

FIPUG OBSERVATIONS WITH RESPECT TO DECOUPLING

Florida Public Service
Commission Workshop

August 7, 2008

The Regulatory Dilemma

- How to reduce consumption without adversely impacting the electric utility

The Decoupling Solution

- Provide investor owned electric utilities with a guaranteed return irrespective of kilowatt-hour sales.
- Increase rates if customers consume less.
 - In theory if rates go up it will encourage even greater conservation.

The Decoupling Fallacy when applied to Investor Owned Utilities.

- The criteria used by investors is the potential for growth in stock value and dividend yield. They look for earnings growth.
- Decoupling freezes earnings growth.

Decoupling will discourage utilities from making investment in more efficient Florida power plants

- Earnings in Florida have been essentially frozen for the last fifteen years without decoupling. A disproportionately small portion of the cash flow from base rate profits and depreciation charges generated from Florida customers was reinvested in more efficient power plants in Florida.
- Investment in Florida reduces the profit in base rates.
- IOUs looked for greater returns by diverting the revenue from Florida consumers to the non regulated activities of their holding companies which promise even greater earnings. Decoupling will exacerbate this phenomenon

The Decoupling Fallacy When Applied to Consumers

- Florida Consumers already endure some of the highest monthly bills in America.
- The recent FPL and PEF midcourse correction cases in Docket 080001-EI Provide an example of what will Happen with Decoupling. Reduced consumption resulted in rate increases of over \$400 million in the fuel charge.
- Ironically under decoupling rates will go down if consumption increases.

YEAR	UTILITY_ID	UTILITY_NAME	State	Type	Res\$ (000)	Res Sales (MWh)	Average Monthly KWH Consumption	Average Monthly Residential Bill
2006	19327	TXU Energy Retail Co LP	TX	Marktr	4,322,018	29,314,580	1,328	\$195.84
2006	15847	Reliant Energy Retail Services, Inc	TX	Marktr	3,573,029	23,431,787	1,171	\$178.49
2006	15871	Direct Energy, LP	TX	Marktr	769,630	5,555,489	1,171	\$162.17
2006	11171	Long Island Power Authority	NY	State	1,865,935	9,277,824	782	\$157.30
2006	7806	Entergy Gulf States Inc	TX	IOU	596,272	5,211,126	1,297	\$148.43
2006	3265	Cleco Power LLC	LA	IOU	390,891	3,551,702	1,309	\$144.06
2006	7806	Entergy Gulf States Inc	LA	IOU	518,971	4,899,127	1,311	\$138.85
2006	18454	Tampa Electric Co	FL	IOU	956,740	8,720,867	1,264	\$138.63
2006	6452	Florida Power & Light Co	FL	IOU	6,493,585	54,567,510	1,164	\$138.53
2006	6455	Progress Energy Florida In	FL	IOU	2,360,716	20,020,717	1,165	\$137.40
2006	4176	Connecticut Light & Power Co	CT	IOU	1,682,705	9,623,321	763	\$133.36
2006	12685	Entergy Mississippi Inc	MS	IOU	567,272	5,386,994	1,254	\$132.00
2006	15270	Potomac Electric Power Co	MD	IOU	667,387	5,445,274	1,029	\$126.14
2006	12686	Mississippi Power Co	MS	IOU	214,472	2,118,106	1,196	\$121.05
2006	17539	South Carolina Electric & Gas Co	SC	IOU	749,485	7,598,169	1,203	\$118.64
2006	7801	Gulf Power Co	FL	IOU	510,995	5,425,491	1,253	\$117.98
2006	195	Alabama Power Co	AL	IOU	1,664,304	18,632,935	1,305	\$116.59
2006	9617	JEA	FL	Muni	501,788	5,596,010	1,299	\$116.50
2006	11241	Entergy Louisiana Inc	LA	IOU	784,915	8,512,776	1,263	\$116.46
2006	13407	Nevada Power Company	NV	IOU	975,568	9,033,142	1,075	\$116.07
2006	803	Arizona Public Service Co	AZ	IOU	1,270,412	12,901,612	1,148	\$113.05
2006	16572	Salt River Project	AZ	Govt	1,111,827	12,650,175	1,267	\$111.33
2006	14940	PECO Energy Co	PA	IOU	1,779,769	12,797,386	769	\$106.91
2006	9726	Jersey Central Power & Lt Co	NJ	IOU	1,206,843	9,547,719	830	\$104.87
2006	814	Entergy Arkansas Inc	AR	IOU	704,440	7,655,217	1,112	\$102.35
2006	3046	Progress Energy Carolinas Inc	NC	IOU	1,269,379	14,064,992	1,132	\$102.20
2006	13216	Nashville Electric Service	TN	Muni	376,712	4,666,565	1,265	\$102.16
2006	12293	Memphis City of	TN	Muni	441,675	5,675,662	1,292	\$100.52
2006	11804	Massachusetts Electric Co	MA	IOU	1,263,505	8,187,699	640	\$98.70
2006	7140	Georgia Power Co	GA	IOU	2,326,191	26,206,170	1,101	\$97.76
2006	19876	Virginia Electric & Power Co	VA	IOU	2,309,723	27,049,584	1,142	\$97.53
2006	16604	San Antonio City of	TX	Muni	674,585	8,554,569	1,233	\$97.24

2006	13573	Niagara Mohawk Power Corp	NY	IOU	1,534,860	10,247,534	635	\$95.18
2006	15474	Public Service Co of Oklahoma	OK	IOU	506,360	6,021,196	1,129	\$94.91
2006	17609	Southern California Edison Co	CA	IOU	4,739,296	30,048,395	601	\$94.79
2006	3542	Duke Energy Ohio Inc	OH	IOU	667,338	7,049,188	986	\$93.37
2006	13511	New York State Elec & Gas Corp	NY	IOU	778,322	5,648,612	671	\$92.48
2006	1015	Austin Energy	TX	Muni	375,232	4,009,766	983	\$92.01
2006	14063	Oklahoma Gas & Electric Co	OK	IOU	647,066	8,010,314	1,128	\$91.14
2006	14715	PPL Electric Utilities Corp	PA	IOU	1,291,200	13,645,099	947	\$89.57
2006	4922	Dayton Power & Light Co	OH	IOU	490,514	5,217,604	952	\$89.51
2006	15470	Duke Energy Indiana Inc	IN	IOU	713,264	8,707,170	1,091	\$89.35
2006	9417	Interstate Power and Light Co	IA	IOU	432,427	3,750,503	767	\$88.47
2006	17543	South Carolina Pub Serv Auth	SC	State	134,435	1,616,868	1,062	\$88.30
2006	16609	San Diego Gas & Electric Co	CA	IOU	1,266,825	7,500,838	523	\$88.28
2006	4226	Consolidated Edison Co-NY Inc	NY	IOU	2,631,250	12,589,959	415	\$86.76
2006	5416	Duke Energy Carolinas, LLC	NC	IOU	1,563,159	19,639,855	1,086	\$86.41
2006	12390	Metropolitan Edison Co	PA	IOU	494,655	5,286,865	922	\$86.29
2006	5416	Duke Energy Carolinas, LLC	SC	IOU	447,178	6,089,242	1,174	\$86.21
2006	13998	Ohio Edison Co	OH	IOU	770,042	7,349,003	804	\$84.28
2006	14328	Pacific Gas & Electric Co	CA	IOU	4,523,914	30,957,122	575	\$84.03
2006	1167	Baltimore Gas & Electric Co	MD	IOU	1,092,068	12,816,206	985	\$83.97
2006	9964	Kenergy Corp	KY	Coop	43,955	710,953	1,334	\$82.46
2006	16534	Sacramento Muni Util Dist	CA	Govt	505,544	4,764,852	768	\$81.43
2006	20856	Wisconsin Power & Light Co	WI	IOU	380,126	3,430,535	734	\$81.28
2006	24211	Tucson Electric Power Co	AZ	IOU	343,460	3,778,369	890	\$80.91
2006	15497	Puerto Rico Electric Pwr Authority	PR	State	1,275,239	7,214,533	456	\$80.61
2006	17718	Southwestern Public Service Co	TX	IOU	210,105	2,490,075	952	\$80.31
2006	4062	Columbus Southern Power Co	OH	IOU	632,878	7,270,635	918	\$79.87
2006	18997	Toledo Edison Co	OH	IOU	232,737	2,143,477	726	\$78.80
2006	15477	Public Service Elec & Gas Co	NJ	IOU	1,713,088	13,392,801	616	\$78.77
2006	15248	Portland General Electric Compan	OR	IOU	627,614	7,572,788	912	\$75.59
2006	13756	Northern Indiana Pub Serv Co	IN	IOU	358,214	3,293,908	693	\$75.39
2006	19436	Union Electric Co	MO	IOU	911,002	13,081,168	1,068	\$74.39
2006	14006	Ohio Power Co	OH	IOU	542,405	7,207,804	986	\$74.16
2006	20847	Wisconsin Electric Power Co	WI	IOU	852,990	7,990,314	692	\$73.85
2006	733	Appalachian Power Co	VA	IOU	384,700	6,336,229	1,209	\$73.39
2006	15500	Puget Sound Energy Inc	WA	IOU	798,498	10,654,059	976	\$73.13
2006	9273	Indianapolis Power & Light Co	IN	IOU	363,668	5,027,223	1,008	\$72.95

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2006	14006	Ohio Power Co	OH	IOU	542,405	7,207,804	986	\$74.16
2006	20847	Wisconsin Electric Power Co	WI	IOU	852,990	7,990,314	692	\$73.85
2006	733	Appalachian Power Co	VA	IOU	384,700	6,336,229	1,209	\$73.39
2006	15500	Puget Sound Energy Inc	WA	IOU	798,498	10,654,059	976	\$73.13
2006	9273	Indianapolis Power & Light Co	IN	IOU	363,668	5,027,223	1,008	\$72.95
2006	10005	Kansas Gas & Electric Co	KS	IOU	237,001	3,081,078	945	\$72.71
2006	10171	Kentucky Utilities Co	KY	IOU	355,896	5,907,821	1,202	\$72.41
2006	3755	Cleveland Electric Illum Co	OH	IOU	538,040	4,985,554	667	\$71.95
2006	14127	Omaha Public Power District	NE	Govt	249,931	3,375,561	971	\$71.89
2006	20860	Wisconsin Public Service Corp	WI	IOU	306,182	2,803,458	641	\$70.04
2006	733	Appalachian Power Co	WV	IOU	310,440	5,541,907	1,250	\$70.04
2006	14354	PacifiCorp	OR	IOU	379,367	5,553,588	1,014	\$69.28
2006	3253	Central Illinois Pub Serv Co	IL	IOU	274,851	3,783,958	950	\$68.99
2006	12341	MidAmerican Energy Co	IA	IOU	440,372	5,086,363	792	\$68.59
2006	5109	Detroit Edison Co	MI	IOU	1,609,458	15,768,800	665	\$67.84
2006	20387	West Penn Power Co	PA	IOU	494,665	6,903,375	938	\$67.24
2006	9208	Illinois Power Co	IL	IOU	436,336	5,658,054	869	\$67.02
2006	22500	Westar Energy Inc	KS	IOU	249,107	3,374,963	904	\$66.70
2006	9324	Indiana Michigan Power Co	IN	IOU	315,780	4,580,373	958	\$66.03
2006	4254	Consumers Energy Company	MI	IOU	1,237,118	12,975,047	689	\$65.66
2006	14711	Pennsylvania Electric Co	PA	IOU	395,124	4,350,840	722	\$65.57
2006	11249	Louisville Gas & Electric Co	KY	IOU	271,520	4,017,524	957	\$64.68
2006	9191	Idaho Power Co	ID	IOU	289,069	4,868,384	1,083	\$64.32
2006	13781	Northern States Power Co	MN	IOU	812,792	8,876,544	700	\$64.10
2006	17609	Southern California Edison Co	CA	IOU	10,669	140,777	839	\$63.58
2006	12796	Monongahela Power Co	WV	IOU	237,858	3,280,823	845	\$61.29
2006	4110	Commonwealth Edison Co	IL	IOU	2,453,065	28,330,120	698	\$60.43
2006	14354	PacifiCorp	UT	IOU	458,966	6,139,297	770	\$57.57
2006	15466	Public Service Co of Colorado	CO	IOU	756,701	8,557,673	646	\$57.14
2006	13573	Niagara Mohawk Power Corp	NY	IOU	59,310	898,753	793	\$52.33
2006	11208	Los Angeles City of	CA	Muni	778,672	7,609,278	510	\$52.20
2006	12647	Minnesota Power Inc	MN	IOU	71,520	1,011,699	717	\$50.68
2006	16868	Seattle City of	WA	Muni	201,450	3,060,651	751	\$49.43
2006	4226	Consolidated Edison Co-NY Inc	NY	IOU	89,238	1,044,698	432	\$36.88

Regulatory Fallacy of Decoupling

- The Utility Return on its Rate Base should be Based on the Risk Investors Assume
- The Commission and Legislature have Already Shifted the Risk on all Cost Recovery Items to Customers. Cost Recovery Clauses now Provide up to 75% of Utility Revenue
- Shifting the Return Risk to Customers Will offset most of the remaining Risk and Should Result in a Lower ROE

A Better Solution to the Regulatory Dilemma Created by Reduced Sales Growth

- The solution suggested by Professor Paul Sotkiewicz, Director of Energy Studies, Public Utility Research Center, University of Florida at the workshop held last November recognizes that electric utilities are capital Intensive with large fixed costs. In this circumstance trying to recover fixed costs with a variable consumption charge is counterproductive. IOUs are discouraged from promoting sales reduction. He proposed a rate structure with a fixed charge to recover fixed costs and a consumption charge to recover fuel and other costs that vary with consumption. Reduced sales will then not be harmful to IOUs. FIPUG joins in recommending this approach.

How does this solution encourage investors looking for growth in value and dividend yield?

- The solution recognizes that traditional investors in public utilities are seeking stability and secure income. Enlightened regulation with proper rate structures will provide this stability and secure income without undue hardship on captive customers.
- Companies that seek greater returns through the greater leverage and the income tax benefits a public utility holding company provides will be able to obtain greater profits from the greater risk they assume without shifting more risk to customers.