BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. UNDOCKETED

In the Matter of

ENERGY EFFICIENCY AND DEMAND SIDE MANAGEMENT OPPORTUNITIES AND ACCOMPLISHMENTS.
_____/

ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE A CONVENIENCE COPY ONLY AND ARE NOT THE OFFICIAL TRANSCRIPT OF THE HEARING. THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 2

Pages 105 through 182

PROCEEDINGS:	WORKSHOP
BEFORE:	CHAIRMAN LISA POLAK EDGAR COMMISSIONER MATTHEW M. CARTER, II COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Thursday, November 29, 2007
TIME:	Commenced at 9:30 a.m. Concluded at 3:25 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	MARY ALLEN NEEL, RPR, FPR

I N D E X

P R O C E E D I N G S

CHAIRMAN EDGAR: We are going to come back from lunch break and get started.

Okay. Would you like to go to the -- we had some excellent presentations this morning, and I know we will have more discussion this afternoon, but we'll go ahead and move into our next speaker on the agenda, and that is Ms. Katrina Pielli with the U.S. Environmental Protection Agency. Ms. Pielli has traveled to Tallahassee to be with us here today. She has presented before us before and has been working with our staff, and our staff with some of her staff.

And, Katrina, it's so nice to see you again. Thank you, and we're ready to get started.

MS. PIELLI: Great. Thank you all for having me. Is this on? No? Okay. Am I good now?

CHAIRMAN EDGAR: You're good now.

MS. PIELLI: Great. To give the same introduction just for folks who might not have been here the last time I was here, the office I come from at EPA is the side of the voluntary programs, so we're not the side that does enforcement. We're the Climate Protection Partnerships Division. We do house the ENERGY STAR program for EPA, and we also support the National Action Plan for Energy Efficiency, which you

heard a little bit about this morning. So what we do, our role is really to provide assistance to state policymakers across the country, looking at best practices and lessons learned, looking at clean energy, so renewable energy, energy efficiency, and combined heat and power.

So we'll jump right in. This is what I would like to focus on today, the bulk of which being the issues garnering increased interest. And I would just like to set the stage really with just a quick overview of a lot of the things that we've been hearing, why people are more interested in efficiency now than they were, say, five years ago, and then briefly move into some resources that are available from our end. So we'll just get started.

Quickly, this is probably no surprise to anyone here or any of you, but there's -- many of the energy challenges facing us today really can be served from increased efficiency, from reliability issues, carbon risk, to the energy demand growing, the volatility of natural gas prices. Efficiency really is a quick, cheap, and clean resource. And here is just a sampling of the benefits, really, of energy efficiency. And these are all things that we've heard cited from policymakers and other stakeholders across the country.

What this slide shows you are just a handful of the studies that have come out in the past few years really heralding the large potential for increased investment in efficiency. The McKinsey Global Institute found that from existing technologies, we could cut global energy demand by half or more over the next 15 years. ACEEE did a study released in May '06 showing that doubling efficiency could cut load growth by two-thirds by 2024. And the Western Governors Association found that by adopting their best practice scenario in their 18 states, they could cut load growth by 75 percent or more over the next 15 years.

But despite all this potential, utility spending has declined. And the caveat I'll give with this slide really is that the trend as of late has been to focus on savings, not on spending. We saw in Minnesota, for example, a shift in their focus from savings to spending -- excuse me, from spending to savings. But I think this is still useful for an illustration of the trend that we've seen over the past 15 or so years.

There are a number of programs. I know you all got a presentation this morning about the programs that are happening here, and this is just a quick snapshot from some of the ENERGY STAR programs. But

really, I think it's important to note that there are still utility barriers that remain despite the potential and despite the successful programs that are being run across the country.

So really now I would like to jump into the bulk of the presentation, which is looking at trends. The first one that I would like to talk about -- and I will be brief. I know it's not quite the focus, really are these quick start programs, since you all have been running programs here for a while. But this is something that has become more important as states look for near-term, quick results. They want something that can provide them with the results that they're expecting in the short term, and then they can build on those for the future going forward.

So really, what we did is, working with the Arkansas Commission, they ran a successful collaborative that resulted in efficiency rulemaking, and we drafted up a Quick Start Program Guide. And the idea really was to provide a listing or some suggestions of the residential and commercial programs that are proven that provide quick results. And the result of the Arkansas docket was, the utilities did file, and they did approve a suite of programs, and the cost recovery is allowed through a rate rider.

So the quick start residential programs are here. I won't go through them verbatim. Essentially, suffice it to say that it's promoting different ENERGY STAR qualified products teamed up with targeted incentives and consumer outreach and education. These are -- really, the first three are tried and true, and the last two are suggesting perhaps taking a look at some -- on a pilot basis, some of the more elaborate programs that you really do see successful when you roll out a comprehensive suite of programs. So it's looking at home performance with ENERGY STAR for existing homes and ENERGY STAR qualified new homes, both for built and manufactured.

And for commercial programs, it really is a similar combination, in the sense that you're looking at providing incentives for qualified products, to build good lighting and HVAC, and again with the education, and for the commercial programs, some of the technical assistance that can be provided by the utilities or by the ESCOs.

The other component when you talk about commericial really is to look at the ENERGY STAR building performance rating system, which is getting a lot of attention in California right now. They passed legislation that really will require the utilities to

incorporate a rating, an ENERGY STAR rating onto the bill so that the customer can see where their building falls in relation to the suite of other buildings nationwide in their similar class to help them understand the opportunities that are available for efficiency.

So now I would like to move on to aligning utility incentives with efficiency. And really, this is a broad topic that we've been hearing a lot of increased interest from. We heard from Paul earlier today, and I unfortunately only caught half of his remarks. I had a flight that came in this morning. But I think really what we've been hearing, the bulk of interest from utility regulators, from legislators, and from other stakeholders, like nonprofit groups. And really, when we talk about aligning utility incentives, we talk about it from a three-legged stool. It's providing cost recovery, it's addressing the throughput incentive, and it's considering providing an incentive, a performance incentive.

What I would like to focus on here is really the last two. It's not so much looking at cost recovery in the traditional sense for your programs. It's more about addressing the throughput incentive and the performance incentive. So what I've listed here are

just a quick handful of recent activities.

The Idaho Commission recently approved a decoupling pilot for Idaho Power, which is an electric IOU in the state, which I'll talk a little bit more about in a moment.

In Connecticut, there was legislation passed that requires the Commission to institute decoupling when the utilities come in for their next rate case. And this was in response to a docket that the Commission had out previously, where they decided that they weren't interested in doing decoupling, and the Legislature responded to that.

In New York, there's legislation that specifically is requiring the utilities to file decoupling when they come in for their next rate case.

And specifically, in Minnesota, there is legislation, recently passed legislation that authorizes decoupling. It doesn't require the Commission to do anything.

The other thing I'll just note, in our discussions with folks around, lost revenue adjustment mechanisms really don't seem to be getting a lot of attention lately. They did have a lot of attention in the past, and just for a variety of reasons, we're not hearing a lot of folks ask questions about that or want

assistance on that.

When you move into talking about performance incentives, there are any number of ways to slice that, and I just put here a handful of approaches.

One is the very recently announced California approach which they announced in September. It's a rewards and penalties mechanism. And really, it's geared towards (1) how well the utility did meeting the goals that the Commission established for energy savings, and (2) also the net benefits that were achieved from that portfolio.

In Nevada, they've had an enhanced or bonus rate of return for years now. They're one of the only states that is actually implementing it. There were a handful of states that it's still on the books, Washington and Montana, and I think there's another one as well, but they're really not using it. And the reason is that essentially capitalizing efficiency has just kind of fallen out of favor, so it's not really something that they're looking at doing.

And Xcel Energy recently filed in both New Mexico and Colorado decoupling mechanisms that are currently under consideration.

I'm going to take a moment -- we do support the National Action Plan for Energy Efficiency, and the

report was released, which we were very excited about, last summer. And we did on November 12th release the Aligning Utility Incentives with Energy Efficiency report. And I apologize. I didn't bring some down for folks. If I knew it was going to be such a big focus, I would have brought some down. It is on the website for folks that want to read it.

And essentially, if you'll permit me for a moment, I would like to just respond a handful of things that Paul had said in his presentation. One is really in the Aligning Utility Incentives paper. It's very clearly stated that the overarching objective in every jurisdiction that considers an efficiency investment should be to generate and capture substantial net economic benefits. So the savings target is often megawatt or percentage, and once that is established, then you look at the mechanism.

The straight fixed-variable rate design does break the link between throughput and revenue, and in that way, it's comparable to decoupling. However, it has a substantial disadvantage if one's objective is to achieve efficiency that is in the long-term economic interest of the ratepayers. Thus, it potentially improves the utility's commitment to efficiency, while reducing the end user's commitment, a balance that has

not been viewed as a net positive approach for increased investment and cost-effective efficiency from the electric utility regulators. That's from the Aligning Utility Incentives paper.

From the original report that was released last summer, one more quote, and then I'll move on. The lost margin issue arises because some or all of the utility's current fixed costs are recovered through volumetric charges. The most straightforward resolution to this issue is to design and implement rate structures that allocate a larger share or all of fixed costs to fixed charges. This becomes more problematic when applied to an integrated electric utility than an integrated gas utility.

Given the overarching objective of capturing the net economic and environmental benefits of efficiency investment, straight fixed-variable design can significantly reduce a customer's incentive to undertake efficiency because of the associated reduction in variable charges. These alternative rate designs such as straight fixed-variable are more problematic when applied to integrated electric utilities.

For example, the need for base load capacity is driven by the level of energy consumption as much or more than by the need for base load capacity. It is

more difficult to allocate all fixed costs to a fixed customer charge simply because such costs can be very high, and allocation to a fixed charge would impose serious ability to pay issues on lower income customers.

I hope that made some sense. There's a lot more that I could go into, and in my limited time, I did just want to provide a few quotes, but I think that -- I'm not the expert who wrote the paper. We do have access to the expert who did write the paper, and I would happy to put him in touch with folks if they want to hear more about that. So I would like to move on.

What this chart shows you is from that Aligning Utility Incentives paper, and it's just a quick snapshot. The data was collected over the summer of where things stand when you look across the country at the issue of the throughput incentive and also performance incentives. And what you see is that currently there are over 10 states that have opened decoupling investigations. There are 16 states that have electric or gas decoupling for at least one utility. And the caveat with that number, some of them are pilots, like Idaho. There are six states currently that have LRAM, lost revenue adjustment mechanism, and 18 that have performance incentives.

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

for folks. It is in the paper, so if folks are interested in seeing that, you can download that online.

I did want to spend one moment on the Idaho Power pilot, because it is very new, and it is getting increased attention. Marsha Smith is the Commissioner from Idaho, and she's also the current president of NARUC, and so because of that, I would just like to talk about this for a moment.

What it is, it's technically not a decoupling mechanism in the broadest sense. It's really a fixed cost adjustment mechanism. And really, what happened, the Commission had a very long process, stakeholder process that started in 2004 and ended with the company, Idaho Power, filing for a fixed cost adjustment mechanism in 2005, and the Commission did approve that.

But what I would like to talk about for one moment is a report that came out of this collaborative process. And really, what they found is that before they advocated the company filing for their fixed cost adjustment mechanism, they did note that the development of a true-up simulation to track what might have occurred if decoupling or a true-up mechanism had been implemented for Idaho Power at the last general rate case would be wise so that they would know what it would have been if they had had this mechanism implemented in

the past before they went forward with it. And then they said, given that, we would be interested in Idaho Power filing a pilot for this type of recovery mechanism.

So the parties agreed -- and this was a diverse stakeholder process. The parties agreed to go ahead and conduct the simulation, and the Commission, based on the results of the simulation, they found that the throughput incentive was a problem for Idaho Power when you looked at their incentives to invest in increased efficiency. So the Commission approved a three-year decoupling pilot, decoupling meaning fixed cost adjustment mechanism.

And what the next slide shows you is, it originally got filed in January of '06, and it became effective this past January in '07. It's slated to go through the end of 2009, and the first adjustment mechanism is slated to happen June 1st of '08.

They do have very preliminary results right now that they are looking at which show that Idaho Power, the use per customer is up, based on the forecast. So as it currently stands, if the trend continues, Idaho Power will have over-recovered the fixed costs, and the customers will get a refund. That's just a preliminary result, and we'll see what

happens in the summer.

But I think it's important to note that with the Idaho Power mechanism, they do have a 3 percent cap, so they do have a deadband of sorts. So that's an important component that came out of the stakeholder process and also the filing. But it's a 3 percent cap on annual increase of any unrecovered deferred costs.

One other thing to note with the Idaho Power example, it's just for residential and commercial, because those two classes really represent the bulk of the fixed cost exposure for the company, so it in no way influences or affects their industrial customers right now through this pilot program.

The other component that I would like to talk about briefly -- one more quick comment on Idaho Power. I apologize. Another component that the Commission made clear when they filed -- excuse me, when they approved the filing was that it should demonstrate an enhanced commitment to efficiency investment because of the fixed cost adjustment mechanism. So they specifically cited that it should include making efficiency and load management programs widely available, supporting building code improvements, actively pursuing appliance standards, and expanding their DSM programs.

I know consumer advocates came up this

morning, and really, when you talk to the consumer advocates that we have in the Midwest, it's very important from their perspective, the ones that we've had conversations with, that to look at any type of decoupling or throughput incentive really needs to be tied to increased efficiency, that the overarching goal is to lead to more efficiency to receive those benefits, and so to do any type of moving the throughput incentive without actually looking at tying that to the increased efficiency investment, that has not been something that some of those consumer advocates in the Midwest are interested in.

So now moving on to California, the Commission in September issued a very new and innovative and sweeping decision that really was a risk and reward. And this is a simplified summary of it, but essentially what happens is, the Commission sets individual savings goals for each of the investor-owned utilities. And if the utility receives -- excuse me. If the utility achieves 85 percent of the goal, they receive a reward; if they achieve 65 percent or less, they receive a penalty; and if they're in between, there's no reward or penalty, so 65 to 85 is a deadband. The reward really is a shareholder reward, 9 percent, up to 9 percent of the total net benefits from the efficiency portfolio.

And if you get 100 percent or more of the goal, you receive 12 percent.

What I would like to show you here briefly, and then we'll go back, this chart shows you on the vertical axis the savings and on the horizontal axis the year, so historical and projected. The top line shows you 85 percent of the Commission's goals and 65 percent. So as you can see, even the limit for a penalty is very aggressive if you look at what they've achieved in the past.

The other important thing to note is that the rewards and the penalties are both capped at 450 million, and that's a total for the three-year cycle.

The penalty component is really tied to again 65 percent or less, so in their opinion, a poor performance of the utility, and it can be either the larger of the per unit penalty or the net positive costs of the efficiency portfolio. And this is unique in the sense that it provides a penalty, which no other commission currently does.

So I'll move on Hawaii. Hawaii had a very long process. It was two years between when they initiated the docket and when they reached the decision. And they really did come to decisions on nine very key topics, and I'll give you the listing here and then give

you a little bit more information on a handful.

The decision was released in February, and they established goals for HECO, which is a collection of three utilities in Hawaii, the large IOU on the islands. So they established the goals, they selected the appropriate market structure, they determined the cost recovery mechanisms, they determined the appropriate costs and cost tests, they established the appropriate incentive mechanism, and they also decided that based on the filing, the modified filing that HECO put forward, they thought they could achieve those goals and savings. So the efficiency goals that were decided on for HECO was based on the megawatt and megawatt-hour savings that they had put forward that were modified. I have listed them here for you for commercial and industrial and residential. And again, in the filing, the Commission determined that this would lead to -- the programs that they put forward would lead to achieving these savings.

They did decide that a third-party or a non-utility market structure would be the most favorable for reaching these goals on the islands. And one of their reasons that they cite for doing that is, they decided that facilitating the introduction of innovative programs really do lead, in their mind, to having a

third-party administrator. They also expect the third-party administrator to result in improved penetration in hard to reach and underserved segments, and they also expect it to improve the cost-effectiveness of administering the programs.

The Commission did decide to not address decoupling during this proceeding. It was part of the comments that were filed and part of the discussion, and they decided to defer that.

They also decided as an incentive mechanism to institute shared savings.

And regarding cost-effectiveness tests, they decided to use all five of the California Standard Practice Manual tests, with the most weight given to the Total Resource Cost Test, the caveat being that all of the program portfolios that would be filed had to have benefit-to-cost ratios above 1 for each test except for the RIM test, the Ratepayer Impact Measure.

So now I would like to move into talking about incorporating efficiency as a resource in planning. This has been getting a lot of attention really, and California again was one of the first states that did this, in the sense that in their energy master plan, they designated efficiency as the resource of highest priority or resource of first priority.

Washington State actually recently passed a voter ballot initiative. It was tied to a portfolio standard, but it did determine that conservation was the resource of first choice.

And the North Carolina Commission recently passed new IRP rules that require comparison of a comprehensive combination of both demand and supply-side resources, and it requires the Commission to determine and the utility to determine an IRP that offers the least-cost, long-term set of resources to meet the system needs. The important thing to note here is that it doesn't require a direct tie between demand-side resources and transmission investment.

ISO New England, which is the independent system operator for New England, they really are on the cutting edge as far as the ISOs and the RTOs go across the country in implementing demand resources, as far as capacity resources, level or equal to supply-side resources. So what they did was, again through a stakeholder process, they created a forward capacity market that allows supply and demand resources to bid in to provide that resource. And again, they had over 2,000 megawatts of demand resources that expressed interest. And this is very important, because it is the first in the country. But the other thing to note here

is that the first auction will be conducted in February of '08, with the first commitment period being June 1st of 2010. And Commissioner Wellinghoff of FERC has expressed large interest in seeing how the FCM goes and has suggested that if it goes well, he might look to encouraging some of the other ISOs and RTOs to institute something similar, so there's a lot of folks that are watching that.

The other thing I'll just mention is TVA. They have their new strategic plan, and their board recently approved a new goal of 1,200 megawatts demand reduction over five years, which they've tied to being a similar capacity to their Watts Bar unit. And they really have expressed through some stakeholder processes that they've been having an interest in doing more efficiency and really trying to take that next step.

Wisconsin has also -- recently the Legislature passed a bill requiring the Commission to conduct efficiency planning every four years and to incorporate that into their strategic energy assessment, and this really will help. In addition, the docket that the Commission opened helped develop a regional approach to planning and also incorporating efficiency in planning. So that's something that's new and that's happening the Midwest.

And then finally, that Arkansas decision that I previously talked about, as part of that decision, they talk about resource planning and talk about giving the comparable weight or comparable consideration to demand and supply-side resources, looking at IRPs going forward, and to identify and investigate resources including efficiency, conservation, demand-side management, and price responsive demand.

What this slide really shows you is just a quelling of the best practice findings from the National Action Plan document, the Guide to Resource Planning with Efficiency. And what it really does show you is that there are the necessary data and tools available to help utilities and states to incorporate efficiency in planning, that there are energy, capacity and non-energy benefits that can help to justify more robust programs, and also that the sooner you are able to integrate efficiency into the planning process, the better to capture the full value. And there's a report that was done by Lawrence Berkeley National Lab looking at the Western states and their IRPs that specifically provided a lot of information on that that we can provide if folks are interested.

And on cost-effectiveness tests, I won't spend a lot of time here. I know Mark talked about this this

morning, but I would like to just give a brief mention of it, largely because we've gotten a lot of questions and discussions with some folks across the country on this very issue, particularly tied to the idea that we want to do more efficiency. I've heard from people that, "Our cost-effectiveness test is a problem. What can we do?" And so a number of the National Action Plan reports touch on cost-effectiveness as a component. And really, what's important, I think, to note is that some people really feel there's one that's better than the other, and from what we've found, it's all a matter of perspective. They're all very valid, and they all provide you with very valid results. It just depends on what perspective you're looking from.

What this shows you here is a sampling. It doesn't include all the states, so it's not a full sampling. Fifteen states we weren't able to get to, but over the summer, we just did a quick survey as to how states were looking at cost-effectiveness tests, and it was tied to some of the work we were doing under the National Action Plan. And what we found is that 10 states actually don't require any specific test when they're looking at their energy efficiency or DSM program portfolios. Five -- excuse me. Six states require all five tests, the California standard manual

tests. And then the table at the right shows you that there's 20 states that do a little bit of everything, and it's interesting to note that over half of them do require the Total Resource Cost Test to be administered, most of them, as you can see, in conjunction with some of the other tests as well. And if you'll note, it's not entirely -- I don't think you can even see it. The X's that have a little star next to them, that's meant to denote that those states put the most weight on TRC, those that do it in this rubric.

So these are the questions and the perspectives that I referred to, and this is directly from the Guide to Resource Planning. And really what it does is just, I think, help people see that each test is designed to give you a specific answer when you think about the program portfolio.

And I think what I would like to highlight is that when you think about the Utility Cost Test, that the adoption of efficiency that's cost-effective under this test will reduce the utility revenue requirement relative to traditional utility procurement, and related to the Total Resource Cost Test, that all efficiency that passes TRC will reduce the total cost of energy in the region. The one thing I'll note is that the TRC tests don't include the direct costs and the benefits,

so there's no externalities. If you want the externalities, you need to look at the Societal Cost Test.

There are additional components to this discussion which you might have touched on earlier, but again, there's more resources that we can provide to get into more detail on this.

And there's two states quickly that I did just want to profile, because it's a nice tie between the policies that were in place that led to programs. So I won't spend a lot of time here, but really, I would like to just take a quick look at Arizona and Nevada.

And in Arizona specifically, back in '99 the Commission created a system benefit charge to provide money to fund DSM programs. And what ended up happening, it was largely used to fund renewable energy under their portfolio standard, but the Salt River project, which is one of the largest IOUs in the state, wanted to use some of that money to support their efficiency program, so that was approved by the Commission. There's also up here a couple of different state building or lead-by-example goals that were put in place over the years as well.

And the Arizona Public Service Commission (sic), which is another IOU in the state, in 2003 filed

an application for a rate increase, and there was numerous discussions and settlement agreements that happened over the years, and the settlement was actually issued in April of 2007. And it required a $10 million base rate for demand-side management, and it also went further and said you in addition need to spend on average at least another 6 million a year on approved DSM items, and those additional items would be recovered through an adjustment mechanism.

These are a sampling of the programs that they're currently implementing, and I put them here really to reference back to that quick start discussion and to show sort of how the suite of programs ties up with some of the policies that are in place. They're all ENERGY STAR related, but there are additional programs that they have in place for some of the commercial customers, and then at the bottom also, just to give you a sense of what goals they have put out publicly for them to achieve for their efficiency program portfolio.

Nevada is a slightly different story, in that they enacted a portfolio standard in 2001, and the utilities were having a hard time meeting their requirement the first few years, and so the requirement was revisited, and it was decided that efficiency could

participate as an eligible resource. And in addition to making that change, the goal amount was increased, so it was increased to 20 percent by 2015, and efficiency could meet one-quarter of that. So because of that, they really did an aggressive approach from the utilities' standpoint to maximize the use of efficiency in meeting their portfolio goals, and that was also tied to the idea -- as I mentioned before, they do have a bonus rate of return, so that's the other piece of the Nevada puzzle.

So the utility investments really are a product of their planning process, and it really is designed to help them maximize their requirement, but they really do maximize this planning component, so you're treating it as a resource. And it's really interesting to note that the cost recovery is part of the statute of the state and that the utility can try to or petition to recover the costs associated with not only the programs, but the labor, the overhead, the materials, and the incentives. In some cases, depending on the state, there's a different way to slice and dice that.

This is a listing of the programs that Nevada Power and Sierra Pacific Power have in place right now. And then it also shows you again the goals that they

were hoping to meet as far as in their historic. And I don't have the future goals. I can get those for you. I apologize. I thought those were on this slide.

So the resources, there's a suite of National Action Plan resources that are available now. They were released on November 12th. There's also a Clean Energy Environment Guide to Action that the EPA put out a few years back, and there's also that Quick Start Program Guide that we have available as well. On any of these, we could provide subject matter experts to address follow-up questions or to work with you all going forward on.

So I think really, in summary, that you're not the only state that's looking to do more with efficiency, and there's certainly a lot of activity happening across the country. And the issues that I touched on are really just those that we've been hearing the most interest from folks on, and I'm sure that there's other elements and other components happening, but I just was happy to be able to share with you a little bit about what we're seeing when you look across the country.

CHAIRMAN EDGAR: Thank you, Katrina. And I expect there will be a few questions. I'll go ahead and start us off.

In one of your slides you mentioned, and I appreciate this comment, about perhaps a misconception in some areas, or with some, being that one test or one form of measurement being the right way, and that sometimes that's kind of how you view it with the different tools that are available, depending on the perspective that you're bringing to it. And I was just wondering if you could elaborate on that a little bit and on some of those varied perspectives that can contribute to perhaps a different perspective.

MS. PIELLI: It really does depend, I think, largely on what you're trying to achieve. So when you look at the program portfolio that's put in front you, it really does just depend on what element you're trying to maximize. Is it really most important to you that the societal benefits, for example, are included? Is it more important to you that the utility is kept whole at the lowest possible cost? Is it very important to you that you're looking across all of the different ways that you slice it?

I think at the Southeast meeting that Commissioner McMurrian was at, Commissioner Wise from Georgia was very excited to hear folks say that all five tests are valid and that it's a policymaker's decision, when you look across the results, it's the policymaker's

decision to make that call as to what's important to you. And I think that from our perspective, we completely agree with that, that it's important to understand what the perspectives are so that you can make an objective decision.

And I think we can provide you with more information on that. There's another chart that I didn't put in from the planning guide that shows you a little bit more information or you can view the different tests and what outcomes they give you, and I can certainly follow up with staff and provide that to them.

CHAIRMAN EDGAR: Thank you. Commissioner McMurrian.

COMMISSIONER McMURRIAN: Thank you, Chairman.

I actually had a question about the Arizona Public Service Company's settlement agreement. And if it's something -- we can also follow up on it later if it's something that we need more information on. But discuss the annual $10 million base rate DSM allowance, and I think 6 million annually after that. Was the goal to -- and I realize this is a settlement agreement, so that's a little bit different than a commission making a decision. But was the goal to just increase the amount spending on DSM, or was there still some kind of

cost-effectiveness test on the amount of DSM programs? Do you --

MS. PIELLI: I don't know, but I would certainly ask my colleague who worked with them on this, and I can get back to you on that.

COMMISSIONER McMURRIAN: Okay. I guess it always strikes me when I see goals about the level of spending on DSM, because it -- I just always wonder if there's another part about the cost-effectiveness, because I think we could throw out numbers and say the utilities need to spend more, but I'm not sure spending more is really the goal. It's about getting the results we need.

MS. PIELLI: And we've certainly seen that happen more and more. I would note that the settlement was two years ago, and so I'm not sure of the specifics of this case. But I've definitely seen, specifically in the Midwest, that issue become very prevalent, where people will want you to hit a megawatt or a percentage savings, and then they'll work on setting a cap or giving you a budget, but it's really more important to set the goal up front. But I can get back to you on that.

COMMISSIONER McMURRIAN: Thank you.

CHAIRMAN EDGAR: Commissioners, any further

questions? No. Okay.

Katrina, thank you very much. Thanks for coming to Tallahassee.

Okay. We are at the point on our agenda where we will open it up and ask for discussion and information from the stakeholders who have signed up to speak, so I'll go to that list here in just a moment.

I did want to mention a couple of things as we kind of move into this next stage of our agenda. As I was thinking about some of these issues at lunch, I was reminded of a quote that I have actually used a couple of times, and this is from Dr. Neal Elliott, who represents the American Council for an Energy Efficient Economy. And he knows that I've used this quote of his in other forums, so I think that means it's okay if I use it today. But he has been quoted as saying, and I'm going to read his quote, "The biggest roadblock to wiser energy use in Florida is the way the State regulates electric utilities. We just need to change the regulatory business models that the investor-owned utilities operate under." And again, he knows that I've used that quote in other things, and he agrees that he said that.

And that's one of the things I had kind of wanted to throw out there as we have this discussion

today and see, you know, in what direction, if any, we want to continue discussion as this Commission looks at what types of tools and models we want to continue to use or bring into our cost-benefit analysis. We've heard discussion this morning about different pricing structures, about incentives, financial and performance, and other perhaps different or innovative regulatory schemes. I'm not sure I agree completely with what Mr. Elliott said, or Dr. Elliott, but I do think that that kind of charge to continue to look thoughtfully and creatively at how we regulate is very interesting, and I hope we'll continue that.

And then I also would draw our attention to one of the recommendations that came out of the Governor's Action Team, and I'll read that as well. And that says that, "The Action Team finds that the current regulatory structure for the electric utility sector within Florida may pose disincentives for investments yielding greater energy efficiency and thus reducing utility sales." And there again, that's a finding that has generated a lot of discussion, and I hope -- I find thought-provoking, and I hope that we can, you know, continue and have some discussion amongst us about those sorts of ideas.

And so with that, we can move on to the

stakeholder portion, public forum of our agenda. And the first person that I have signed up to speak on the list is John McWhirter. Mr. McWhirter, please come forward and join us.

MR. McWHIRTER: Thank you, Madam Chairman. As always, it's a pleasure to be here, and I found this to be quite an educational and interesting session. I didn't know what it was going to hold when I first saw the workshop agenda, but listening to it, I was quite impressed.

But when I was trying to prepare my remarks, I went back to my law school days, and one of the things I didn't understand about going to law school was that the first thing you do is try to identify the problem that you're going to solve. And I think the purpose of this workshop is to get the advice and consent of stockholders, or stakeholders, as to identifying the problem, and then the best way that government can assist in solving that problem.

But then I concluded that the stakeholders may have differing interests, and so I tried to identify what those interests are. And obviously, global warming is in the forefront. The need to reduce consumption of limited fuel resources is part of the problem. The nature of the fuel being burned, whether it's coal or

gas or nuclear energy, is important. The need to assimilate funds for capital investment by electric utilities is an extremely important point. How does price elasticity come into play in designing the rates that you're going to be thinking about to deal with this? And the one that's always nearest and dearest to the hearts of my clients, and consequently to me, is high rates, and that's of interest to all consumers.

The title of the workshop, interestingly, didn't deal with electricity efficiency. It dealt with energy efficiency. And in dealing with energy efficiency, the first thing you need to know is what is energy. And, of course, you know that energy is measured in Btus. And so if we're going to be energy efficient, you want to use the least number of energy Btus to get to the final point that you want to achieve.

And also in preparing, I went to the DOE website, and they have a program called the Industrial Technology Program, and the Industrial Technology Program talks about the energy delivered to industry in order to produce its final output, and it deals with working with industry in a way that we can get the best efficiency out of that energy.

And I have with me today a fellow by the name of Bob May from CF Industries, and his company has

worked with the Department of Energy and their experts to deal with what his company can do to improve their energy utilization. And I think you'll find his report to be far more interesting than mine, but I'm going to go ahead and give mine anyway.

But one of the tables in the DOE report was absolutely appalling to me. The manufacturing industry in the United States as a whole uses over 24 trillion Btus, or it's a big number. But when it dealt with the types of energy that industry gets, they get fuel from gas and oil and other sources, and electricity. But the electricity thing was most intriguing to me, and that was that in order to deliver 3,102 trillion Btus of electric energy to industry, the electric utility must burn 9,546 Btus of fuel. In other words, if you're looking at energy efficiency, that doesn't look too efficient if you're going to reduce 9,500 Btus to 3,100 to deliver your final product.

So one of the things that wasn't discussed here today, is there anything we can do with the electric utilities themselves to improve their efficiency?

And then I wondered, is that a correct number? And I found out from further study that actually it is a correct number. As you know, each year in your cost

recovery proceedings, you also consider generation performance incentive factors to reward the utilities for using their most efficient generation. And when we've got a coal-burning utility or one with an old gas operation, you reward the utility if it's able to convert 10,000 or 11,000 Btus into a kilowatt-hour.

Now, to understand the significance of that, a kilowatt-hour has an energy factor of 3,500 Btus. So you presently under your rules reward utilities if they have a 65 percent loss in their energy conversion to convert the fuel into electricity.

Since '92 when we started with more innovative models of energy, the combined cycle plants came out, and those plants now are in the range of 7,500 Btus to convert to a 3,500 Btu kilowatt-hour of electricity. That's a loss of only 53 percent. It doesn't consider the loss in transmission and generation, which the Department of Energy considers.

So that's a real problem, and so when you're considering conservation programs, maybe the entity that delivers, the utility, you ought to consider its energy efficiency compared to the energy efficiency of a customer converting energy. And if the customer can do it better, perhaps you should give serious consideration, as the Department of Energy has done in

its Industrial Technology Program, to coming up with ways to encourage industry to do the right thing.

Now, industry, as long as I've known it, has done the best it can to conserve energy. You have -- the key factor there is, is the cost of electric energy a significant part of its overall cost of production. And if it is, they pay a lot more attention to it than other industries that don't have a big electric cost.

So with those concerns in the background, I listened carefully to the presentations this morning and what the Commission is presently doing with DSM programs and what it's attempting to achieve and what it has achieved. And Mr. Ballinger said he has been around since the early '90s when the goal studies started, and I reflected a moment and realized I had been around since the early '80s when they first started talking about conservation things and the things we talked about then. And the things we talked about then -- how many years ago? Twenty-seven years ago -- were much the same that Ms. Pielli talked about just a moment ago. They were the same concepts.

And the big deal then and one that frightened the utilities and also my clients the most was the Total Resource Cost Test. And Mr. Futrell explained to you what that was, but his explanation was different than

the explanation I heard of the Total Resource Cost Test back in the 1980s, and the reason that we resisted that approach and favored the rate impact approach. And the reason we resisted it was that the people that came in supporting TRC at the time said you've got to consider all of the costs of producing electricity, including the very important environmental externalities.

Well, I didn't hear that today. And maybe the way that Mr. Futrell and his team evaluate TRC, they've taken out environmental externalities. But if that is a cost that has to be considered, it is appalling, and it's more appalling to me today than it was yesterday, because on the way out to the Commission this morning, I was listening to public radio, and an FSU professor testified that -- or has done a paper that I guess you -- it will come to you sooner or later, as to the cost of global warming. And he said the cost of global warming to the State of Florida will be $384 billion a year.

Well, if that cost is a cost that's going to be considered in the total resource cost approach, then you better look out if you're concerned about high rates, because almost any conservation program will meet that criteria, and it will throw the utility industry as we know it today into disarray, and I hope we'll give

that serious consideration.

The other thing I heard Mr. Futrell say was the rate impact test. And we strongly endorsed the rate impact test when it began because we felt that was an appropriate way. If a conservation program caused the rates to the general customers to go up, then maybe, you know, there was no general benefit. That was back in times when we weren't quite so concerned about the environment.

But what we found out was that it's not a rate impact test. It's a revenue impact test. And that's -- keep that in mind very carefully when you listen to Mr. May's presentation, because the utility's costs, as you well know, is composed of the base rates it collects plus the fuel costs that it collects, and now you've added a bunch of other cost recovery items to it so that the guaranteed revenue that the utility is entitled to is -- last year it was 70 percent. This year it was only 63 percent of their total revenue.

And decoupling struck me as -- decoupling is the icing on the cake that will give them 100 percent of their revenues guaranteed. So when that happens, you don't need to worry about the high returns that are currently awarded. You can reduce the returns substantially closer to the government rate of return.

And I think that's probably why utilities have resisted decoupling in the past, because you'll also examine the return they're getting and ensure that it's commensurate with the risk.

In any event, the total resource -- the RIM test as we have it today knocks out good programs, and Mr. May is going to tell you about a good program it knocks out, a program that he has that has no fuel cost with it, it has no environmental impact, and it provides electricity to the utilities at a lower cost than most of the things that you've seen in the renewable portfolio standards, and he'll tell you why that is. But the interesting part is that that doesn't pass your current cost-effectiveness test, and that's because the RIM test is flawed, and it's not a rate impact test, it's a revenue impact test.

So the utility may totally displace its cost of fuel, but if it loses revenue, then the program may not pass the test. And you don't look at whether that loss of revenue impacts rates or not, because a utility can be earning a 16 percent return on its investment, and yet if it loses revenue, the conservation program might go down the tubes. So one of the things you need to think about as part of this, of your further studies is, is the rate impact test making disincenti -- making

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

Mr. Masiello did a beautiful job and made me feel like there wasn't anything wrong, that we've had great activity with respect to conservation programs, and they're going full blow, and we've only spent, according to the charts, some $3.5 billion on conservation programs to date. But the interesting thing to me is, from the time I remember back in 1980, where the annual consumption of customers was around 12,000 kilowatt-hours a year, it's now up to over 14 and 15,000, or it was 10,000 and it's up to 12,500. So what has happened is, with conservation in place, the consumption of the average customer -- and I'm not talking about taking into consideration the new people that came in, but the average customer consumes 25 percent more kilowatt-hours than they did back in 1980.

And always in my mind is, what's that all about? Well, obviously, it's about some of the things that Mr. Ballinger told you about. We have more appliances and TVs, HDTV uses a lot of electricity, and so forth and so on.

Mr. Sotkiewicz came out with -- talked to you about revenue decoupling, as did the EPA lady. And apparently, that's a hot topic again, as it was right after the Vietnam War. I remember right after the

Vietnam War, one of my clients said -- I said, "What is this revenue decoupling, this RD all about?" He said, "Johnny, RD is worse than the VD that we got in Vietnam." And I said, "My goodness." And then he went on to explain it, and what happened, the explanation kind of bears out what ELCON has come up with in its policy report that we gave -- I gave copies to you, and I'm not going to go into that.

But that's a very interesting study, and that study, surprisingly, tracks exactly what Mr. Sotkiewicz, the academician, came here today and told you. He said that properly structured rates will ensure revenue stability, and you may not need the other stuff, but if you want to do the other stuff to cross-subsidize some customer classes and make the rich pay more for the poor and so forth, that's still available to you.

My concern about that is, the people that consume the most electricity are poor people in poorly insulated houses with big families, and they aren't rich people, and the people that consume the least electricity are the people who live in condominiums and have come down here as snow birds.

So if you set rates the way Mr. Sotkiewicz said -- it's very interesting. He says, "Set them so that your fixed costs cover your fixed costs." And

they's not a novel idea. You've been doing that in water and sewer cases for as long as I can remember. You have a base facility charge and a consumption charge. The base facility charge covers fixed costs, and the consumption charge covers the water you consume.

Well, the other biggest problem that I visualize -- and I'm going on too long -- wasn't spoken about today, but it was addressed tangentially. Mr. Masiello told you that there are 1.2 million of his customers that engage in demand-side management programs, and statewide, I think there are over -- maybe that's statewide. I thought it was just about a million, but he said a million 2.

But what that means is, the demand-side management programs they have, you can cut off the heat on the coldest day of the winter or the cooling on the warmest day in the summer, but they ameliorate that by passing it around. But the reason it's bad is not because those people are disturbed when they can't get cooling or heat when they want it. It's bad because it gives you artificial price signals.

In Florida, when they measure a thing called reserve margin to see if we have enough capacity to meet our demand, what happens is, they don't count this 1.2 million residential customers. And those 1.2

million residential customers, if they get upset, they can get off that program with 30 days notice, and then you've got a demand. When you look at the capacity margin as opposed to reserve margin, like most other states in the United States do, we have a capacity margin of about 2 percent. So we have a serious capacity problem that no one is really addressing here today, but conservation is a good way to deal with that if we can do it effectively, and that's a big burden and a big chore for you to do.

But I'm going to tell you what some of my clients have done, and that deals with price elasticity. When I first started representing industrial customers, Tropicana was the largest customer of FP&L. Tropicana left the system and went to cogeneration. In the Gulf Power territory, Monsanto was far and away the biggest customer. It left the system and began to sell power to Gulf Power because the price got too high. Florida Steel moved away from Tampa, went to Jacksonville and got into the JEA area. Anheuser-Busch closed its brewery in Tampa. Several cement companies have gone out of business, and they import cement from Mexico and other places rather than manufacture it, although they've started manufacturing again.

But those people respond to price, so if you

think you can shift the cost of electricity to the industrial sector, it probably won't happen. Tampa Electric tried it in 1986. They came up with a rate methodology that went after the interruptible customers and raised their rates. Within five years, those people constructed 600 megawatts of their own capacity, and they made their own electricity more efficiently than the utility was able to provide it.

Now, Mr. May is going to elaborate on this. And I've talked too long. But this is an exciting time here, and probably this time is more exciting than any time since I've been doing this job many years ago. And you are kind of like an open book learning, and you bring in to you people who know about this stuff, but you always need to think about the rest of the story. And as long as I'm around, I'll try to tell you the rest of the story.

Now it's my pleasure to introduce Bob May with CF Industries.

CHAIRMAN EDGAR: Thank you, Mr. McWhirter. Mr. May.

MR. MAY: Thank you very much. I would like to thank the Commission for the opportunity to come and speak with you this afternoon. And let me just give you a little overview of what I would like to discuss with

you this afternoon. I want to tell you a little bit about CF Industries, who we are, what we do, give you a few examples of energy efficiency that we employ and how we generate renewable energy at our complex in Plant City, and also talk to you more importantly about some of the challenges and issues that we face as we look to improve the energy efficiency of our facilities and as we seek and consider the generation of additional renewable energy at our facility.

Let me give just a little bit of an overview. We have -- CF has four Florida facilities, one at Plant City. That's where our chemical plant is located. We have a mine in Hardee County, which produces 100 percent of the rock for our chemical plant. We also have a warehouse and ammonia terminal in the Port of Tampa. And then we have a facility at Bartow where we've closed the gypsum stack, and that facility is actually being demolished at the present time.

These facilities consume approximately 581 million kilowatt-hours of electricity annually. Our products, we produce about 2 million tons per year of dry granular fertilizer products. And we cogenerate at Plant City about 260 million kilowatt-hours from waste heat from sulfuric acid production. And I'll talk a little bit more about that in detail.

On average, we're exporting about 2 megawatts to our utility, TECO. And the things that we're looking at right now is, we have a strategic plan to increase fertilizer production by about 10 percent by 2009. We have the capital approved. We have the permits approved. And as we increase production, we're going to have the opportunity to generate additional renewable energy, and that's something we want to talk more about.

And the last bullet I've got up there, we're also considering additional fertilizer production increases of another 10 percent. And, of course, to support that production, we will need additional sulfuric acid production and will have additional opportunities to generate additional renewable energy electricity.

Let me give you a couple of examples. I mentioned cogeneration, and I'm going to explain exactly what that is to you. But basically, we generate electricity at Plant City. About 30 to 32 megawatts of electricity are used by the complex itself, and we export on average to our utility about 2 megawatts.

The second item I want to discuss is natural gas consumption. We've recently in the last five years reduced our natural gas consumption by about 1 million therms per year, and that has happened in the last five

years as the price of natural gas has continued to increase. But if you go all the way back to, let's say, the early 1980s, when the price of natural gas was originally deregulated, we originally installed dry air preheaters that used low pressure steam that reduced natural gas consumption by about 4 to 5 million therms at that point in time. So basically, at this point in time, we use very little natural gas at our facility.

I would like to take a few minutes and explain how we generate electricity at Plant City. The facility has three basic raw materials. We have sulfur, we have phosphate rock, and we have ammonia. And what we do is, we take the sulfur, and we need to produce sulfuric acid as an intermediate chemical in this fertilizer production process, and in that sulfuric acid production -- we have four sulfuric acid production plants at the facility. And in that process, there is a tremendous amount of waste heat that's generated, and we have to do cooling, and that cooling takes place and creates steam. We use the steam in our process plants, and we also use that steam in a steam turbine and a generator just like a utility to generate electricity.

So you can see, there are no emissions. We're not burning a fossil fuel specifically to generate power, so there are no emissions from the process.

We're making sulfur -- we're burning sulfur as part of our fertilizer manufacturing process. We're going to do that whether we produce electricity or not. Really, the electricity for us is a by-product as such. So we're merely looking at the economics of is it economic to generate additional electricity.

If you look at the schematic, you see -- from the sulfuric acid plant, you see an arrow that says waste heat from cooling towers. That's our energy efficiency opportunity. Today we can recover more of that heat in the form of steam and generate more electricity, but obviously, it requires capital investment, so we need to talk about that a little bit more.

Benefits of cogeneration, I touched upon those. There are no environmental emissions associated with our cogeneration facility, and there is no consumption of fossil fuel resources. We're burning the sulfur in that process as part of our fertilizer production process. The sulfur itself only has emissions associated with that process. There are no emissions associated with the cogeneration unit.

So why do we have a current opportunity to generate additional electricity? We're looking at increasing sulfuric acid production in support of this

10 to 20 percent increase in our production of fertilizer, and to do that, we're going to make more sulfuric acid. We're going to generate more steam. We're going to have the opportunity to generate more power. It takes capital investment.

As part of the decision-making process, you know, I mentioned that we had four plants at the facility. Some of those plants are 40 years old. They were built in 19 -- built in the 1960s. They do not lend themselves well to energy retrofits where we could recover more energy from the process, so we're looking at maybe replacing those plants, and that requires additional capital investment, obviously.

We also have -- the plants that we have today, we're considering the retrofit of what's called heat recovery technology into these sulfuric acid plants. It's a technology that has been used in the industry for a number of years. We have not employed it as yet to improve our energy efficiency because we just really haven't been able to get, you know, the economic incentive to be able to make that investment. But if you look at what we're talking about in our strategic plan, depending on where we go and what the incentives are, we have the potential to increase our net export of power somewhere between about 10 and 37 megawatts.

So what's the problem, and what's the solutions? Okay. Well, from our perspective, I can tell you that we're looking at improving our energy efficiency and producing more renewable energy, but the problem is, we feel like we do not get the fair market value for the energy that we produce. I mean, you can look at things like, you know, rate structure incentives. Certainly if you have an energy source that does not burn fossil fuel, it does not generate emissions, certainly there should be some incentives there.

There have been solutions talked about such as net billing or wheeling. And obviously, we have other facilities within the state, so we could take advantage of a strategy such as that. And the only thing I can say here, I guess to summarize and kind of conclude my remarks, is to say that we would just ask that you would take a look at the facts that we've presented and consider as you move forward on improving energy efficiency and providing incentives for renewable energy that you would consider these things as you move forward on renewable energy issues.

That basically concludes my remarks. If you have any questions, I'll be happy to take them.

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

course, it's right here in front of me, but from what you've said, from the perspective of your company, regulatory changes that would be more favorable to net billing and to wheeling would be helpful in encouraging your --

MR. MAY: Certainly.

CHAIRMAN EDGAR: -- company to produce additional megawatts --

MR. MAY: Certainly.

CHAIRMAN EDGAR: -- beyond what you're already producing.

MR. MAY: Certainly.

CHAIRMAN EDGAR: Commissioners, any questions for Mr. May? No. All right. Thank you so much.

MR. MAY: Okay. Thank you.

CHAIRMAN EDGAR: And the next person that has signed up to sleep -- to speak. I hope everybody is awake. Is Mr. David Christian.

MR. CHRISTIAN: Thank you, Madam Chair.

CHAIRMAN EDGAR: Thank you.

MR. CHRISTIAN: Good afternoon, Commissioners. My name is David Christian. I'm the Vice President of Regulatory Affairs at Verizon.

As you know, our company, Verizon, is a broadband network company. Our wireless, landline, and

global IP networks create a web of connectivity that supports broadband applications and the people that use them to conduct their daily business. Our networks include the only large-scale fiber optic network in America called FiOS, a wireless broadband service that is available to more than 200 million Americans and a global enterprise network. No matter what you are doing, whether you are on the road or in your home, advances in technology allow us to get more productivity out of our days and decrease the amount of energy we use.

For example, broadband facilities facilitate video conferencing and teleconferencing, which helps individuals and businesses substitute the exchange of information and ideas for physical travel and reduce energy. It enables smart building strategies that allow customers to remotely monitor and adjust the energy efficiency of their residences and businesses. As we heard about this morning from Mr. Masiello, this is exactly the strategy that Verizon believes our broadband networks will be able to foster, even greater applications that haven't even been dreamt up yet. These are just a few examples of how our broadband and IP services can assist individuals and businesses globally to increase their productivity, reduce their

energy use, and minimize the impact of their activities on the environment.

We've commissioned a paper from the American Consumer Institute that primarily focuses on how broadband technology can reduce greenhouse gas emissions, but it also addresses how IT and broadband applications will and can reduce energy consumption even more, and we would just like to share that study with you today.

And those are my remarks.

CHAIRMAN EDGAR: Thank you. You want to go ahead and pass out some copies? Thank you, David. Obviously, of course, be sure and give some to our staff. Thank you.

And our next speaker is Mr. Bob Krasowski. Mr. Krasowski.

MR. KRASOWSKI: Good afternoon, Commissioner. It's so nice to see you again. My name is Bob Krasowski. I'm here as a 27-year resident of Florida and also a member of the Florida Alliance for a Clean Environment, a small group that is active in advocating for clean environmental policy.

I want to thank you for a very, very interesting meeting. It's so good to see that these type of meetings occur in Florida. These are very, very

important issues that we deal with. I've learned a lot through the presentations of the utilities and the other speakers, and I just wanted to get up and make a few points and questions that will roll on into the future that we'll looking for answers for.

There was a question about the population projections that Mr. Ballinger mentioned earlier. That has always been of interest to us, and I think we all need to know, have a real good assessment of that, because so much is based on that. He mentioned a thousand people a day, more or less. But I also was aware of a newer report I think had it down to 750 or something. And then with that trend, we don't know where it's going to go, and I don't want to say the sky is falling. Actually, the sea is rising now. But, you know, we don't know exactly what the future might hold for us. And we have to -- I think it's really important that we try to find some assortment of sources to give us a good idea what the population is as far as a projection, because it is going to be a matter of discussion in the future. And as we know, in the past, other projections of population from the experts have not been accurate. Okay?

And then, let's see. There was a question Commissioner Carter asked as to whether or not DSM

programs should be mandatory or voluntary. And the way we look at it, we think that what we should be doing is taking advantage of what the marketplace and the people who have been active in the marketplace have provided for us over the years as far as innovations and efficiencies. And I'm talking about everything -- let's use appliances. In the past 20 years, the efficiency of appliances has increased enormously, refrigerators or washing machines, so we should raise the standard to meet those efficiencies. And I know an efficient refrigerator is a lot more expensive than an inefficient model. Sometimes there are not justifiable reasons for that in terms of the difference in cost of producing those, so it's something we should look at.

So along those lines, I feel that DSM should be mandatory, although Mr. Masiello earlier mentioned how when the standard was raised, it kind of killed the DSM program in replacing strip electricity with heat pumps. Well, that's not a bad thing necessarily. It is if it stops the replacement of the old with the new, but -- and I'm not suggesting that was his point, but we shouldn't look at the raise of the standard as a negative thing, although we do have to look at the cost. So I just want to be real sensitive to the DSM programs and whether or not efficiency -- implementation of

higher standards has a negative impact on them.

There was a comment about the program to trade out old freezers, people bringing in new higher energy efficiency. Well, we could couple the benefit of doing that along with the requirement that the old freezer has to be removed and returned for recycling, so that's a pretty easy thing to do. It's sort of like when you get a new starter for your car. You have to bring in the core to get the better price on the new starter.

Let's see. Just in general terms, once again, I've certainly enjoyed this. But as far as the PSC's role and the utilities' role in providing our community with needed power, I think we're still kind of inside the box here. Okay? Because while DSM programs show to be beneficial in savings, there are a lot of things, external impacts of power and opportunities for solar and other things outside of the realm of the PSC.

So I wonder -- you know, this is all good, and I appreciate it and think you're doing a good job, but I wonder if this arena here is enough to really pull off the transition that we need to get away from the old dirty power to new power. And it might be. I don't know. I'm still cloudy on that and trying to kind of envision what we might to do to expand this, because there's more -- of course, everybody knows there's more

than just our interests, the PSC's interest or the utilities' interest at heart here. And if we're going to believe global warming and climate change and all of those things, and the new report about the cost of doing nothing, and then, of course, the other -- the clean, nuclear, carbon-free option that has a lot of other issues associated with it, we just have to, I don't know, sort of think out of the box.

But enough for me. Nice to see you all again, and I appreciate your attention to my comments.

CHAIRMAN EDGAR: Mr. Krasowski, thank you again for your participation. And just to respond to your kind of comments there at the end, generally I don't -- let me put it this way. I don't always appreciate being told I'm in the box. But at this point, I understand your comments, and I do think it certainly all goes beyond us and beyond some of the issues that we're talking about. But one of my personal goals for the discussion today was to look at what our piece of the puzzle or piece of the box, to mix metaphors, may be, because it does all go beyond us, certainly, but yet I think it is very much my responsibility as one Commissioner and ours collectively to look at what is our piece of it and continue our own analysis and discussion.

Commissioners, other thoughts before the next? Okay. We'll move on to the next person on the list, which is George Cavros. George.

MR. CAVROS: Good afternoon, Commissioners. George Cavros with the Southern Alliance for Clean Energy and the Natural Resources Defense Council. It's a pleasure to be with you this afternoon. My comments are going to be very brief, because I have a plane to catch.

First of all, I want to thank you for holding this workshop. Energy efficiency is so, so important, especially given the goals that we're trying to meet, the benchmarks that the Governor has set out. As you know, energy efficiency is critical to reducing our carbon footprint. It's the fastest, the cheapest, the most effective way to reduce our greenhouse gas emissions, plus it shrinks the demand pie, which makes the renewable portfolio standard that you're working on so much more viable.

My main concern today and the reason I'm speaking was that I didn't -- I kind of want to give you sort of a complete picture or try to complete the picture on where we are today on energy efficiency in Florida. I didn't want you to leave with the impression that, you know, we're doing a great job on energy

efficiency in Florida, and all we have to do is maybe, you know, tweak a program here or tweak a measure there.

With all due respect to the representatives from the utility industry that are here today, our energy efficiency programs and the way the incentives are designed right now produce very, very, very average results. And one of the reasons for that is a regulatory barrier called the Rate Impact Measure test. I think that Mr. Futrell put it best in his presentation when he said that programs with relatively higher kilowatt reductions will result in higher revenue losses and reduce the potential to be cost-effective under the Rate Impact Measure. And simply put, the Rate Impact Measure doesn't capture the most aggressive energy efficiency measures. And I think you realize that, because from time to time, you do grant utilities cost recovery on programs that don't pass the Rate Impact Measure, but probably do pass the Total Resource Cost Test.

So, you know, we look forward to engaging in the conversation as we go forward regarding, you know, what is the proper test. Often the argument is made -- the argument that's made for the Rate Impact Measure test is that there is no cross-subsidization of rates. And at least in my mind, I find that to sort of be an

unfair argument, because if we don't use aggressive energy efficiency, we're going to have to go out and build a new power plant, and when we build new supply generation, everyone is cross-subsidized. So I don't understand what the fear is for cross-subsidization when it's applied to demand-side measures, and I would like to see a more level playing field in that regard.

There were a couple of things in Mr. Masiello's presentation, a couple of statistics. The first one was that Florida placed two utilities in the top ten of nation in megawatt on ER -- on EE and load management. Well, to put that in perspective, that's a total megawatt savings, a total cumulative megawatt savings. And Florida being one of the larger states, it should be in the top ten on total megawatt savings. But when you look at per person or per customer savings, you find that we're somewhere in the middle of the pack.

Additionally, there was a slide that showed three pies. One of them showed the percent of customers that we have, which is 6.5 percent. You might remember that slide. And the other one was percent total from energy efficiency and load management is 17 percent. You may remember that slide. I'm just curious how much of that is from load management, you know, just

basically shifting load from one point to another point. There's an implication in one of the later slides that as much as 16 percent of that 17 percent might be from load management, and it would be nice if we had a clarification on that.

Lastly, it's important to note that on any given year, any Florida utility in order to meet its demand will meet that demand with energy efficiency, but that energy efficiency will be less than -- much less than 1 percent of what that total demand is on any given year. And there have been, you know, utilities in other parts of the country with aggressive energy efficiency measures that capture quite a bit more. San Diego Gas & Electric in 2005 caught 2 percent of their total demand for that year from energy efficiency measures. Likewise, Southern California Edison captured 1.7 percent of their demand that year through energy efficiency measures. That was 2005. And Massachusetts Electric Company captured 1.3 in 2005 through energy efficiency measures. So we have the potential here in Florida to increase our energy efficiency by a magnitude of three to four times, and that's the kind of reductions we will probably have to see in order to reach certain greenhouse gas reductions and renewable portfolio standard targets.

So in closing, we look forward to working with you as you move forward to establish an energy efficiency framework. We do support decoupling, and we look forward to further discussion on that as well.

Thank you.

CHAIRMAN EDGAR: Thank you, George.

The next person who has signed up to speak is Dee Barton, if I'm saying that right, Dee Barton. No?

Okay. Arthur Annis.

MR. ANNIS: Good afternoon, Madam Chairman and Commissioners.

CHAIRMAN EDGAR: Good afternoon.

MR. ANNIS: I work for AirEnalasys Corporation and Enalasys Corporation, which does a lot of the verification service providers from California and Nevada Power & light. And the one thing that I want to bring out this morning, we just got this information in from -- and this came from Pacific Gas & Electric. By using the verification service provider and the verification performance incentives, they have saved 50 megawatts of electricity this year. So that shows there -- you know, that's Pacific Gas & Electric stepping out and saying it. It's not me saying it. It's readily available for everybody.

The rebates not being used by 25 percent of

the people, that upsets me, because that's money that is allotted them for, you know, saving that energy and upgrading their systems. And using verification service providers, that actually gets filled out by the third party and gets sent in for the homeowner, and it gets directly mailed to them. So that's out there that will cut down on that lost money going to the homeowners.

And the question that I had for the committee is in regards to deemed, you know, savings versus verification performance incentives. Is there a greater credit that would be given to the utilities for using a performance based incentive versus deemed savings? So that was my question to the committee.

CHAIRMAN EDGAR: Thank you.

Leon Jacobs.

MR. JACOBS: Good afternoon, Commissioners. Thank you for the opportunity to appear before you. My name is Leon Jacobs, and I'm appearing here also on behalf of the Natural Resources Defense Council and for the Southern Alliance for Clean Energy.

I want to echo the sentiments of the other speakers in thanking you for taking on this subject. This is truly, I believe, a watershed event, an important event, and we welcome the opportunity and the dialogue that you've opened. We highly endorse the

underlying sentiment that you bring to this that it is time to look at this with a fresh and open air and really see how the Commission's role is important, because we believe it is an incredibly important role that you play.

Things have changed considerably in the whole electricity markets, and I won't go into all of that. But particularly for the State of Florida, the dynamic I think is incredibly -- this is an incredibly important time, the transition, the paradigm shift, the whole -- all the kind of adjectives or pronouns or nouns you want to give it. This an incredibly important time. Yes, there are some important initiatives that are being undertaken with regard to climate change. Those are very important, and those issues are very important to us. But as you know, I can appreciate particularly the tensions that you face.

There's an incredibly important need to look at diversity of fuels. Consumption in the state is growing. We're at a point where we're trying to understand how we're going to address that demand, what kind of technology is going to win out, what are going to be the environmental issues that are going to be raised by what technology wins out. You face some really incredible and challenging points.

The essential message I would like to leave with you today is that you have a winner already before you. We believe that energy efficiency is without question a win-win proposition for energy planning in this state today. It is a least-cost option resource that can be put into the demand mix of this -- demand portfolio of this state to address many of the issues that you're facing. We have not done the best job of looking out and searching out energy efficiency resources.

You probably will recall a recent proceeding that we had on siting a facility. And I won't go into all the details, but it was really telling to me, an analysis that was done in that proceeding by one of the potential owners. And essentially what that utility did was, they went out and they did a discrete analysis. They looked at how energy efficiency end use patterns worked into the system demand, and then they determined what energy efficiency measures would address their system operations on a real-time basis.

And when they completed their analysis, they found that they could engage a lot more efficiency measures, and they would in turn realize a reduction in their system costs. Their overall long-term costs to produce electricity would go down, which is quite a

different story from what you've heard from a lot of people. The automatic assumption is if you do more energy efficiency, your costs go up, and now you figure out whose ox gets gored. We don't think that that's the full analysis. We do believe that there's a business case for doing energy efficiency in this state. A lot has to go into how you design it and how it gets done.

Now, I want to talk a big important point that we've all talked about today: How do you open the gate? What is the most appropriate cost-effectiveness measure? A lot has been said about it. I believe you have some great background and input to help guide you in this, and I provided you some comments here that came from a prior Commission proceeding on this issue. When this policy was being formulated, this was exactly at the forefront of the consideration of the Commission when it was developing these policies. And I won't go through all this. I'll leave this for your reading. But the point that I think it really makes clear is that it was never intended by the Commission to adopt a RIM-only effectiveness test.

The analysis that Ms. Pielli gave you today I think is -- I would probably favor more of TRC, but absolutely, I think you can see clearly that it was the intent of this Commission to be very open-ended and well

rounded in how it looked at cost-effectiveness of energy efficiency. While Florida is perceived to be a RIM-only state, you do take -- it's my understanding that staff does receive that information for the other tests. But unfortunately, the way policy has evolved, we basically wound down -- when it all gets said and done, we wind up always only talking about RIM.

And as Ms. Pielli indicated, that's because of our perspective. We are wholly and almost exclusively concerned on -- and I'll bow off on Mr. McWhirter's perspective there. We're almost totally and exclusively concerned about revenue impact. And interestingly enough, I'm not sure if we can distinguish whether or not that's up or down. I think it's almost exclusively about whether or not there is any impact.

These are the questions that we're urging you to really be very clear and very precise about how you proceed forward. Obviously, we believe that a RIM-only process is not appropriate for Florida. I think you saw in the analysis that the City of Tallahassee did that when they brought in measures that clearly did not pass RIM, they were able to lower their system costs. The City of Gainesville has adopted not exactly the same process, but a similar process where they have looked at measures that do not pass RIM. They're just now doing

analysis of their outcomes from that, and they're seeing positive results from adopting energy efficiency measures that do not pass RIM, but positively affect their system outcomes.

That's a question that's begging right now, and I think if you're going to look very seriously at the energy efficiency question, you have to address that one. We highly encourage you to do that.

Decoupling, we do support decoupling. We believe it's important. I was really interested in our example that was discussed today for several reasons. They put a cap on it. They held it accountable to putting in effective energy efficiency, not just looking at what the impact is on rates. I think those are the critical issues that you want to look at. Yes, you do have to be concerned about whether or not it's impacting fixed cost recovery. And if it's not impacting fixed cost recovery, don't break -- it's not broken, and so you may not need to fix it.

With that, I'll end my comments. Again, I want to thank you. I think this is a very exciting time, and we welcome the opportunity to participate in this proceeding.

CHAIRMAN EDGAR: Thank you, Mr. Jacobs.

And that is the last person that I have on the

sign-up sheets that we had out. Is there anybody else who would like to take advantage of this opportunity to speak on these issues at the time? And I'm seeing none.

Okay. Commissioners, that is the last item on our agenda for this afternoon. I will mention that the transcripts will be available of these proceedings on December 10th.

Commissioners, as you've heard from our staff and from our speakers, a lot of issues involved in all this. I am excited about the opportunity that we'll have in the future to discuss some of these ideas and concepts as we move forward. I'm expecting that there will probably at some point, nothing set yet, but as we begin to move into that conservation goal setting process that I mentioned when we started and that others have referred to, that we will have additional workshops on some of the ideas that we've had, incentives, other mechanisms for pursuing energy efficiency, cost-effectiveness tests, which is something that, you know, I have a particular interest in, and other related issues. And I'll open it up for comment and discussion before we adjourn. I know our staff would be interested -- if there are other items or specifics that we would like to ask them to pursue or bring back to us, I know they would be interested in that.

Commissioner Carter.

COMMISSIONER CARTER: A comment first, Madam Chairman. I think that the perspective that we have here today is, in my opinion, to create an environment where all of the disparate interests, the stakeholders, the public at large, customers, to have a nonadversarial perspective where we can put the best ideas possible on the table. And I think that a lot of times when we have proceedings before us, it's mostly adversarial. There's nothing wrong with that, but we don't necessarily get the best bang for the buck.

So I'm hopeful that we can look at this, a lot of great ideas, a lot of fantastic energy -- no pun intended. But in terms of the passion that a lot of people had in terms of the concepts here, I would hope, and it's my goal, and I know the goal of all of us as Commissioners, to look at opportunities, to, one, make sure that energy efficiency in Florida is more than just a slogan; second, to create an environment where we can keep the lights on. Let's be real. You know, no matter what, we've got to keep the lights on, keep the lights on.

COMMISSIONER ARGENZIANO: Don't pull the plug.

COMMISSIONER CARTER: Don't pull the plug. And maybe look at some new technologies. I mean, we

have 11 schools in our state university system. We have tremendous private colleges in the State of Florida. We have a tremendous reservoir of bright, young minds out there, and some, Mr. McWhirter, no pun intended, not so bright -- not so young, I mean, minds out there, but certainly some great ideas.

(Laughter.)

COMMISSIONER CARTER: But certainly some great ideas out there. And our staff is invigorated, and we're excited about it. And, Madam Chairman, I really look forward for us continuing this. The Governor has not only issued his policy statement in terms of his executive orders, but he has followed up from that with some outstanding opportunities. One was the events that we went to down to in Miami, with the workshops on those, and then the follow-up with the commission that he appointed.

And I think it's a great time to be in Florida. It's a great time for us, and I see us as being a leader. I don't want those people to stop coming here. Whether it's a thousand people a day or 1,004 people a day, I don't want them to stop coming here. Come on down, you know, enjoy the weather. It's the idyllic paradise that we call Florida.

But I do want to see us as a Commission to

continually create an environment where the utilities, the stakeholders, the Office of Public Counsel, the customers, the NRDC, and other community-based organizations, Sierra Club, where we'll come to the table and say, "Look, let's work together to do this, because you know what? In the final analysis, if the lights go out, we're all in the dark."

Thank you, Madam Chairman.

CHAIRMAN EDGAR: Thank you, Commissioner.

Commissioner McMurrian.

COMMISSIONER McMURRIAN: Thank you, Chairman. I can't say any of that any better than Commissioner Carter has. This has been a very informative workshop, and I thank staff and all the stakeholders involved that have given us lot of information.

Also, I know the Chairman did this earlier, but I neglected to thank Ms. Pielli for all her help on this topic and all the other topics before us, and especially for inviting me to that Southeast Energy Efficiency meeting that you mentioned. I should show you, I have my notebook right here still, my takeaway. And I'm happy to say that with the good agenda that we've had lined up here today that I think we've touched on a lot of those same issues that I had the benefit of hearing about in Atlanta.

But I guess as closing thoughts -- and I know that it's not appropriate probably to do this today, but I guess where I want to hear more from the utilities and the other stakeholders, of course, the consumers, and maybe even the munis and coops, to the extent that they've got good ideas to share with us about the things that we can do as a Commission to help encourage even greater success in the energy efficiency and DSM areas. And to me, that includes the outreach area. If there are specific ideas that you all have and you've seen opportunities that we're not taking, I think we would like to look at those.

The rate design area, a lot of that has been discussed today. Specifically the incentive approaches, I think there are a lot of ideas out there that we can look into further, and then, of course, the cost-effectiveness test that the Chairman mentioned. I'm interested in all those things, and looking at best practices in other states and with other utilities.

So thank you very much for all the information today.

CHAIRMAN EDGAR: Thank you. And I think it absolutely is appropriate, so I appreciate that.

Commissioners, any other thoughts?

Okay. Seeing none, thank you to all of our

participants, and thank you to all who have attended. We look forward to further discussion, and are adjourned.

(Proceedings concluded at 3:25 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 105 through 181 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 10th day of December, 2007.

MARY ALLEN NEEL, RPR, FPR
2894-A Remington Green Lane
Tallahassee, Florida 32308
(850) 878-2221