an

 24 important event, and we welcome the opportunity and the

 25 dialogue that you've opened. We highly endorse the

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 1 underlying sentiment that you bring to this that it is

 2 time to look at this with a fresh and open air and

 3 really see how the Commission's role is important,

 4 because we believe it is an incredibly important role

 5 that you play.

 6 Things have changed considerably in the whole

 7 electricity markets, and I won't go into all of that.

 8 But particularly for the State of Florida, the dynamic I

 9 think is incredibly -- this is an incredibly important

 10 time, the transition, the paradigm shift, the whole --

 11 all the kind of adjectives or pronouns or nouns you want

 12 to give it. This an incredibly important time. Yes,

 13 there are some important initiatives that are being

 14 undertaken with regard to climate change. Those are

 15 very important, and those issues are very important to

 16 us. But as you know, I can appreciate particularly the

 17 tensions that you face.

 18 There's an incredibly important need to look

 19 at diversity of fuels. Consumption in the state is

 20 growing. We're at a point where we're trying to

 21 understand how we're going to address that demand, what

 22 kind of technology is going to win out, what are going

 23 to be the environmental issues that are going to be

 24 raised by what technology wins out. You face some

 25 really incredible and challenging points.

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 1 The essential message I would like to leave

 2 with you today is that you have a winner already before

 3 you. We believe that energy efficiency is without

 4 question a win-win proposition for energy planning in

 5 this state today. It is a least-cost option resource

 6 that can be put into the demand mix of this -- demand

 7 portfolio of this state to address many of the issues

 8 that you're facing. We have not done the best job of

 9 looking out and searching out energy efficiency

 10 resources.

 11 You probably will recall a recent proceeding

 12 that we had on siting a facility. And I won't go into

 13 all the details, but it was really telling to me, an

 14 analysis that was done in that proceeding by one of the

 15 potential owners. And essentially what that utility did

 16 was, they went out and they did a discrete analysis.

 17 They looked at how energy efficiency end use patterns

 18 worked into the system demand, and then they determined

 19 what energy efficiency measures would address their

 20 system operations on a real-time basis.

 21 And when they completed their analysis, they

 22 found that they could engage a lot more efficiency

 23 measures, and they would in turn realize a reduction in

 24 their system costs. Their overall long-term costs to

 25 produce electricity would go down, which is quite a

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 1 different story from what you've heard from a lot of

 2 people. The automatic assumption is if you do more

 3 energy efficiency, your costs go up, and now you figure

 4 out whose ox gets gored. We don't think that that's the

 5 full analysis. We do believe that there's a business

 6 case for doing energy efficiency in this state. A lot

 7 has to go into how you design it and how it gets done.

 8 Now, I want to talk a big important point that

 9 we've all talked about today: How do you open the gate?

 10 What is the most appropriate cost-effectiveness measure?

 11 A lot has been said about it. I believe you have some

 12 great background and input to help guide you in this,

 13 and I provided you some comments here that came from a

 14 prior Commission proceeding on this issue. When this

 15 policy was being formulated, this was exactly at the

 16 forefront of the consideration of the Commission when it

 17 was developing these policies. And I won't go through

 18 all this. I'll leave this for your reading. But the

 19 point that I think it really makes clear is that it was

 20 never intended by the Commission to adopt a RIM-only

 21 effectiveness test.

 22 The analysis that Ms. Pielli gave you today I

 23 think is -- I would probably favor more of TRC, but

 24 absolutely, I think you can see clearly that it was the

 25 intent of this Commission to be very open-ended and well

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 1 rounded in how it looked at cost-effectiveness of energy

 2 efficiency. While Florida is perceived to be a RIM-only

 3 state, you do take -- it's my understanding that staff

 4 does receive that information for the other tests. But

 5 unfortunately, the way policy has evolved, we basically

 6 wound down -- when it all gets said and done, we wind up

 7 always only talking about RIM.

 8 And as Ms. Pielli indicated, that's because of

 9 our perspective. We are wholly and almost exclusively

 10 concerned on -- and I'll bow off on Mr. McWhirter's

 11 perspective there. We're almost totally and exclusively

 12 concerned about revenue impact. And interestingly

 13 enough, I'm not sure if we can distinguish whether or

 14 not that's up or down. I think it's almost exclusively

 15 about whether or not there is any impact.

 16 These are the questions that we're urging you

 17 to really be very clear and very precise about how you

 18 proceed forward. Obviously, we believe that a RIM-only

 19 process is not appropriate for Florida. I think you saw

 20 in the analysis that the City of Tallahassee did that

 21 when they brought in measures that clearly did not pass

 22 RIM, they were able to lower their system costs. The

 23 City of Gainesville has adopted not exactly the same

 24 process, but a similar process where they have looked at

 25 measures that do not pass RIM. They're just now doing

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 1 analysis of their outcomes from that, and they're seeing

 2 positive results from adopting energy efficiency

 3 measures that do not pass RIM, but positively affect

 4 their system outcomes.

 5 That's a question that's begging right now,

 6 and I think if you're going to look very seriously at

 7 the energy efficiency question, you have to address that

 8 one. We highly encourage you to do that.

 9 Decoupling, we do support decoupling. We

 10 believe it's important. I was really interested in our

 11 example that was discussed today for several reasons.

 12 They put a cap on it. They held it accountable to

 13 putting in effective energy efficiency, not just looking

 14 at what the impact is on rates. I think those are the

 15 critical issues that you want to look at. Yes, you do

 16 have to be concerned about whether or not it's impacting

 17 fixed cost recovery. And if it's not impacting fixed

 18 cost recovery, don't break -- it's not broken, and so

 19 you may not need to fix it.

 20 With that, I'll end my comments. Again, I

 21 want to thank you. I think this is a very exciting

 22 time, and we welcome the opportunity to participate in

 23 this proceeding.

 24 CHAIRMAN EDGAR: Thank you, Mr. Jacobs.

 25 And that is the last person that I have on the

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 1 sign-up sheets that we had out. Is there anybody else

 2 who would like to take advantage of this opportunity to

 3 speak on these issues at the time? And I'm seeing none.

 4 Okay. Commissioners, that is the last item on

 5 our agenda for this afternoon. I will mention that the

 6 transcripts will be available of these proceedings on

 7 December 10th.

 8 Commissioners, as you've heard from our staff

 9 and from our speakers, a lot of issues involved in all

 10 this. I am excited about the opportunity that we'll

 11 have in the future to discuss some of these ideas and

 12 concepts as we move forward. I'm expecting that there

 13 will probably at some point, nothing set yet, but as we

 14 begin to move into that conservation goal setting

 15 process that I mentioned when we started and that others

 16 have referred to, that we will have additional workshops

 17 on some of the ideas that we've had, incentives, other

 18 mechanisms for pursuing energy efficiency,

 19 cost-effectiveness tests, which is something that, you

 20 know, I have a particular interest in, and other related

 21 issues. And I'll open it up for comment and discussion

 22 before we adjourn. I know our staff would be interested

 23 -- if there are other items or specifics that we would

 24 like to ask them to pursue or bring back to us, I know

 25 they would be interested in that.

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 1 Commissioner Carter.

 2 COMMISSIONER CARTER: A comment first, Madam

 3 Chairman. I think that the perspective that we have

 4 here today is, in my opinion, to create an environment

 5 where all of the disparate interests, the stakeholders,

 6 the public at large, customers, to have a nonadversarial

 7 perspective where we can put the best ideas possible on

 8 the table. And I think that a lot of times when we have

 9 proceedings before us, it's mostly adversarial. There's

 10 nothing wrong with that, but we don't necessarily get

 11 the best bang for the buck.

 12 So I'm hopeful that we can look at this, a lot

 13 of great ideas, a lot of fantastic energy -- no pun

 14 intended. But in terms of the passion that a lot of

 15 people had in terms of the concepts here, I would hope,

 16 and it's my goal, and I know the goal of all of us as

 17 Commissioners, to look at opportunities, to, one, make

 18 sure that energy efficiency in Florida is more than just

 19 a slogan; second, to create an environment where we can

 20 keep the lights on. Let's be real. You know, no matter

 21 what, we've got to keep the lights on, keep the lights

 22 on.

 23 COMMISSIONER ARGENZIANO: Don't pull the plug.

 24 COMMISSIONER CARTER: Don't pull the plug.

 25 And maybe look at some new technologies. I mean, we

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 1 have 11 schools in our state university system. We have

 2 tremendous private colleges in the State of Florida. We

 3 have a tremendous reservoir of bright, young minds out

 4 there, and some, Mr. McWhirter, no pun intended, not so

 5 bright -- not so young, I mean, minds out there, but

 6 certainly some great ideas.

 7 (Laughter.)

 8 COMMISSIONER CARTER: But certainly some great

 9 ideas out there. And our staff is invigorated, and

 10 we're excited about it. And, Madam Chairman, I really

 11 look forward for us continuing this. The Governor has

 12 not only issued his policy statement in terms of his

 13 executive orders, but he has followed up from that with

 14 some outstanding opportunities. One was the events that

 15 we went to down to in Miami, with the workshops on

 16 those, and then the follow-up with the commission that

 17 he appointed.

 18 And I think it's a great time to be in

 19 Florida. It's a great time for us, and I see us as

 20 being a leader. I don't want those people to stop

 21 coming here. Whether it's a thousand people a day or

 22 1,004 people a day, I don't want them to stop coming

 23 here. Come on down, you know, enjoy the weather. It's

 24 the idyllic paradise that we call Florida.

 25 But I do want to see us as a Commission to

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 1 continually create an environment where the utilities,

 2 the stakeholders, the Office of Public Counsel, the

 3 customers, the NRDC, and other community-based

 4 organizations, Sierra Club, where we'll come to the

 5 table and say, "Look, let's work together to do this,

 6 because you know what? In the final analysis, if the

 7 lights go out, we're all in the dark."

 8 Thank you, Madam Chairman.

 9 CHAIRMAN EDGAR: Thank you, Commissioner.

 10 Commissioner McMurrian.

 11 COMMISSIONER McMURRIAN: Thank you, Chairman.

 12 I can't say any of that any better than Commissioner

 13 Carter has. This has been a very informative workshop,

 14 and I thank staff and all the stakeholders involved that

 15 have given us lot of information.

 16 Also, I know the Chairman did this earlier,

 17 but I neglected to thank Ms. Pielli for all her help on

 18 this topic and all the other topics before us, and

 19 especially for inviting me to that Southeast Energy

 20 Efficiency meeting that you mentioned. I should show

 21 you, I have my notebook right here still, my takeaway.

 22 And I'm happy to say that with the good agenda that

 23 we've had lined up here today that I think we've touched

 24 on a lot of those same issues that I had the benefit of

 25 hearing about in Atlanta.

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 1 But I guess as closing thoughts -- and I know

 2 that it's not appropriate probably to do this today, but

 3 I guess where I want to hear more from the utilities and

 4 the other stakeholders, of course, the consumers, and

 5 maybe even the munis and coops, to the extent that

 6 they've got good ideas to share with us about the things

 7 that we can do as a Commission to help encourage even

 8 greater success in the energy efficiency and DSM areas.

 9 And to me, that includes the outreach area. If there

 10 are specific ideas that you all have and you've seen

 11 opportunities that we're not taking, I think we would

 12 like to look at those.

 13 The rate design area, a lot of that has been

 14 discussed today. Specifically the incentive approaches,

 15 I think there are a lot of ideas out there that we can

 16 look into further, and then, of course, the

 17 cost-effectiveness test that the Chairman mentioned.

 18 I'm interested in all those things, and looking at best

 19 practices in other states and with other utilities.

 20 So thank you very much for all the information

 21 today.

 22 CHAIRMAN EDGAR: Thank you. And I think it

 23 absolutely is appropriate, so I appreciate that.

 24 Commissioners, any other thoughts?

 25 Okay. Seeing none, thank you to all of our

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 1 participants, and thank you to all who have attended.

 2 We look forward to further discussion, and are

 3 adjourned.

 4 (Proceedings concluded at 3:25 p.m.)

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 1 CERTIFICATE OF REPORTER

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 3 STATE OF FLORIDA:

 4 COUNTY OF LEON:

 5 I, MARY ALLEN NEEL, Registered Professional

 6 Reporter, do hereby certify that the foregoing

 7 proceedings were taken before me at the time and place

 8 therein designated; that my shorthand notes were

 9 thereafter translated under my supervision; and the

 10 foregoing pages numbered 105 through 181 are a true and

 11 correct record of the aforesaid proceedings.

 12 I FURTHER CERTIFY that I am not a relative,

 13 employee, attorney or counsel of any of the parties, nor

 14 relative or employee of such attorney or counsel, or

 15 financially interested in the foregoing action.

 16 DATED THIS 10th day of December, 2007.

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