State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: DECEMBER 4, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (HARLOW, COLSON, DRAPER)
OFFICE OF THE GENERAL COUNSEL (HOLLEY)

RE: DOCKET NO. 030959-EI - PETITION BY TAMPA ELECTRIC COMPANY FOR APPROVAL OF EXTENSION OF PILOT GREEN ENERGY RATE RIDER AND PROGRAM THROUGH DECEMBER 2006.

AGENDA: 12/16/03 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE WAIVED BY TECO

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030959.RCM

CASE BACKGROUND

On April 17, 2000, the Commission issued Order No. PSC-00-0754-PAA-EG, in Docket No. 991791-EG, In Re: approval of demand-side management plan of Tampa Electric Company, approving Tampa Electric Company's (TECO) demand-side management plan. The Commission's order included approval of TECO's Conservation Research and Development (R&D) Program, which provided for $750,000 of ratepayer funds over five years to be used to finance TECO's conservation R&D efforts. According to TECO's Conservation R&D Program's approved participation standards, TECO's research efforts regarding renewable energy sources are eligible for funding under the program.

On June 8, 2000, TECO filed a petition for a "customer optional" three-year pilot green energy rate rider and program. TECO's petition was in response to the stipulation entered into by TECO and the Legal Environmental Assistance Foundation, Inc.

(LEAF), as part of Docket No. 971007-EG, TECO's demand-side management goal-setting docket. On September 25, 2000, the Commission issued Order No. PSC-00-1741-TRF-EI, in Docket No. 000697-EI, In Re: Petition by Tampa Electric Company for approval of a pilot Green Energy Rate Rider and Program. In its order, the Commission approved TECO's pilot green energy program and the associated tariff through December 31, 2003. TECO's program provided interested customers with the option of purchasing 50 kWh blocks of renewable energy for a fee of $5 per block. The program was partially funded with a $100,000 allocation from TECO's approved Conservation R&D Program. On June 4, 2001, the Commission issued Order No. PSC-01-1238-TRF-EI, in Docket No. 010423-EI, In Re: Petition by Tampa Electric Company for approval of modification to Pilot Green Energy Rate Rider and Program, which eliminated the purchase limit of five blocks of renewable energy per participating customer.

On October 1, 2003, TECO filed a petition requesting approval to extend the pilot green energy program through December 31, 2006. TECO has also requested approval of a modified renewable energy block size and price. Further, TECO has requested a $150,000 allocation from the Company's approved Conservation R&D Program to partially fund the green energy program over the proposed three-year extension.

The Commission has the authority to consider these matters pursuant to Sections 366.82(2), 366.05, 366.06, and 366.075, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Tampa Electric Company's (TECO) petition for an extension of the Pilot Green Energy Rate Rider and Program through December 31, 2006?

RECOMMENDATION: Yes, TECO's proposed three-year extension to its green power rate rider appears to adequately address TECO's stipulation with LEAF. Increasing the renewable energy block size to 100 kWh for the existing fee of $5 per month should increase program participation. TECO's program participation, cost and revenue estimates appear to be reasonable. TECO intends to add new marketing strategies designed to increase program participation. The proposed extension will give TECO ample time to determine if an adequate program participation level can be achieved such that the program's revenues cover all the program's costs.

STAFF ANALYSIS: TECO's green energy rate rider, as approved by Order No. PSC-00-1741-TRF-EI, issued September 25, 2000, is a three-year pilot green pricing program which is currently approved through December 31, 2003. The program provides interested customers with the option of purchasing 50 kWh blocks of renewable energy. Customers taking service under this green energy rate rider pay $5 per month in addition to their applicable tariff rates for each 50 kWh block of green energy purchased. Residential, commercial and industrial customers may participate. Participating customers are obligated to remain in the program for an initial 12 month period, and must notify TECO two months prior to exiting the program.

Energy for the program has been provided from three sources within TECO's service territory, including: 1) a company-owned 18 kW photovoltaic array located at Tampa's Museum of Science and Industry; 2) a 30 kW micro-turbine fueled with land-fill gas; and, 3) co-firing biomass fuels in some of TECO's existing coal-fired generating facilities. Through August 2003, 213 customers are participating in the program, purchasing a total of 300 blocks of renewable energy per month. Each of these participating customers is in the residential class. This participation level has been less than originally expected by TECO. However, TECO believes that "there remains a customer segment willing to participate when given the opportunity to more fully understand the merits of the program."

TECO has requested approval of a three-year extension of the green power rate rider beginning January 2004 and ending December 2006. TECO believes that the additional three years will give the company time to evaluate whether TECO can achieve the level of participation required for the revenues received from program participants to cover all costs, including administrative costs. TECO has also requested an allocation of $150,000 from its approved Conservation R&D Program to partially fund the proposed green power rate rider extension. TECO's requested allocation from its Conservation R&D Program will be addressed in Issue 2.

TECO has also requested a modification to the pricing structure of the program. TECO is proposing to increase the block size to 100 kWh from the current block size of 50 kWh, while holding the price constant at $5 per block per month. This effectively reduces the incremental kWh charge for renewable energy from 10 cents per kWh to 5 cents per kWh. TECO intends to increase the block size for all participating customers, including existing participants. TECO believes that increasing the block size to 100 kWh will increase the participation level in the program, particularly for its commercial customers. According to TECO, "commercial customers in specific are very price conscious concerning the incremental cost of green energy."

TECO intends to continue obtaining renewable energy for program participants during the proposed extension from the following sources within its own system: 1) an 18 kW photovoltaic array; 2) a 30 kW micro-turbine fueled with land-fill gas; and, 3) co-firing biomass in existing coal-fired generating units. TECO also intends to explore the incremental costs and feasibility of gasifying biomass to fuel natural gas-fired generating units.

TECO provided staff with estimates of program costs and revenues over the proposed three-year extension period. These estimates were based on the existing level of participation, with the additional purchase of 10 blocks of renewable energy each month throughout the three-year period. Staff believes these expected participation levels are reasonable because they closely resemble TECO's experience in the preceding three years. Given these participation levels, TECO expects program revenues of $93,240 and costs of $217,983 during the three-year extension. TECO estimates that $94,000 of the $217,983 total costs will be due to incremental administration and marketing costs, while the remaining $123,983 represents the incremental costs of renewable energy.

TECO expects to cover its costs in excess of revenues with the requested $150,000 allocation from its Conservation R&D Program. TECO's cost estimates are based on the actual incremental costs experienced at TECO's renewable generation assets during the program and appear to be reasonable.

TECO expects that, "Based on the projected participation for the 2004 through 2006 period, a self-sustaining program should exist at the end of the three-year period." At that time, TECO anticipates that the Company will determine if a permanent program is feasible which will no longer require subsidies from the general body of ratepayers. Staff believes that it is reasonable to expect that over time, TECO will achieve enough participation to cover all program costs without subsidies. TECO's program provides energy for participants from three renewable fuel sources, each with its own associated incremental cost. Photovoltaic energy is by far the most expensive; however, this energy is utilized first because it is from an existing system. As participation levels increase, TECO will include energy from a recently installed land-fill gas micro-turbine. The incremental costs of this energy are lower than those for the energy obtained from the photovoltaic system. As participation increases further, TECO will add additional energy from the least-cost option of co-firing biomass in existing coal units. Therefore, TECO expects that as participation increases, the capital costs for the existing photovoltaic and land-fill gas systems will be covered by program revenues, and TECO will reduce the costs per participant by adding greater levels of low-cost biomass to its mix of renewable energy.

TECO expects to deploy several new marketing strategies over the proposed program extension with the assistance of a consultant. For example, TECO expects to work directly with environmental groups to obtain their assistance in promoting participation among members. TECO also intends to initiate new campaigns targeted at business and governmental customers.

Staff recommends that TECO's proposed extension to its green power rate rider be approved. TECO's proposed program extension appears to adequately address TECO's stipulation with LEAF regarding green power pricing programs. Staff believes that TECO's proposed increase of the program's block size to 100 kWh of renewable energy for the existing fee of $5 per month will increase program participation. TECO's program participation, cost and revenue estimates appear to be reasonable. TECO intends to add new marketing strategies designed to increase program participation. Staff believes that the proposed three-year extension will give TECO ample time to determine if an adequate program participation level can be achieved such that the program's revenues cover all the program's costs.

ISSUE 2: Should the Commission approve TECO's request for an allocation of $150,000 from its approved Conservation R&D Program?

RECOMMENDATION: Yes. TECO's allocation of $150,000 from its Conservation R&D Program to partially fund the three-year extension of the green energy rate rider is consistent with the approved Conservation R&D Program participation standards.

STAFF ANALYSIS: The Commission approved TECO's Conservation R&D Program as a part of TECO's demand-side management plan in Order No. PSC-00-0754-PAA-EG, issued April 17, 2000, in Docket No. 991791-EG. The approved Conservation R&D program participation standards state:

> Most technology measures are eligible for consideration including renewable and green energy sources, energy efficient construction, etc. The R&D Program costs are estimated to be $150,000 per year for a five year period. Expenses for a given year may exceed $150,000, however, total cost shall not exceed $750,000 for five years.

TECO has requested approval of a $150,000 allocation from its Conservation R&D Program to partially finance the proposed three-year extension of the green energy rate rider. TECO expects to spend $57,000 of this allocation in 2004, $48,000 in 2005, and $45,000 in 2006. TECO currently has ample funds for its request in the Conservation R&D Program account, with a balance of $631,836 as of September 2003. Staff believes that TECO's requested allocation of $150,000 to its proposed three-year extension of the green energy rate rider is consistent with the approved Conservation R&D Program participation standards. Therefore, staff recommends that TECO's allocation request be approved.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes, if Issue 1 is approved, this tariff should become effective on January 1, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

STAFF ANALYSIS: If Issue 1 is approved, this tariff should become effective on January 1, 2004. If a protest is filed within 21 days of the issuance fo the order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.