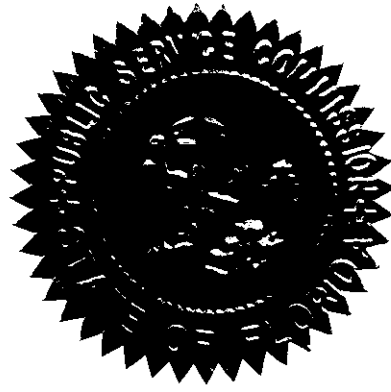


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. UNDOCKETED

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

In the Matter of:
UTILITY REVENUE DECOUPLING.
_____ /



PROCEEDINGS: STAFF WORKSHOP

DATE: Thursday, August 7, 2008

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
 Room 148
 4075 Esplanade Way
 Tallahassee, Florida

TRANSCRIBED
FROM TAPE BY: JANE FAUROT, RPR
 Official FPSC Reporter
 (850) 413-6732

1 IN ATTENDANCE:

2 RICK WESTON, Regulatory Assistance Project

3 LUIS MARTINEZ, Natural Resource Defense Council

4 SUSAN CLARK, on behalf of Florida Power & Light, Gulf
5 Power, Progress Energy Florida and Tampa Electric

6 JOHN MCWHIRTER - On behalf of Florida Industrial
7 Power Users Group

8 SCOTT CARTER, AGL Resources

9 KAREN WEBB, JOANN CHASE, and JENNIFER BRUBAKER,
10 ESQUIRE, representing the Florida Public Service Commission
11 Staff

12

13

14

15

16

17

18

19

20

21

22

23

24

25

P R O C E E D I N G S

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MS. WEBB: Good morning. If everyone will please take your seats, we will go ahead and get started.

All right. Good morning, everyone. Welcome and thank you for being here. I'm Karen Webb with staff.

Mr. Weston, are you available over the telephone?

MR. WESTON: I am.

MS. WEBB: Great. We can hear you. Can you hear us adequately?

MR. WESTON: I can hear you perfectly.

MS. WEBB: Great. Thank you for being here. We hope to have a productive day of information gathering for our report and recommendations to the Governor and Legislature, which is due by January 1st of '09.

A few points before we get started. We ask that all attendees sign the sheet at the back of the room so that we can add your name to our contact list when we distribute information about future workshops and any data form requests, anything to do with renewable activities. A copy of today's agenda and the slide presentations are available in the front of the room over on that side, if you would like to pick up a copy. Today's workshop is being recorded for transcription, so we ask that every speaker come to a microphone and please identify yourself before speaking each time.

Now I will hand it over to Jennifer Brubaker for

1 reading of the notice.

2 **MS. BRUBAKER:** Thank you. Pursuant to notice, this
3 time and place has been set aside for the purpose of conducting
4 a workshop on utility revenue decoupling. The purpose of the
5 workshop is set forth more fully in the notice.

6 **MS. WEBB:** Great. At this time we will begin our
7 presentations by the interested parties beginning with Mr. Rick
8 Weston who represents the regulatory assistance project. Mr.
9 Weston, we are ready whenever you are.

10 **MR. WESTON:** Great. Well, thank you very much and
11 thank you all for allowing me to participate by telephone. I
12 am assuming you all have copies or can see my presentation. If
13 it's up on the board somewhere, that is terrific. If you have
14 all got copies, it's great. It's a 23-slide presentation. I
15 am only going to go through the first 13 or so slides. The
16 remaining ten are for further discussion and for your review as
17 you wish. And certainly I will answer any questions about it
18 at the appropriate time.

19 I assume I've got about 15 minutes. I'll try to go
20 pretty quickly through this just to lay out some of the basic
21 concepts and thoughts that we have. And, once again, thank you
22 for having me here.

23 On the first slide, the second slide, I guess, just a
24 quick note about who we are. We're a nonprofit organization.
25 We are former utility regulators from three states, Vermont,

1 New Mexico, and Maine. We are funded by philanthropic
2 organizations, the U.S. Department of Energy, and EPA, and some
3 international agencies, including the World Bank to provide,
4 generally free of charge, policy and technical assistance to
5 government officials on energy and environmental issues having
6 to do primarily with the gas and electric sectors.

7 Let me start with the third slide. All incentives --
8 all regulation is incentive regulation. The point I want to
9 make here is that the trick about regulation is understanding
10 what the incentives are and how they effect utility and
11 customer behavior. So traditional regulation as we know it
12 provides incentives for certain kinds of behavior, and
13 alternative regulation does, and that is what we want to talk
14 about today.

15 Slide four, traditional regulatory methods provide
16 strong disincentives for customer-sited resources. Under
17 traditional regulation, utility revenues and profits are linked
18 to unit sales, kW, kWh, therms in the gas industry. The
19 point being that regulation as we traditionally do it is a
20 price setting exercise. A utility comes in for a rate increase
21 or a rate decrease and in the end prices are set based on a
22 revenue requirement, but that's all that happens. Just how
23 much a utility earns in the way of revenues -- collects in the
24 way of revenues depends upon sales under traditional
25 regulation. And naturally any loss of sales due to reductions

1 in energy usage, whether as a consequence of energy efficiency,
2 other customer-sited resources, or weather, or economic changes
3 will have a direct impact on the utility's bottom line, and
4 this is true under, you know, all circumstances. That effect
5 can be quite powerful.

6 One bullet I skipped over quickly and I want to go
7 back to is while revenues and profits are linked to unit sales,
8 in the short run a utility's marginal costs are only vaguely
9 related to the demand for gas or electricity, and I'll come
10 back to this point.

11 The next slide. How powerful is the effect? In
12 vertically integrated utilities reduce sales are in part --
13 reduced sales revenues are, in part, offset by avoided
14 commodity costs, and so the relevant impacts to the bottom line
15 are smaller than they are to pipes and wires-only companies,
16 distribution-only companies, or certainly just the distribution
17 portion of the utility's cost of service. Reduced sales
18 revenues are offset by virtually no, in the short run, or
19 minimal avoided T&D costs.

20 In this decade decoupling, revenue decoupling has
21 been applied to the base noncommodity costs in gas and
22 electricity, i.e., the wires or pipes portion of the business.
23 In many states, and I assume as well in Florida, I should know
24 this, forgive me for not, there are purchased fuel and
25 purchased power adjustment clauses, pass-throughs as we might

1 refer to them, and they are typically not a part of the
2 decoupling mechanism.

3 I just wanted to give you an idea of what the impact
4 of changes in sales can be on the bottom line of the
5 distribution-only portion of a utility's cost of service. On
6 slide six, the assumptions for a sample distribution utility,
7 these numbers were -- they are, in fact, sort of generic
8 numbers, but they were based on a small east coast utility. So
9 they are generally okay, but we have sort of, you know, rounded
10 them off to make things a little bit simpler.

11 The number I want to focus on is that number in red,
12 the \$9.9 million of pretax equity return that this cost of
13 service assumes. If the utility is -- once rates are set, and
14 the utility spends the money and receives the revenues that the
15 rate case revenue requirement calculation -- I shouldn't say
16 predicts, but assumes, then \$9.9 million would go into -- you
17 know, would go to the shareholders in the form of return on
18 equity.

19 On the next slide, I want to show how changes in
20 sales can effect the earnings, and we have tax adjusted for
21 these. If everything goes as -- not predicted, but as assumed,
22 there would be an 11 percent return on equity. That is that
23 center line in the gray with the 9.9 million. But what we see
24 is with changes in sales, and what we have got here is one
25 percent change up to five percent in both directions, you see

1 that the impact on the bottom line is far greater than the
2 percentage impact on sales. Costs don't change, so whatever
3 impact there is goes virtually straight to the bottom line. A
4 one percent change in sales has an 11 percent, nearly
5 12 percent impact on earnings for the company. So an increase
6 in sales is very good for the company and a decrease is very
7 bad. This is a very powerful impact, and we have seen around
8 the country that it does affect how utilities feel about energy
9 efficiency programs whether delivered by the utility, or by
10 third-party administration, or by customers themselves.

11 Slide eight, least cost service should be the most
12 profitable. This incentive, this revenue profit incentive that
13 is associated with sales we refer to as the throughput
14 incentive. Under traditional regulation, as we have discussed,
15 prices are set and revenues are a function of actual sales. So
16 the utility has a strong incentive to assure that throughput is
17 sufficient to meet its financial and business responsibilities.
18 So the argument is that this incentive, this natural incentive
19 that the utility has as a consequence of traditional regulation
20 is at odds with public policy to supply electric power services
21 at the lowest total cost to society over the long-run. It
22 inhibits the company from supporting investment in and use of
23 least cost energy resources even when they are the most
24 efficient resources that should be procured and used. And it
25 encourages the company to promote incremental sales even when

1 they are wasteful from a societal or perhaps customer
2 perspective.

3 Ratemaking policy should align the utility's profit
4 motives with the public policy goals that the state adopts, and
5 if acquiring all cost-effective resources whether supply or
6 demand is one of those policies, then it behooves policymakers
7 to think about alternative approaches to regulation.

8 Slide nine. A new regulatory model, revenue sales
9 decoupling. I'm sure you are all familiar with it, but let me
10 just go through it in its basic forms. It breaks the
11 mathematical link between sales volumes and revenues, and
12 ultimately between sales volumes and profits. But we are
13 talking about revenues. It makes revenue levels immune to
14 changes in sales volumes, and fundamentally it is a matter of
15 enabling the recovery -- I am reading the slide here, but I do
16 want to emphasize this -- enabling the recovery of the
17 utility's prudently incurred fixed costs.

18 Now, I call them fixed here, although in the long-run
19 no costs are fixed. But in the short-run, the wires cost, the
20 investment cost in wires and transformer and trucks and
21 buildings and so on sure do looked fixed to a utility. So here
22 what we are talking about is enabling recovery of the utility's
23 prudently incurred fixed costs, the used and useful costs,
24 including the return on investment in a way that doesn't create
25 perverse incentives for unwanted actions and outcomes. So two

1 objectives: To protect the utility from the financial harm
2 associated with least cost actions, in this case energy
3 efficiency and other customer cited resources, and to remove
4 the utility's incentive to increase profits by increasing
5 sales. If in the long-run there are significant environmental
6 and other consequences to the, you know, growing use of
7 electricity, we want to think about how to use electricity more
8 efficiently, then the utility's incentive to increase profits
9 by increasing sales is, in fact, a barrier to some public
10 policies that you may be considering.

11 So decoupling revenues rather than earnings directly,
12 and I alluded to this point a moment ago, preserves the
13 utility's incentive to improve its operational and managerial
14 efficiency. We want the utility to continue to operate
15 efficiently, to make more money by being more efficient, and
16 that's why we talk about decoupling revenues rather than
17 earnings.

18 And it is a revenue issue, it is not a pricing issue.
19 It is not intended to decouple customer bills from consumption.
20 Unit based, i.e., per kWh per kW pricing approaches are still
21 appropriate because they send the appropriate economic signals
22 to customers with respect to their consumption decisions.

23 Okay. The essential concept. This is slide ten of
24 revenue decoupling. Basic, I refer to it here as basic revenue
25 sales decoupling. The utility's revenue requirement is

1 determined through a traditional rate case and prices are set.
2 But that revenue requirement now becomes an allowed revenue
3 requirement, and that is the amount of money that the utility
4 will be allowed to keep. If the utility collects more than the
5 revenue requirement, that difference will be returned to
6 customers in some fashion, generally through a credit on bills.

7 If the utility collects less than the revenue
8 requirement, then that difference will be collected from
9 customers through a surcharge. This can be done on a monthly
10 basis, a quarterly basis, on a yearly basis, although you want
11 to think about what the potential lag, the effects of the
12 longer lag times could have on both customers and the utility.
13 But the idea is that the utility is, in effect, put on a
14 budget. Here is the amount of money in a year that the utility
15 will need to provide service. Let's make sure that the utility
16 collects that amount of money, no more, no less. Okay. That
17 is the essential concept.

18 Prices. You still set prices the same way, but now
19 you are making adjustments on a periodic basis to assure that
20 the revenue levels are where they should be. And those
21 adjustments should be both -- I mean, sitting here today we
22 would say that the distribution curve on those adjustments is a
23 normal distribution curve. Some will be up and some will be
24 down, and indeed we have seen with a number of utilities,
25 including Baltimore Gas and Electric, just that. That company

1 makes its adjustments on a monthly basis, and they are, you
2 know, small decimal points with respect to rates, and they are
3 both up and down from month-to-month, but very small.

4 I want to define several terms just for the purposes
5 of making sure when we want to differentiate between different
6 kinds of approaches to decoupling that we are using the same
7 vocabulary. Full decoupling -- such as is in place in
8 Baltimore and with Pepco in Maryland, and in Delaware, as well,
9 and several other states, California, for example -- full
10 decoupling means that any variation in sales due to
11 conservation, energy efficiency, weather, the economic cycle,
12 or any other causes will result in an adjustment, or some
13 people use the expression true-up of collected utility revenues
14 with allowed revenues. That is to say that the cause of the
15 change in sales, the difference in sales between what we had
16 expected and what actually happens will result in an
17 adjustment. In other words, everything, every impact upon
18 sales is, in fact, decoupled from the utility's revenues.

19 Partial decoupling, the way I use the term, refers to
20 any variation in sales due to conservation, weather, economic
21 cycle, or other causes results in a partial true-up of utility
22 revenues. This is the case with at least one utility in the
23 Pacific northwest. The true-up is not a 100 percent true-up.
24 There is a 90 percent true-up. This is the example here which
25 means that the utility still has some interest in sales to

1 assure its profitability. As I say, at least one utility is
2 under a partial decoupling regime. We can talk later about the
3 virtues and vices of that.

4 Then there is limited decoupling in which only
5 specified causes or variation result in rate adjustments. One
6 might be, A, for example, only variations due to weather are
7 subject to the true-up. B, could be -- an alternative is all
8 other factors, the economy, end use efficiency, except weather
9 are included in the true-up. And then, C, of course, could be
10 some combination of the above.

11 For a number of gas companies around the country,
12 limited decoupling in the form of Subsection A is already in
13 place. That the weather variations are already accounted for,
14 and for gas utilities those tend to be the lion's share of the
15 variations in sales so they are already forms of limited
16 decoupling before regulators even have begun to deal with the
17 issue of energy efficiency. So those are the three
18 differentiations I would make for the purposes of discussion
19 today.

20 I just want to finish with one final point. I
21 alluded to it earlier, and this has to do with what the
22 underlying cost drivers are for the utility. What drives a
23 utility's costs? I make the point in the first bullet that
24 regulations should more directly link a utility's remuneration
25 with the cost that it actually faces. Well, what drives its

1 costs? In the long-run, of course, it's demand for electricity
2 or gas service is the primary driver, you know, whatever
3 service it is that it is providing. That, of course, makes
4 intuitive sense and it doesn't really need to be said.

5 But in the short-run, the rate case horizon from one
6 to three to say five years, costs are driving by other factors
7 themselves. And I alluded to this when I said for a T&D, a
8 wires-only company, there is little in the way of a marginal
9 cost with an incremental delivery of a kilowatt hour. But what
10 drives its costs? We have seen through some of our work that
11 utility costs tend to vary more directly with the numbers of
12 customers than they do with sales. Or where customer growth
13 has been relatively flat, say in Massachusetts, for example,
14 with the need to replace aging and depreciated assets. That is
15 the case for National Grid, for example, where they feel that
16 the real driver of their costs has just been -- you know, it is
17 the old plant. They are replacing old plant. Their sales are
18 increasing very, very slowly and the number of customers,
19 numbers of customers are really not changing very much. And we
20 see that this is particularly true of unbundled distribution
21 service where, as I said before, the marginal costs of delivery
22 are, you know, virtually nil.

23 So the question then is, or the answer to the
24 question, you know, how does this effect the design of a
25 decoupling mechanism, so that one of the questions I would put

1 to you is you want to consider, you know, what's driving a
2 utility's costs, what is the best way to regulate that utility
3 to assure its financial viability and to align its interests
4 with the public policy goals that you feel are most important,
5 and then how does that new regulatory regime effect the
6 financial and business risks of the utility and how should you
7 account for those changes.

8 I have not included in my discussion a review of how
9 risk might change under a revenue decoupling mechanism, but I
10 would point you to some work that we and others have done on
11 this, and I'll get to that in just a moment.

12 And the final slide here is -- it's a little out of
13 date. It is a year out of date. I need to update this -- it
14 gives you an idea of what states have been looking at gas and
15 electric decoupling around the states. The dark blue is where
16 gas decoupling has been adopted, the striped blue is where it
17 is pending or was pending a year ago, and with the
18 cross-hatched red you see where electric decoupling has been
19 adopted or it's pending. I will update this. In Maryland it
20 is no longer pending but, in fact, adopted. The same with
21 Delaware. The District of Columbia is still looking at it.
22 They have got some unique legal issues that they have to work
23 through, as well.

24 I'll finish with that. The appendix to my talk goes
25 into more detail on the mechanics of decoupling. If we have

1 time later I'm happy to work through those. At the end of the
2 presentation on Slide 23, there are some publications I would
3 point you to. The one at the top is called revenue decoupling
4 standards and criteria, a report to the Minnesota Public
5 Utilities Commission. You know, in the interest of shameless
6 self-promotion, forgive me, I would strongly urge you to take a
7 look at that.

8 We were brought into Minnesota this winter and spring
9 to work through a lengthy stakeholder process on decoupling,
10 and I think that the report that we produced, about 40 or
11 50 pages, does a very good job of identifying the issues and
12 addressing the key issues in decoupling. And I think, you
13 know, provides a good primer on the subject. So I highly
14 recommend that you look at that, and I even think you would
15 find it useful for the purposes of your report that's due in
16 January.

17 So with that, I'll stop. I think I took more than my
18 allotted 15 minutes. I do appreciate it. And I will be
19 on-line throughout the day and excited about hearing the
20 discussion, and I hope I can contribute more. Thank you very
21 much.

22 **MS. WEBB:** Thank you very much, Mr. Weston. Because
23 of the difficulties with keeping someone on the phone all day
24 long, if anyone had any questions they would like to pose to
25 Mr. Weston at this time, we would be happy to let you take a

1 microphone and ask them.

2 All right. Seeing none, we will continue on to our
3 next presenter. Mr. Luis Martinez from the Natural Resource
4 Defense Council.

5 **MR. MARTINEZ:** Can you hear me better now? Good.

6 My name is Luis Martinez. I am an attorney with the
7 Natural Resources Defense Council. We are an environmental
8 not-for-profit group. We work on all environmental issues, but
9 I primarily work on climate and energy, energy policy in
10 general. I work on energy efficiency, renewable energy
11 programs. And today I'm going to talk a little bit about
12 decoupling.

13 And just a couple of key messages. The idea is why
14 am I here talking about decoupling when what I really work on
15 is energy efficiency is mostly because we found that through
16 the decades that we have done this, not me personally,
17 obviously, but my colleagues, once utilities are decoupled and
18 there is not a strong disincentive to lose sales, they can
19 become very, very powerful allies in implementing energy
20 efficiency programs or in not standing in the way of
21 demand-side management of state energy codes, of you name it,
22 efficiency measures in general. So it has become a very
23 important part of our efficiency work to make sure that the
24 utilities do not have this strong disincentive towards losing
25 sales.

1 General key messages are that the potential for
2 energy efficiency is enormous. The reason for energy
3 efficiency is because it is cheaper than new supply. It is
4 usually and many times it's cheaper than existing cost of
5 energy. So moving forward, a good way to achieve reductions in
6 your energy consumption is by implementing energy efficiency
7 measures either in your home or as a state.

8 We believe utilities need to play a significant role
9 in the scale of energy efficiency, and I'm going to point you
10 to a slide in a second, but we believe it is the most essential
11 step in moving towards a future where we address global
12 warming, where we address CO2 emissions. It's the most
13 cost-effective, certainly, and we believe it is the most
14 important first step we can take. It makes sense whether you
15 agree with global warming or not. It's just cost-effective.
16 It makes no sense not to do so.

17 But there are problems with the way policies are
18 structured currently. A generic global warming slide on why
19 I'm personally working on energy efficiency and why I'm
20 actually talking about decoupling. This is a slide from our
21 McKinsey study that looked at the cost of addressing global
22 warming. Going to 2030. If you look at the slide on the left
23 slide, anything that is under that horizontal line is stuff
24 that has a negative cost. In other words, it is cost-effective
25 to do so. Most of those measures, and those are all measures

1 to reduce CO2 emission, most of those measures on the left-hand
2 side of this slide are energy efficiency measures compared to
3 the measures on the right-hand side of the slide which have
4 more to do with capturing carbon, nuclear, renewable energy.
5 One key take-away point from this is that the measures on the
6 left-hand side of the slide compensate for the cost of the
7 measures on the right-hand side of the slide. Meaning if we
8 address all cost-effective energy efficiency, if we do all of
9 these efficiency measures, the things that we need to do on the
10 right-hand side of the slide actually don't have a societal
11 cost.

12 So energy efficiency. We have seen that it can be
13 done. It can be done effectively. The curve on the bottom is
14 what California has managed to do, which is basically to hold
15 their demand flat for about, I don't know, I would say 20 or
16 30 years by implementing very strong energy efficiency
17 measures. And because of that they have become kind of the
18 model for other states to follow and could potentially be a
19 reason why we are here.

20 This is a look at 2005 residential bills. Obviously
21 this is not looking at rates. Rates in California are more
22 expensive than rates in, say, Florida, but bills tend to be
23 lower and there is a reason for that and the reason is energy
24 efficiency. While on rates you might be paying for energy
25 efficiency, when you look at customer bills, they are actually

1 lower because they don't need as many units of electricity,
2 natural gas, you name it.

3 And states have begun to announce energy efficiency
4 targets. For example, in New York we are working on an energy
5 efficiency portfolio standard that is designed to reduce 15
6 percent from projected consumption by the year 2015. In New
7 Jersey that is 20 percent of projected energy consumption by
8 the year 2020. California has had a longstanding policy of
9 acquiring all cost-effective energy efficiency. They actually
10 have a loading order for their utilities, meaning energy
11 efficiency first, renewable second, new supply last, as the
12 last option. And other states have plenty of these in all
13 variations.

14 And this is actually an updated slide of what Rick
15 had just mentioned. These are the states that are doing
16 decoupling, and why they are doing decoupling. We believe it
17 has everything to do with efficiency, but the states that have
18 moved on this are solid blue or the checkered red, and where it
19 is pending are just the stripes. So there is a large number of
20 states that are considering it, that have done it, and there is
21 good experience on decoupling policies.

22 As Rick said, all regulation is incentive regulation
23 and the trick is figuring out what you are incentivizing, what
24 you are telling your utility to do. And the point that I am
25 going to try to make is we should try to set the incentives

1 right. We should try to have our utilities work to reduce the
2 cost of ratepayers, to provide reliable cost-effective
3 hopefully as least environmentally damaging service as
4 possible. And that is what I just mentioned so I can run over
5 that.

6 Energy efficiency. Why do it? It is very
7 cost-effective, but there is market barriers. Things like
8 split incentives where you pay for the electricity, you pay for
9 the gas, but you don't pay for the appliances, or you can't buy
10 or change your appliances. You are living in a rental space or
11 you didn't build your building, so when you acquired it you
12 didn't put in the highest efficient windows, you didn't put in
13 the maximum amount of insulation. And generally when you are
14 going to do that, customers, you know, you go to Home Depot,
15 you go wherever and you want to see how fast you are going to
16 recover any additional expense. Most customers like to make
17 sure that any additional expense that they invest in energy
18 efficiency, even if it is cost-effective in, you know, five
19 years, ten years, they want a payback in under three years, so
20 that is where we need to come in and help customers make that
21 decision, make the right decision. Utilities have a very good
22 position to help them do that.

23 However, traditional regulation, like Rick said, it
24 sets prices. You tell the utility this is your revenue
25 requirement, after you agree on that, and then you divide it by

1 a forecasted kilowatt hours, and that's your rate. And
2 basically if a utility is -- the utility's performance is then
3 couched on how well they can manage their costs and electricity
4 sales. They have got to hit that birdie to recover their fixed
5 costs and to make a return on investment, to make some profits,
6 the allowed profits. So obviously they want to make sure they
7 hit it. They try to overshoot it as much as possible, because
8 everything above that birdie is just basically profits.

9 And it is very, very financially painful if they
10 don't meet it, so obviously there is a strong, strong incentive
11 to increase sales, even when it is not, say, more economically
12 wasteful from the ratepayers' perspective, because there is
13 cheaper things to do and a very strong incentive to protect
14 against sales reductions whether it comes from demand from
15 customer-side renewables, whether it comes from customer-side
16 energy efficiency, you name it.

17 So traditional regulation. To sum up, recovery of
18 fixed costs is uncertain. You have got to make sure you hit
19 your electricity sales. It discourages support for energy
20 efficiency. You don't want to reduce sales, because you have
21 to make sure you recover your fixed costs, at least, and then
22 the profit; and it rewards sales, because the more you sell the
23 more you earn.

24 So what is the idea behind decoupling? We want to
25 align your consumer and your shareholder interests. The idea

1 is to make sure that ratepayers and utilities are on the same
2 side of acquiring. You want reliable service, you want clean
3 service, but you want the least-cost service, and often least
4 cost means reducing sales.

5 Promoting investment in energy efficiency. You also
6 want to assure your recovery of your agreed revenues so that
7 the utility can have -- you know, you get their good rating,
8 they get the return for their shareholders, they are
9 financially viable, and ultimately you can reduce prices by
10 reducing demand, prices overall for gas or for electricity.

11 So what does decoupling do? It severs the link
12 between profits and sales. As Rick described, this can be
13 done -- decoupling in states has been done in various different
14 ways, but the idea is modest true-ups either up or down. If
15 you sold more than it was agreed upon, you return some of that
16 money. If you are under, we'll give you some of that money to
17 make up for it. So it assures the recovery of their fixed
18 costs and it removes the disincentive to decreasing sales or
19 the incentive to increase sales. And ultimately you also want
20 to reward safe reliable service, customer service, so all of
21 those are performance based metrics that you can reward and
22 they are customizable.

23 Again, some of these are repetitions, but in the
24 simplest form you insulate a utility from deviation in sales.
25 So you have got your revenue requirement, your forecasted

1 sales, and you can do monthly true-ups, quarterly true-ups,
2 yearly true-ups with a mind that some of these things can
3 accumulate. If you are coming consistently under your
4 forecasted sales, the true-up, the surcharge is going to be
5 larger so you want to do it frequently. The other way around,
6 as well. If a utility is continually overselling, they are
7 going to have to return a lot of that back, so you want to do
8 it as frequently as possible.

9 And there's common variations to this. You can
10 adjust for weather, you can adjust for economic growth, you can
11 do what is called a revenue per customer method, where you
12 adjust your -- basically, you adjust your revenue requirement
13 based on how many new customers come into the system. And, you
14 know, we can talk about that in the afternoon. It gets a
15 little more complicated.

16 But ultimately you just remove the disincentive to
17 energy efficiency and then you can get -- you know, there is
18 support for energy efficiency standards for state building
19 codes, for behind-the-meter generation, your photovoltaics,
20 your you-name-it, for rate designs that reduce consumption, for
21 utility demand-side management, and even for third-party
22 demand-side management. And utilities in California are
23 fantastic advocates for energy efficiency. You know, they have
24 structured their payment of their employees based on how much
25 savings they can get for their customers, and they have got a

1 wealth of knowledge that is unbelievable, which is a lot
2 different to the utilities that, you know, we are used to
3 dealing -- and I work out of the New York office, so, for
4 example, out of our New York office where it's kind of a
5 different culture. Ultimately, they are getting there and they
6 are now being decoupled, and I think they are going to start
7 having a much larger interest on energy efficiency and hiring
8 energy efficiency experts, and moving in that direction. But
9 right now that's not part of their business, it is not what
10 they think about, it is not ultimately what they care about.

11 And I guess my last point is that decoupling does
12 sever the link between sales and revenue. It removes that
13 disincentive towards reducing sales, or that strong incentive
14 to push as many sales as possible. But it won't give you an
15 incentive to have the utility actually go out and acquire
16 energy efficiency and procure energy efficiency. So, you know,
17 whenever we are talking about decoupling, and ultimately that
18 is what I am here about, it is about energy efficiency. You
19 need to pair that with either a requirement that the utility go
20 out and acquire a certain amount of energy efficiency per year,
21 or every three years, and, you know, we have encouraged -- and
22 in California and in New York we are considering giving the
23 utility an actual financial incentive. There is an amount of
24 efficiency that you need to acquire every year, and if you are
25 at that amount or above it, we will give you some sort of -- a

1 shared savings of that. So it gives them a financial incentive
2 to go out and acquire efficiency, and that's the way it is
3 structured in California. That is probably the way we are
4 moving in New York and New Jersey, and in a lot of the cases
5 that we are working on. And that is the end of my
6 presentation. Thank you.

7 **MS. WEBB:** Thank you very much, Mr. Martinez.

8 At this time we would like to welcome Susan Clark,
9 representing Florida Power and Light, Gulf Power, Progress
10 Energy Florida, and Tampa Electric Company.

11 **MS. CLARK:** Thanks so much. I do not have any slides
12 for you all today. I'm just going to make some brief comments
13 on behalf of the clients that Karen has mentioned. Just by way
14 of identifying myself, I'm Susan Clark. I'm with the law firm
15 of Radey, Thomas, Yon and Clark.

16 The issues I want to touch on today are sort of
17 recapping of the successes that Florida has had with respect to
18 energy efficiency, cover why we think that at this point
19 decoupling is not needed, also go over some of what we think
20 are the unintended consequences by decoupling, and also in
21 answer to a question from staff, what Florida's experience with
22 decoupling has been.

23 While we do recognize that decoupling can play a
24 constructive role for some utilities, such as natural gas
25 utilities and in other jurisdictions, it is our position that

1 at this time decoupling is not needed for Florida electric
2 utilities. The current statutory framework coupled with the
3 active oversight of this Commission has resulted in the
4 achievement of some very aggressive energy efficiency and DSM
5 goals. Additionally, measures to manage demand are a major
6 part of the annual planning process and the first resources the
7 utilities look to in meeting a growing demand. By any
8 standard, the achievements in Florida have been significant.

9 Looking at the report the Commission just issued, the
10 2008 report on FEECA activities, the Commission found that
11 utility sponsored demand-side management programs have reduced
12 summer peak demand by an estimated 5,685 megawatts, winter peak
13 demand by 6,100 megawatts, and the annual energy savings for
14 2007 were estimated to be over 7,000 gigawatt hours. These
15 demand savings have deferred the need for over 30 typical
16 150-megawatt combustion turbines, and they provide enough
17 capacity to serve approximately 1.6 million households.

18 It's significant, I think, that in 2005 Florida's
19 achievements resulted in the state being ranked second among
20 all states in the implementation of demand response and energy
21 efficiency programs. And Florida has been consistent in its
22 pursuit of energy efficiency, which is not true of other states
23 or the nation as a whole.

24 The statistics show that in 1990 and the early 2000s,
25 the spending nationwide on demand management fell by about

1 53 percent. And in the 1998 to 2003 time frame, Florida's
2 spending on demand management was about 19 percent of the
3 nationwide spending and we have been more efficient in the
4 spending of our dollars to achieve energy efficiency. Florida
5 pays about \$9.50 per megawatt hour of efficiency achieved
6 compared to the national average of \$21.30. This has saved
7 Floridians close to \$300 million in program costs. I would
8 point out these statistics are not new. You probably heard
9 them from John Masiello when the Commission had a workshop
10 about six months ago, and he provided greater detail on these
11 statistics.

12 Having said that, that FEECA has been a success and
13 continues to be a success, we do recognize that increasing fuel
14 costs and concerns about global warming may require additional
15 energy efficiency and demand programs that may not meet today's
16 traditional financial tests. In that case there are other
17 incentives and approaches that we believe could work well. A
18 number of the mechanisms are currently in some stage of
19 development or implementation in other states, and we would
20 recommend Florida look at those and see what might be employed
21 in Florida without negating a regulatory system that has worked
22 well for customers.

23 The two presenters ahead of me did describe what
24 decoupling is and it is to decouple utility profits from sales
25 in an effort to remove a disincentive for engaging in greater

1 conservation. And we recognize that this is a potential
2 disincentive. Reduced sales can adversely effect the ability
3 of the utility to recover prudently incurred costs and a
4 properly structured decoupling mechanism could facilitate
5 recovery of these fixed costs. Nevertheless, given the
6 regulatory structure we have in Florida, we don't think
7 decoupling is needed or desirable to achieve greater energy
8 efficiency and conservation.

9 I think you heard from the two presenters earlier
10 that they recognize that decoupling in and of itself will not
11 result in more efficiency. I did read the RAP report to the
12 Minnesota Commission, and in that report they did state, "By
13 itself, however, decoupling does not provide the utility with a
14 positive incentive to invest in energy efficiency and other
15 customer-sited resources." And I think Mr. Martinez touched on
16 that in his presentation just before mine.

17 Also, a NARUC study in 2007 was in agreement with
18 this. Whether decoupling will in itself result in increased
19 efficiency is still a subject of debate, and that study went on
20 to say there are no major studies that have been conducted that
21 link decoupling directly to energy efficiency. So we don't see
22 that decoupling in itself provides the answer, and I think it
23 is important to keep in mind that there may be unintended
24 consequences to decoupling. And I have just listed some of the
25 more significant ones that we see.

1 As indicated by Mr. Weston, decoupling reverts back
2 to a regulatory model that employs an ongoing system of
3 frequent and highly administrative rate reviews with the
4 inevitable focus on such things as return on equity, which
5 would detract from the objective of maximizing energy
6 efficiency results. We also think it can lead to customer
7 confusion. It gives the impression to customers that they are
8 being charged for unused energy, which is the antithesis of
9 conservation.

10 Customer confusion and increased complaints can
11 result in greater administrative costs both to the utility and
12 to the Commission, and it could create a disincentive to
13 customers to employ conservation. And I think it's very
14 important to keep in mind that these measures will not be
15 implemented by customers without their willingness to do so.
16 So they have to see an incentive and they shouldn't be
17 disincented to employ these conservation measures.

18 Another disincentive or unintended consequence that
19 we see is it could make the multiyear rate settlements that we
20 have seen in Florida less feasible. Florida's experience with
21 these settlements has been positive and they have been
22 beneficial to customers in the form of refunds and lower rates.
23 The multiyear settlement agreements encourage cost reductions
24 by the utility because they have the opportunity to retain some
25 of these cost savings as earnings. These arrangements would be

1 inconsistent with the comprehensive decoupling mechanism that
2 fixes the revenue level.

3 We also see increased rate volatility. Rates would
4 tend to increase when the economy is weak and sales are down,
5 and decrease -- did I say that right, increase? They will
6 increase when the economy is weak and sales are down and
7 decrease when the economy is strong and sales are up. These
8 price fluctuations can send the wrong signals to customers and
9 encourage inefficient use of resources.

10 We also see the potential for cost shifting among
11 customers. To the extent there is an aggressive pursuit of
12 conservation programs that result in significant revenue loss,
13 conservation activities of the utility could benefit the
14 customers who participate, but not those who don't participate.

15 And, finally, there could be reduced incentive for
16 cost control by the utility. Decoupling keeps the utilities'
17 revenue neutral despite demand and weather fluctuations and
18 possibly economic conditions, and the utilities will have
19 reduced incentive for keeping those costs as low as possible.

20 I found it interesting that Mr. Weston talked about
21 this new regulatory idea of decoupling. I would suggest to you
22 it is not new. It has been around for at least 15 years and
23 probably closer to a decade. And, in fact, as most of you
24 know, or maybe some of you know, Florida did try decoupling
25 back in the mid-90s. That decoupling was done by Florida Power

1 Corporation. They had entered a stipulation with LEAF, the
2 Legal Environmental Assistance Foundation, and they instituted
3 a revenue decoupling starting in 1995 and it lasted
4 three years.

5 I have that order number. I would imagine the staff
6 has it, but I can provide it to you in post-workshop comments.
7 And it lays out the issues that were part of that docket,
8 including how to address changes in economic conditions, how to
9 address weather, and how to judge success, and that order does
10 lay them out.

11 At any rate, that experiment went on for three years.
12 During the last year, the underrecovery amounted to
13 \$22 million, or \$1.30 per thousand kilowatt hours. What the
14 Commission decided to do, as proposed by the utility, was to
15 stretch out that underrecovery for two years, so it amounted to
16 68 cents over a two-year period. And I think it was done
17 through either the environmental cost-recovery clause or the
18 fuel clause. It escapes me right now.

19 At any rate, after the experiment ended, the company
20 did not request its renewal and the Commission did not require
21 it. And as I reviewed the subsequent history, I didn't see
22 anywhere that anyone had requested it be continued.

23 The large true-ups that resulted, the difficulty in
24 showing a definitive link between revenue decoupling and
25 increased conservation, and the high regulatory costs of

1 administering the mechanism all contributed to its demise. And
2 we don't think at this point that there are things that exist
3 today that would make it any better in terms of trying a
4 decoupling experiment now.

5 I think it is also important to point out where we
6 are in setting new goals. The Commission has already begun the
7 process of setting new goals for conservation. The working
8 group of utilities and interested parties has been formed to
9 determine the technical potential for energy efficiency and
10 DSM, and it's my understanding that in addition to determining
11 that technical potential, they will determine which measures
12 should be evaluated, what their demand in energy impacts are,
13 and what the costs to implement them will be.

14 We believe these are the foundations for the
15 subsequent steps of determining, first, how much DSM is truly
16 achievable for each utility, and, second, the appropriate
17 financial incentives to achieve those results. Over the next
18 several months this process will provide the opportunity for
19 the Commission to ensure that all appropriate measures are
20 addressed on a going-forward basis. This process has worked
21 very well in the past, and I think there is no reason to
22 believe it won't work well this time.

23 And if you also look at the recently passed
24 legislation, there are additional tools, I think, that will
25 help make this process an even better process in terms of

1 promoting the most cost-effective energy efficiency and
2 demand-side management that is appropriate for Floridians. The
3 recently passed legislation gives the Commission the authority
4 to add programs to the ones the utilities have suggested, and
5 it provides specific authority to provide financial rewards for
6 achievement of goals and penalties for nonachievement.

7 Let me conclude by just leaving you with three points
8 on this issue. The first of which I have touched on, and that
9 is the suggestion that because decoupling has worked in some
10 jurisdictions and for some utilities does not make it right for
11 all jurisdictions and all utilities. And as I read the
12 literature, no advocate for decoupling has described it as
13 being critical to encouraging more energy efficiency or
14 conservation. Second, there is no compelling need for
15 decoupling in Florida at this time for the purpose of promoting
16 energy efficiency. And, finally, the fact that Florida has
17 been and continues to be a leader in energy efficiency and DSM
18 suggests that the Florida model has worked well. Additional
19 tools made available under the new legislation will enhance the
20 ability of this Commission to promote energy efficiency and to
21 ensure that Florida remains a leader.

22 That concludes what I have to say.

23 **MS. WEBB:** Thank you, Mrs. Clark.

24 At this time we would like to welcome Mr. John
25 McWhirter, who will be presenting on behalf of the Florida

1 Industrial Power Users Group.

2 **MR. McWHIRTER:** Thank you kindly.

3 I have entitled my talk as observations, because they
4 are essentially that rather than recommendations, but there is
5 a bit of a recommendation at the end. I find that I agree with
6 the factual concerns of the Natural Resource Defense Council,
7 but not with its conclusion. On the other hand, I agree with
8 the conclusion espoused by former Commissioner Clark, but not
9 necessarily with her factual considerations.

10 And I will address decoupling. I think we were all
11 facing the regulatory dilemma of how to reduce consumption
12 without adversely impacting the electric utility. And I think
13 you are going to find in my presentation that the words that I
14 have chosen may not be exactly what I wanted to say, so I will
15 try to straighten it out as I go along.

16 We don't necessarily wish to limit electric energy
17 consumption. Electric energy consumption comes about with
18 growth, and it comes about bringing to residential consumers
19 the ability to have more appliances and more efficient
20 appliances, and it brings to commerce and business the
21 opportunity to produce more products. And we have found that
22 electricity, especially at a point in time when we are going to
23 use electricity to propel our automobiles, is going to become
24 more and more important. So the idea of reducing consumption
25 is probably alien to the benefits of our potential future.

1 What we want to do is to reduce the consumption of
2 fossil fuels and the energy that is produced by those fossil
3 fuels. And in this respect, irrespective of what Commissioner
4 Clark has said, I think our utilities have not done a good job.
5 That was recently demonstrated by Florida Power and Light when
6 it came in with two new gas plants in Martin County and the
7 revision of the Canaveral operation. It found that it was
8 going to save consumers \$400 million a year in fuel costs. And
9 the reason it's going to do that is it is now going to
10 implement in 40-year-old utility plants efficiencies that have
11 been around for the last 15 years.

12 In the recent past with the combined cycle power
13 plant, the Btus of energy required to produce a kilowatt hour
14 of electricity was in the range of 10,000 to 10,500 Btus to
15 produce one kilowatt hour. In the early '90s with the combined
16 cycle plants, that was reduced down to the model today, which
17 is something like 7,500. Well, for the last 15 years, FPL has
18 been operating plants that are essentially obsolete, and the
19 reason they were doing that was because they could continue to
20 earn money on those plants, and they were still operating, and
21 the total cost of the energy flowed through to the customers,
22 so there was no incentive for a more efficient power plant.

23 The Department of Energy has done studies on energy
24 efficiency, and it concluded that about 62 percent of the cost
25 of energy going into a power plant is lost before it is

1 ultimately delivered to customers. Now, I hope that somebody
2 will challenge that, because I may well be wrong, but we know
3 it takes a lot more energy going into the power plant than the
4 end production.

5 So let's look at the decoupling solution itself on
6 the next slide. I guess I'm the one that can do that, huh?
7 Well, I turned it off altogether. That was the first slide.
8 The decoupling solution is to provide investor-owned electric
9 utilities with a guaranteed return irrespective of their
10 kilowatt hour sales. And that's nice. What we have done in
11 Florida, beginning in the 1970s when fuel costs went up, we
12 moved to cost-recovery clauses. And when you have
13 cost-recovery clauses, Mr. Weston mentioned this, but he didn't
14 know whether we had them in Florida or not. In Florida we have
15 them in spades.

16 With cost-recovery clauses, a utility is guaranteed
17 to recover its costs on certain activities. And those
18 activities are environmental improvements, fuel costs,
19 security, and just about any other concept that can be brought
20 to the fore and demonstrated as a novel cost. Now, when this
21 happens, consumers guarantee the full recovery of that cost,
22 and they guarantee it on a projected budget year, and then if
23 the costs aren't met that year, they are trued up the next
24 year.

25 What decoupling does -- and let's see where those

1 cost-recovery clauses have grown. I have monitored that for
2 the last five or six years, and they have continued to grow.
3 In the year 2007, the guaranteed cost-recovery clauses to the
4 investor-owned utilities provided 72 percent of their gross
5 revenue. This year it dropped down to 59 percent of their
6 gross revenue on their projected numbers, but now with the
7 midcourse corrections we are up to about 70 percent again. So
8 for every dollar that flows to the investor-owned utilities,
9 70 percent of that is through cost-recovery clauses, the rest
10 is through base rates.

11 And what decoupling does is guarantees the last
12 30 percent, or 25 percent as the case may be. So now what we
13 have is a utility which is guaranteed full recovery of its
14 volatile costs plus it's guaranteed a full recovery of the last
15 awarded return on its revenue in base rates. There have been a
16 series of base rate cases in the last 15 years, but each of
17 those base rate cases were brought about to reduce rates, not
18 to increase them. Even though they started out that way, as
19 Mrs. Clark pointed out to you, the rates went down. And that
20 is because the utilities were overrecovering, you know, through
21 their base rates.

22 The second decoupling solution is that if customers
23 do, in fact, reduce their consumption, they will get a rate
24 increase. The irony of decoupling is that if customers
25 increase their consumption, they will get a rate reduction

1 under the decoupling proposal.

2 The problem for decoupling to the investor-owned
3 utilities is that utilities earn their money based upon selling
4 stock and sharing with stockholders and encouraging investors.
5 Investors invest in an enterprise in anticipation of the
6 dividend yield they will receive and the growth in earnings
7 that they will see. Decoupling presents a problem for the
8 utilities because when their last rate case revenues were
9 frozen, either on the basis of revenue per customer or revenue
10 to the system, there is no growth in revenue. So it's going to
11 discourage investment in that utility, as I see it.

12 Now, I have used the word discourage -- I'm getting
13 ahead of myself here. I say down there that decoupling freezes
14 earnings growth. Well, I think that is probably true, because
15 it looks at the last rate case, and it says you are entitled to
16 continue earning that. Well, that is not too good for
17 consumers if the last rate case the earnings were established
18 at a rate of return on equity of 12.75 percent and in today's
19 market rate the prime rate is down to 5, the utility's return
20 on equity should go down somewhat, but decoupling freezes it in
21 there. So from the customers' viewpoint that's bad. From the
22 utility's viewpoint it is really bad, because they can't go
23 into the market and go to investors and say, look, we are going
24 to earn more money in the future. Because no matter how much
25 more electricity they sell, they are not going to have any

1 growth in earnings.

2 The only way they can do it is by laying off
3 employees, or as Mrs. Clark said, improving efficiency. And if
4 you have cost-recovery clauses you don't want to necessarily
5 improve efficiency, you want to continue running those old
6 plants at long as you can.

7 Now, decoupling will discourage utilities from making
8 more investment in more efficient power plants. What we have
9 had in Florida is you have a base rate case in which you
10 establish a revenue that is to be achieved from a given number
11 of customers, a return on investment that is set for that
12 period of time, the period of time we are using mostly now is
13 the period of time in the early 1990s. And it gives a rate,
14 and for every kilowatt hour consumed under that rate the
15 customers pay enough to pay for the power plant that was in
16 place in 1991, so when you had your last rate case, and unless
17 the surveillance report show that you are really earning out of
18 line, nothing happens. So if you continue to grow your sales,
19 you will continue to get more and more revenue -- this is what
20 the National Research Defense Council -- Resource Defense
21 Council has told you -- you get more and more revenue cover
22 less and less cost.

23 What happens with those power plants is they also
24 have a depreciation charge and that is locked into the rates.
25 So a power plant may be fully paid off, but it is still in the

1 rates that are charged in base rates, and that's why from time
2 to time we have base rate reductions in the last 20 years
3 because new power plants have not been built to any great
4 degree.

5 What has happened is they bought power from other
6 sources. And why would you do that, because that can be
7 recovered fully through the capacity cost-recovery clause. So
8 there is two big disincentives to building new more efficient
9 power plants, and those disincentives are if you build a power
10 plant you have got to use the revenue you are collecting for
11 base revenues through your base rates, and if you do that, then
12 your return on that revenue goes down and that is a
13 discouragement to investors. And if you buy from out of state,
14 or from an independent power producer, that goes through the
15 cost-recovery clause. So what happens is we continue to run
16 old and inefficient power plants. But that is quickly coming
17 to an end, because those old plants are wearing out, and we are
18 going to have a new series of base rate cases that will begin
19 probably next week with Tampa Electric, and then Florida
20 Progress will come shortly behind, and I think Gulf is in the
21 wings, and I don't know about FPL.

22 So I think decoupling is bad from the view point of
23 the investor-owned utilities. Florida consumers, and here I
24 represent a group of consumers, and I have attached as an
25 exhibit what Florida bills are as opposed to electric rates,

1 and Mr. Weston talked about bills, and that is what people are
2 really concerned about, especially residential consumers, and
3 very especially my clients, industrial consumers. And you
4 would ask why would somebody representing industrial consumers
5 come here and show the relative cost of the residential rate.
6 Well, I do that because that is where the politics meets the
7 road. Politicians are concerned about the impact on
8 residential customers, and the utility commission is concerned
9 about the impact on residential customers, the grocery stores
10 are concerned about -- well, everybody is concerned about the
11 impact on residential customers, because they are the people
12 that are the consumers and they buy the products that business
13 makes.

14 But what you will see here, this is an extract I have
15 taken from a DOE report in 2006. This is outdated because
16 rates have gone up through cost-recovery clauses since then,
17 and they don't report it until the spring after the year, so
18 things have changed. But what I have done here is looked at
19 the consumption, and I have looked at the average bill around
20 the country, and what you see going on there is there are about
21 3,500 utilities that make this report to the Department of
22 Energy, and of those 3,500 companies, Florida -- this is page
23 one near the top. You see Tampa Electric, Florida Power and
24 Light, and Progress Energy. That is before the most recent
25 increases.

1 The people that paid less -- even more for
2 electricity are people who are marketers out in Texas and got
3 into the regulatory scheme there that is giving them serious
4 problems that you may have read about in the Wall Street
5 Journal. But the electric bill is based primarily on
6 consumption and Florida consumes more. California may be
7 energy efficient, but they don't -- they use 500-kilowatt
8 hours. There is no California utility on the first page.
9 Finally, we get San Diego Gas and Electric, which is now called
10 Sempra. Almost a third of the way down is the first -- well,
11 no, Southern California Edison is up near the top of the second
12 page.

13 But look how many kilowatt hours the consumer out
14 there consumes, 601. And San Diego is 523. If go to San
15 Diego, there's a bill hotel out there that still doesn't have
16 air conditioning. It is because they have mild weather in
17 parts of California where they are served, and energy
18 efficiency is not a big deal for those customers. Their rates
19 are high because they cover fixed costs.

20 I'm getting beyond my time, so I will almost quit
21 now. The regulatory fallacy concerning decoupling is that the
22 utilities' return on rate base should be based upon the risk
23 investors assume. Well, if you get 70 percent of their cost
24 recovered through the cost-recovery clause, and now you get the
25 remaining 30 percent of the cost recovered through decoupling

1 with 100 percent of their cost recovered, and when you have six
2 or seven -- or a lot of customers, then the revenue required --
3 those customers are captive customers, they can't leave the
4 electric utility system. So the return that the utility ought
5 to receive is very close to the return that you get on risk
6 free government bonds.

7 So that's going to be a fallacy of decoupling for the
8 utility companies and for their consumers, because when you
9 have decoupling and 100 percent of the costs are guaranteed
10 rather than the opportunity to earn the revenue, what happens
11 is the return should go down commensurate with the reduction in
12 risk.

13 The Commission and the Legislature, I have already
14 talked about that. Shifting the return risk to customers will
15 offset most of the remaining -- well, that has all been talked
16 about. And here is a better solution. We had a professor from
17 the University of Florida who spoke to us, and what he
18 suggested was since there is a disincentive to utilities to
19 promote reduction in kilowatt hour sales because of the fact
20 that they lose money, and that has been vividly pointed out by
21 Mr. Martinez and by Mr. Weston, they want to promote sales.
22 And this is not a new idea. It was developed by Samuel Insul
23 in probably 1910 and brought to the floor by him in the 1920s.
24 He developed the model of the modern electric utility, and what
25 it is is to establish a central power plant, which part of our

1 energy efficiency programs are opposed to, and to supply and to
2 do things to encourage people to consume more electricity.

3 He bought the Chicago interurban in order to have
4 somebody to use electricity during the day time because it was
5 only being used at night, and so there was a disincentive. He
6 wanted to level out electrical consumption. And then they had
7 jingles to get people to buy refrigerators, and ice boxes, and
8 coffeemakers, and every other electrical appliance that you
9 could think of. And so he had sales growth going up, energy
10 going up, and encouragement to investors going up, and
11 decoupling will put a kibosh on additional electrical
12 consumption. So they don't want to do that.

13 But the problem we have in our cost-recovery clauses
14 and in the fuel clause, utilities have loaded into those
15 cost-recovery clauses things that normally would be recovered
16 through base rates. And so what we found out in the Florida
17 Power and Light midcourse correction case, which came up last
18 month, is its sales are going to go down by five million
19 megawatt hours this year they project. And as a result of
20 that, Florida Power and Light had to raise the rates
21 \$329 million. And I did a real head scratcher over that one.

22 If your fuel costs -- if your sales are going to go
23 down by that amount, your fuel costs for your most expensive
24 fuel is going to go down, why would you lose money? Well, the
25 reason is they have loaded all of these base rate items into

1 the cost-recovery clause. And so what has happened is when
2 consumption goes down they aren't able to recover the base rate
3 costs that are now shifted into the cost-recovery clauses. So
4 that is the real dilemma you face.

5 The professor from the University of Florida
6 suggested what we do is restructure the rates so that the fixed
7 costs and the demand costs will be fully covered through the
8 base charges. This is what they do with automobile rental
9 companies, that is what you do with the telephone company
10 today, that is what you do with water and sewer utilities. You
11 have a rate that covers your fixed costs, the rental you pay
12 for your car doesn't have anything to do with the gas you
13 consume in that car. And so then for your cost-recovery
14 clauses you just use pure fuel. And when people consume less,
15 the cost of fuel goes down. That's good. That's an
16 encouragement to customers.

17 But I don't think in this decoupling report you are
18 going to have a time in which the Commission is going to
19 restructure its rates, especially the residential rate. But
20 what we have is a great opportunity coming up because we have
21 rate cases coming up. The utilities are now beginning to build
22 new power plants. And when they build those new power plants,
23 they have to come in with base rate cases. So I would suggest
24 to you, as Mrs. Clark has suggested, let's don't do anything
25 about decoupling, let's wait until we can really go after rate

1 structure and do that in the next base rate cases that are
2 coming along. And thank you very much for your time.

3 **MS. WEBB:** Thank you, Mr. McWhirter.

4 At this time we would like to welcome Mr. Scott
5 Carter here with AGL Resources.

6 **MR. CARTER:** Thank you. And I did not do a
7 presentation. I did provide some backup material that I will
8 discuss through my oral comments about some of the things that
9 are happening around the country as well as initiatives coming
10 out of NARUC around decoupling.

11 You know, just to kind of build off of I think what
12 Mr. McWhirter said at the end of it, you know, fuel costs --
13 and I have to give you a natural gas perspective. I am
14 Vice-president of Regulatory Affairs with AGL Resources, and we
15 are a natural gas utility holding company. We operate in six
16 states.

17 We have experience with decoupling, and it can work,
18 it doesn't work in every situation. And what we find most
19 often is that every situation is different, and the way that
20 decoupling comes into effect, it's situational to that state,
21 to the climate in that state. What Mr. McWhirter was saying
22 was about fixed cost-recovery. In natural gas, we do get fuel
23 costs specifically through a volumetric weight, and pretty much
24 what decoupling is is really doing the other part of what he is
25 talking about, taking the fixed cost, the utility distribution

1 cost which does not vary with throughput, and recovering that
2 through a fixed mechanism.

3 Now, that can be a flat customer charge, that is a
4 form of decoupling, where you just charge everybody \$25 for
5 service, or it can be a mechanism that trues up on volume. And
6 I think that what Mr. Weston had went through earlier was a
7 good example of some of those various mechanisms.

8 I will try to keep my -- you know, a lot of things
9 have been said, so I will try to keep my comments short and on
10 point to decoupling, but whatever I say is really situational
11 to us and our experience and our beliefs, so what happens in
12 natural gas may not be applicable to electricity, and what
13 happens in one state may not be applicable to another state.
14 Those are all fair critiques of any plan when you are looking
15 across the footprint.

16 But, to simplify this thing, decoupling is just a
17 rate design. I mean, there is a mechanism that you determine
18 revenue requirement, and then you make rates to recover that,
19 and there are many ways to do that as you look around the
20 country. We have seen some of the examples of where volumetric
21 rates are used. Those are on some of the maps. And then there
22 is other mechanisms where there is flat charges, there are
23 true-up mechanisms, there are demand-based charges, so they
24 vary.

25 So when you look at the volumetric charge, and that

1 is really what you are talking about comparing here, which is a
2 volumetric charge mechanism to one that moves to something that
3 says your fixed cost-recovery of operating your utility, again,
4 what Mr. Weston said in the short run your cost of operating
5 the utility are generally fixed. Your fixed cost, moving that
6 to a fixed recovery mechanism, and it goes down to the very
7 simple premise of volumetric rates encourage a utility to sell
8 more product to increase its margin. Decoupled rates do not.

9 Decoupled rates says in general -- I will use a
10 generality -- but in general if you were authorized to recover
11 \$200 per customer per year through some mechanism, again,
12 either a flat charge, a true-up, or something else, you are
13 going to recover \$200 per customer. Your incentive then is not
14 to increase the throughputs. Your incentive is to focus on
15 your cost structure so that you can thereby effectuate your net
16 income.

17 Decoupling in all the instances that I have seen does
18 not result in a guarantee of net income. Alabama probably has
19 the closest mechanism to that. They have a true-up to a
20 return, but all other states that I have seen generally have a
21 true-up on the marginal line. So you are still at risk for all
22 of your fixed costs or all of the operating costs of the
23 distribution system whether that be a pipes (phonetic) or a
24 wireless business.

25 So we as an industry, and I am using natural gas as

1 an industry, and some of the things that we handed out, the
2 American Gas Association along with NRDC has issued two joint
3 statements to date on decoupling, on conservation, and a number
4 of measures that can be taken to effectuate true conservation
5 in our sector. Most recently in Portland about two weeks ago
6 NARUC issued a resolution that supported that second statement,
7 and that was on the heels of several other resolutions included
8 in the packet of statements that had been made previously
9 supporting conservation, supporting decoupling in the context
10 of that.

11 And that is generally what you have to focus on is
12 decoupling by itself is just a rate mechanism. So what is the
13 greater societal benefit that you are looking to get out of
14 that? Generally, it is coupled with conservation. Most
15 recently in Virginia, for example, legislation was passed again
16 based on their initiative around conservation that would allow
17 a utility to propose conservation, propose decoupling in the
18 context of that, to focus on environmental impacts, cost to
19 consumers, and ways that customers can actually conserve.

20 Recently, Virginia Natural Gas, which is the utility
21 we operate in Virginia, filed under that most recent
22 legislation a plan and that is before the Commission now to
23 decouple the rates, again, as part of an overall plan focused
24 on conservation for our customers. It doesn't work for all
25 customers necessarily. What we found in that state, and it's

1 generally true, is that sophisticated large users have
2 motivations around that as a cost center and their total profit
3 model, and so they are extremely focused on ways that they can
4 conserve their fuel. A lot of times residential customers and
5 small commercial users are not that attuned to what that cost
6 is and not that focused on how they can actually reduce their
7 consumption.

8 So therein steps in a third party, either a utility
9 or someone else that can come in and help them focus on that.
10 Part of that, again, the way we've looked at it is removing
11 that disincentive in the context of a total conservation
12 package.

13 We have talked through some of the difference forms
14 that decoupling can take. A fixed charge, a normalization
15 mechanism where, again, you get a surcharge or a credit if
16 actual usage is higher or lower than what was projected in a
17 case. And then you can also move to something that is to the
18 far end of the scale. Usually it doesn't even show up on these
19 graphs as far as a decoupling mechanism, and that is a straight
20 fixed variable rate design where it has no relation to usage
21 and it is totally focused on the customer. It looks like a
22 flat charge, but it has a demand component to it. That has
23 been in place in Georgia for about 15 years now.

24 So, again, that doesn't show up in the traditional
25 decoupling model, but it is out there. So there is many forms

1 of rate design. But, again, I will just reiterate that rate
2 design generally provides motivation. Mr. Weston talked about
3 all rates provide incentives, and so the question is what is
4 the incentive you are trying to drive the utility to.

5 I think it's important to note that what we are
6 talking about here is a general context of decoupling, and the
7 problem with talking in generalities is that you can generally
8 assume anything good or bad. And what we have found as we have
9 had experience with decoupling is that it is situational and we
10 have found that it is best to bring specific proposals that
11 are, in our view, are in the interest of our customers and have
12 that as a valid case before a Commission.

13 Often that means you tweak it. You have different
14 opinions about what is best for the customers, and I think you
15 have seen all of that today. And a fully vetted case will
16 allow you that opportunity. So I guess what I would just say
17 as you are looking at it, you know, I don't know if by look at
18 generalities you can necessarily endorse or condemn decoupling.
19 It is a rate design mechanism. It can fit in the context of a
20 greater societal benefit based on the interest of the state.
21 So I guess from my standpoint, what I would request is, and it
22 is not an endorsement or a condemnation of it, but it is rather
23 if I can bring forth a plan that I believe is good for my
24 customers, I would like to have that opportunity. That's it.
25 Thank you.

1 **MS. WEBB:** Thank you, Mr. Carter. For those of you
2 who are interested, we have been compiling a web page off of
3 the PSC Home Page where we have been placing all the decoupling
4 presentations and the agenda. If you go to the PSC Home Page
5 in the lower right corner there is a link there entitled
6 decoupling of Mr. -- the first two presenters, the
7 presentations that are available over on that side of the room
8 are already up on the web, and the materials that have been
9 handed out today will be on the web as soon as possible.

10 At this time, we would like to welcome Mr. George
11 Cavros to present on behalf of the Natural Resource Defense
12 Council.

13 **MR. CAVROS:** Good morning, and thanks for the
14 opportunity to address you today. I'm actually here today on
15 behalf of the Southern Alliance for Clean Energy, which has a
16 substantial membership in Florida, and is heavily invested in
17 energy efficiency solutions. Also, my comments are based today
18 on -- or rather my discussion today is based on some comments
19 that I gave to staff, and also there is about 20, about
20 20 copies extra sitting up there of the comments. I just got
21 them in today. I apologize for getting them in so late.

22 Thanks for the opportunity to speak with you and also
23 for holding this workshop pursuant to HB 7135 where the
24 legislature has asked us to look at revenue decoupling in order
25 to see if it can greatly capture greater energy efficiency in

1 Florida. And the discussion is important today because it also
2 provides an opportunity for us to discuss the overall energy
3 efficiency program approach in Florida. And I raised the issue
4 of the overall energy efficiency approach in Florida, because
5 decoupling is not a stand-alone efficiency policy, it is a tool
6 in the toolbox. It can undoubtedly help promote greater energy
7 efficiency by allying the interests of utility shareholders
8 with that of consumers if it is properly implemented.

9 Now, while decoupling successfully removes a
10 disincentive for an electric utility to pursue meaningful
11 energy efficiency, as was discussed previously, it does not
12 provide incentive to the electric utility to actively pursue
13 aggressive energy efficiency measures. And in order to realize
14 the full potential of decoupling, it should be complemented
15 with, number one, energy performance goals and, number two,
16 energy performance incentives focused to utilities. And the
17 states that have had substantial gains in energy efficiency
18 have been the states that have had a suite of these energy
19 efficiency tools, and the legislature has expressed a strong
20 intent to increase energy efficiency in Florida.

21 First of all, they want decoupling explored to see if
22 it can bring Florida greater energy efficiency. They also
23 place an emphasis on demand-side renewable measures in FEECA as
24 well as asking the Commission to reexamine the
25 cost-effectiveness test for energy efficiency measures. But in

1 Florida both consumers and utilities face challenges in tapping
2 our state's abundant energy efficiency and demand-side
3 renewable energy resources by tying the utilities' financial
4 health to earnings -- to the amount of energy sold rather than
5 the delivery of least-cost energy services, the current
6 regulatory structure sends the wrong economic signals to
7 utilities and discriminates against energy efficiency and
8 demand-side renewable energy.

9 And, you know, consumers face the same challenges, as
10 well, including a lack of information regarding the benefits of
11 energy efficiency, and high upfront costs for installing energy
12 efficiency programs, equipment, and measures. Policies for
13 demand-side renewable energy and utility led energy efficiency
14 should be judged on the degree to which it helps consumers
15 overcome these challenges. And as a result of these
16 challenges, Florida lags far behind other states in energy
17 savings.

18 As presented on Table 1, and I apologize for those of
19 you that don't have a copy of the comments, there are a few
20 more up there, but the state's largest utilities achieved
21 minimal results from energy efficiency programs operated in
22 2006 and 2007. The results show energy efficiency savings
23 levels, and that is annualized reductions in sales of
24 electricity resulting from program activity in that stated year
25 of well below the one percent annual savings goal that is

1 widely acceptable as a benchmark for demonstrating leadership
2 in energy efficiency. The energy efficiency range for
3 investor-owned utilities range from one-tenth of a percent to
4 two-tenths of a percent, and that was in 2006 and 2007. This
5 is an indication that the Florida model is not working well.

6 The Florida utilities, to their credit, do a very
7 good job of shifting load around, but this table indicates that
8 we have a long way to go on actual energy efficiency measures.
9 The first and most immediate step the Commission could take to
10 improve energy efficiency performance in Florida and to require
11 utilities to -- it should be to require utilities to implement
12 all cost-effective energy efficiency.

13 Currently, the Commission policy uses the rate impact
14 measure test as a cost-effectiveness test as the ultimate
15 screen for energy efficiency measures. This test measures
16 short-term rate impacts as opposed to longer term economic
17 benefits to the whole body of ratepayers from an energy
18 efficiency measure, and the Legislature has expressed its
19 intent in HB 7135 for the Commission to find alternatives to
20 this test by stating, "In establishing the goals, the
21 Commission shall take into consideration the costs and benefits
22 to the general body of ratepayers as a whole."

23 And I would like to urge the Commission at this time
24 and the Commission staff to establish cost-effectiveness, to
25 establish the cost-effectiveness test as the first order of

1 business in the upcoming FEECA goal-setting proceedings.
2 Because without a clear signal from the Commission identifying
3 the appropriate cost-effectiveness test early in the
4 proceedings, the goal setting proceedings are going to devolve
5 into a protracted debate over the cost-effectiveness test and
6 which one we should be using as opposed to actually setting
7 goals for the next ten years. And we believe the Legislature's
8 intent is best realized through the use of the total resource
9 cost test because it more effectively measures the benefits to
10 the general body of ratepayers as a whole.

11 And, secondly, we generally favor decoupling revenue
12 from sales as a straightforward approach to breaking the link
13 between utility sales and the recovery of fixed costs and
14 profits. Decoupling is consistent with Florida's traditional
15 cost-based regulation, or the use of annual true-ups to align
16 costs and revenue is a standard approach, and the end result is
17 that utilities should no longer have an incentive to maximize
18 their sales because the rate of return does not change within
19 the revenue requirement, nor is there a disincentive to promote
20 efficiency. Decoupling should have the effect of stabilizing
21 the revenue stream of the utility because its revenues are no
22 longer dependent on sales.

23 And there is a number of variations in how the
24 computations can be done. The true-up mechanism is
25 symmetrical. So if sales increase, rates drop in the next

1 period, and if sales decrease, rates increase to compensate.
2 So, therefore, decoupling removes the risk to utilities that
3 they will underrecover fixed costs, but at the same time it
4 removes the risk to consumers that utilities will overrecover.

5 An alternative to decoupling is a lost revenue
6 adjustment mechanism, and they are designed to enable the
7 utility to adjust its rates to recover only those lost margins
8 that result when its efficiency programs cause a reduction in
9 sales. Now, it may not be the best approach for addressing the
10 impact of energy efficiency programs on sales. First, it
11 presumes that the effects of utility energy conservation
12 initiatives on utility sales can be easily distinguished and
13 disaggregated from the effects of external conservation factors
14 on those sales such as naturally incurring improvements in
15 efficiency.

16 It can often be hard to precisely identify the effect
17 of reductions from utility energy efficiency on utility sales.
18 They are also not very effective at addressing net lost
19 revenues due to government efficiency standards or renewable
20 energy portfolio standards of reducing the harm to consumers as
21 well that results from utility overrecovery of fixed costs.

22 So we feel that decoupling addresses these concerns
23 directly and more effectively. There also have to be
24 performance and goals, and the Legislature did give some
25 direction on this, and maybe we will raise that in the second

1 half of the discussion. But it's important to note that
2 removing the financial disincentive created by the current rate
3 structure does not provide the utility with a positive
4 incentive to pursue aggressive energy efficiency because it
5 doesn't offer an additional benefit to the utility. Therefore,
6 it may be appropriate for a utility to receive financial
7 incentives if it performs well in achieving energy efficiency
8 goals.

9 And the incentives used in other jurisdictions
10 include share savings, which the Legislature has also alluded
11 to in HB 7135, and possibly, you know, penalties for poor
12 performance for not reaching the goals. You know, for
13 instance, I will use Connecticut as an example. They look back
14 at the past years results relative to the established goals and
15 determine a performance incentive that can be anywhere from
16 1 to 8 percent of program costs for achieving or exceeding
17 established goals.

18 And, of course, goals are very important, because you
19 need a metric by which to measure the energy efficiency
20 performance. And to date most U.S. investor-owned utilities do
21 not operate a comprehensive suite of conservation policy
22 programs without a defined mandate. We have often endorsed an
23 energy efficiency resource standard requiring utilities to meet
24 a minimum percentage of their load with energy efficiency.
25 They are a very effective tool. As was stated earlier, New

1 York, New Jersey, and California also have aggressive energy
2 efficiency goals. And obviously we have the FEECA process
3 coming up where goals are determined. In the legislation, the
4 Legislature in House Bill 7135 also gave some guidance on
5 possibly authorizing a greater rate of return on certain -- if
6 the utilities hit certain targets, and maybe hopefully we can
7 discuss that in the afternoon, as well.

8 Table 2 shows the type of savings that can be
9 achieved with a full suite of energy policy tools, including
10 decoupling in many cases. And if you look at that table,
11 there's utilities in other states that are realizing energy
12 efficiency savings, anywhere from 1 percent to 3 percent of
13 sales. And this is in stark contrast to the energy efficiency
14 gains that we are realizing in Florida.

15 And I would like to take just one more minute, if I
16 could, to address some criticisms of decoupling. First of all,
17 critics of decoupling often mischaracterize decoupling as
18 guaranteeing a utility a revenue stream paid by consumers
19 regardless of how much power they use. This is, again, a
20 mischaracterization because the revenue stream and the utility
21 costs are not certain. And, you know, only in a theoretical
22 case where costs are certain and not subject to control can
23 this statement be true. However, decoupling provides an even
24 greater cost control incentive because the effects of poor cost
25 control are not masked by growth-driven revenue increases.

1 Because decoupling affects only revenues, the utility remains
2 at risk for any changes to cost. In other words, this puts
3 more pressure on utilities to manage their costs.

4 Secondly, some other critics are concerned that
5 decoupling sends an inappropriate price signal to customers
6 when a portion of their bill goes up, even though they are
7 making the effort to conserve. And this is understandable and
8 this effect is real, but it is also insignificant. Consumers
9 who invest in energy efficiency can reduce their energy bills
10 by as much as 30 percent or more. And in contrast, the modest
11 adjustments to their bills due to decoupling are unlikely to
12 fluctuate more than maybe one percent to four percent tops.
13 And the fluctuations can actually go in either direction.

14 And it is also important to note that such
15 fluctuations pale in comparison to the recent rate impacts of
16 new nuclear power capital costs or natural gas fuel charges
17 that have been imposed on ratepayers recently. Given the
18 relative size of bill savings and rate adjustments, we don't
19 believe that -- we don't believe that a small incremental
20 increase in customer utility bills will disincentivize them
21 from pursuing energy efficiency. Therefore, we recommend to
22 the Commission that they indicate in the report due on
23 January 1st to the Legislature a properly implemented revenue
24 decoupling policy that includes aggressive energy efficiency
25 performance goals and targets will make Florida a leader in

1 energy efficiency and in the process transform our local
2 utility companies from being mere sellers of electricity to
3 being providers of the most cost-effective energy services.

4 Thank you.

5 **MS. WEBB:** Thank you, Mr. Cavros.

6 And as we mentioned previously, I will mention it
7 again, any materials you were unable to receive today will be
8 available on our website following this workshop.

9 At this time, we would like to welcome Mr. Joe
10 McGlothlin from the Office of Public Counsel.

11 **MR. MCGLOTHLIN:** I'm Joe McGlothlin with the Office
12 of Public Counsel. I have a few brief comments.

13 As other presenters have demonstrated, the concept of
14 decoupling when implemented can take many forms, and our office
15 will be involved in evaluating whatever specific proposals are
16 put forward. But it is fair to say that at least preliminarily
17 our office has not seen a formulation of decoupling that, in
18 our view, is in the customers' interest.

19 To that statement I will add just a couple of points
20 that arise as a result of the some of the earlier
21 presentations. There has been a lot of emphasis on severing
22 relationships, and I'd like to point out that one relationship
23 that it is impossible to sever is the relationship between risk
24 and return. The lower the business risk of the utility, the
25 lower the return that will be necessary to compensate it for

1 that risk.

2 And I took a few notes on one of the earlier
3 presentations to illustrate that decoupling has the effect of
4 reducing business risk. There are references to allowed
5 revenues, immune revenue levels, assured recovery, insulated
6 revenues, and protection against changes in weather and
7 economic downturns. To each of those proposals, if they
8 surface in a specific decoupling mechanism, should be attached
9 this question, what is the corresponding impact on the required
10 return and how can that be factored into the system such that
11 customers are protected and realize the effect of a lower
12 business risk.

13 Another premise that we think is problematic and
14 warrants further scrutiny is the assumption that the
15 relationship between costs and revenues that is used in
16 quantifying the revenue level to be assured on an ongoing basis
17 is that the assumption is that that is a given over time, when
18 experience has demonstrated that the relationship between costs
19 and revenues is dynamic, such that, for instance, if over time
20 a utility is able to implement technology or productivity
21 measures that lower its costs, customers should be entitled to
22 the benefit of those measures.

23 These are examples of the types of things that we
24 think warrant careful consideration as more specific proposals
25 are put forward. That's all I have today. Thank you.

1 **MS. WEBB:** Thank you, Mr. McGlothlin.

2 At this point we are transitioning to our open
3 discussion. We encourage anybody who has something to say
4 today to please come forward to a microphone. And, again,
5 please identify yourself before speaking each time that you
6 speak.

7 If we may get started, we would like to cover Section
8 III.a., objectives of decoupling. We would like to start the
9 conversation by asking the crowd what is the intention of
10 revenue decoupling. We heard some ideas from the presenters
11 this morning, but if anybody would like to expand on that we
12 would like to hear that now.

13 Some of the ideas we heard this morning, at least one
14 presenter mentioned ensuring revenues. We heard some
15 disagreement with that. We also heard reducing disincentive to
16 promote energy efficiency, but some mentioned that that does
17 not necessarily provide an incentive.

18 Any further comments at this time?

19 Okay. I guess we have on the record everything we
20 need to know for that point. We will move on to the next,
21 methods of revenue decoupling. Primary decoupling mechanisms.
22 Mr. Martinez mentioned revenue per customer. I believe JoAnn
23 has a question she would like to ask on that.

24 **MS. CHASE:** Mr. Martinez, I was wondering if you
25 could just elaborate on what you mean. You made some sort of

1 statement about you could adjust the revenue by having new
2 customers come on-line in a system. What were you referring to
3 there?

4 **MR. MARTINEZ:** Sure. Under a revenue per customer
5 mechanism you basically do the same simple decoupling process,
6 you true-up to allowed revenues, but you adjust based on how
7 many new customers come into the system. And that can be done
8 in a number of different ways. I think in New York the way it
9 is being envisioned you would have two separate steps. One,
10 you look at kind of taken in revenues versus allowed, and you
11 true-up. And, two, you look at the customer numbers. And the
12 whole idea is to give the utility an incentive to acquire new
13 customers and to cover its costs of new customers. But if you
14 have new customers, there is an additional amount per customer
15 that the utility would be allowed to recover basically to
16 provide an incentive for new customers or to cover costs of
17 additional customers.

18 **MS. CHASE:** Okay. So you wouldn't be looking at just
19 the gross revenue, you would be taking into account the
20 customer growth and so forth?

21 **MR. MARTINEZ:** Yes.

22 **MS. CHASE:** What about the other way, if they are
23 actually reducing customers?

24 **MR. MARTINEZ:** Likewise.

25 **MS. CHASE:** Same thing?

1 **MR. MARTINEZ:** Yes.

2 **MR. WESTON:** This is Rick Weston. May I jump in?

3 **MS. WEBB:** Absolutely, Mr. Weston.

4 **MR. WESTON:** I would just point the questioner to the
5 appendix in my slides, starting on, I think, Slide 13 or 14
6 which shows just a general decoupling example mathematically,
7 and then shows how the revenue per customer method would be
8 done. Again, they are simplified examples, but I think it may
9 help you see how the adjustments are made for numbers of
10 customers.

11 **MS. WEBB:** Thank you, Mr. Weston.

12 **MR. WESTON:** Yes.

13 **MS. WEBB:** Mr. Martinez, I apologize, you said during
14 your presentation that there were two primary methods and the
15 one that I caught was the revenue per customer. Did you
16 mention the other, as well, or did I misunderstand you?

17 **MR. MARTINEZ:** I may have misspoken, then. I think
18 there is, you know, there is one primary method, it is just a
19 true-up to allowed revenues that you do, you know, on some
20 degree of frequency, either monthly, quarterly, yearly. We
21 prefer it be done with a greater degree of frequency, but
22 there's adjustments that you could make to that if you would
23 like to normalize for weather, if you would like to have some
24 sort of adjustment for economic growth, some sort of economic
25 indicator. If you want to have an adjustment for customer

1 growth. But they are all kind of adjustments to the same base
2 decoupling mechanism. I hope that's correct, Rick.

3 **MR. WESTON:** Yes, that is correct. The question you
4 are really asking, Ms. Webb, is how do you calculate the
5 revenues. The adjustments to actual revenues and, you know,
6 for allowed revenues, those adjustments are going to be made as
7 Luis suggests, you do it on a monthly, quarterly, or whatever
8 basis. The question you really are getting at is how are we
9 setting -- how are we determining allowed revenues.

10 In the case of a revenue per customer mechanism, you
11 are adjusting allowed revenues for the actual number of
12 customers. Under other decoupling mechanisms, such as in
13 California and as was originally proposed by National Grid in
14 Massachusetts, alternative methods are used. In the case of
15 National Grid, it is essentially a series of projected future
16 test years, three years of test years. The first year was
17 something like \$525 million, the next year was 540 million, and
18 the third year was 560, and those were the allowed revenues in
19 the proposal. How they got there was through, you know, doing
20 future test year analyses. But, again, it was an allowed
21 revenue amount, and it accounted for what they felt were the
22 drivers of their costs.

23 **MS. WEBB:** So am I correct to understand that there
24 are no set recipes for decoupling, it's determining what is
25 most appropriate for your jurisdiction, is that correct?

1 **MR. WESTON:** Well, there is no set recipe for
2 determining allowed revenues nor is there a set recipe for
3 determining when the adjustments will be made. But as a
4 general matter, you want to make the adjustments on a regular
5 basis. You probably want to reduce the lag time between the
6 collection of revenues and the adjustment. But, yes, you're
7 right.

8 In the case of Baltimore Gas and Electric and Pepco,
9 these are revenue per customer decoupling mechanisms. In the
10 case of Green Mountain Power in Vermont, it is essentially a
11 projected test year amount. It is a test year adjusted for
12 productivity and inflation is essentially how it works on a
13 multiyear basis.

14 **MR. MARTINEZ:** If I could jump in on that just a
15 quick second. I mean, in my experience, revenues are just
16 determined the same exact way that they have been traditionally
17 in each state under standard rate cases. So they go through a
18 formal rate case to determine revenues and after that they
19 would implement a true-up mechanism to stick to those. But
20 they use whatever formula was used in the state.

21 **MR. WESTON:** That's true, Luis, but while we are
22 talking about multiyear or a longer period revenue decoupling
23 mechanism, if you put a mechanism in place for three years, you
24 may want to adjust that first year revenue requirement by other
25 factors, such as productivity and inflation. That was merely

1 my point. But, yes, the fundamental analysis that starts off
2 the decoupling regime is a soup-to-nuts rate case, just like
3 you do now.

4 **MR. McWHIRTER:** Could I ask Mr. Weston a question?

5 In Florida, we have significant cost-recovery
6 clauses. It looks to me like your presentation was essentially
7 addressing base rates where there would be lost revenue if
8 sales fall off and excess revenues if they are excessive. But
9 with cost-recovery clauses we true them up every year and those
10 cost-recovery clauses have in them items that cover utility
11 investments and give the utilities a return on their
12 investments, et cetera. Would it be fair to say that insofar
13 as cost-recovery items are covered in Florida, we already have
14 decoupling?

15 **MR. WESTON:** I would have to take a look at what the
16 mechanisms are and just how they work, so I can't say that it
17 is fair to say that. But if there is a mechanism that
18 assures -- I use that word guardedly -- assures that the
19 utility will receive only those dollars that it should receive
20 relative to that cost item, in a sense that's a form of
21 decoupling.

22 To the extent that there are nonbase rate
23 adjustments, power cost adjustments and things like that, that
24 is outside of what I was talking about. You're right, I was
25 talking about base rates or the wires only portion of the

1 business. To the extent that there are adjustments to the
2 wires-only portion of the business, well, then there may be, in
3 effect, limited decoupling mechanisms for those cost items.

4 If you were to go to a full decoupling regime for
5 base rates, those things that are adjusted in base rates
6 through these additional adjustment mechanisms would very
7 likely no longer be needed. They would be fully accounted for
8 in the full decoupling mechanism. This question came up, by
9 the way, in Minnesota. And if Florida is similar to Minnesota
10 in this respect, then what I say is correct.

11 **MR. JACOBS:** Good morning. This is Leon Jacobs, and
12 I have two things.

13 One is a comment, and then I would like to ask Mr.
14 Weston for some further comment on part of his presentation.
15 And really I guess this more appropriately goes to your first
16 question. I apologize, I should have come up first as to the
17 intent of decoupling.

18 It strikes me that we come to this exercise largely
19 by the prompting of the Legislature and by the policy directive
20 of the Commission. There is an overwhelming objective that in
21 this state the electric industry needs to diversify its fuel
22 sources, and it needs to determine what the most cost-effective
23 measures or means are to do that. In the context of that,
24 there is the idea, a proposed idea that there are no more
25 resources on the demand-side which can have an important impact

1 and effect in accomplishing those legislative goals. Whereas
2 in this state, we traditionally rely almost exclusive on
3 supply-side resources to accomplish our energy demands or to
4 meet our energy demand.

5 I think we are in an exercise, and we are at a point
6 of time of really fundamentally determining to what extent the
7 formula between demand-side and supply-side resources is
8 appropriate. And consistent with the discussion earlier, what
9 is the most cost-effective way of doing that. So I would
10 suggest to you that we should approach decoupling in the
11 context of that debate.

12 Mr. Weston's presentation had some important cites
13 about these transitions in models, regulatory models that are
14 addressed. One in particular was the idea of a least-cost
15 analysis, a least-cost approach to electricity planning. I
16 would be very interested in his thoughts about to what extent
17 that process is in place in Florida today or is appropriate for
18 Florida in addressing this question.

19 **MR. WESTON:** Sure. Thanks, Mr. Jacobs.

20 I actually don't have a answer to that. I don't
21 know. I'm not familiar enough with the state of integrated
22 resource planning and how it works through the regulatory
23 process in Florida. My understanding -- my recollection,
24 forgive me -- is that you do have an integrated resource
25 planning requirement in Florida, and energy efficiency programs

1 are evaluated under it, and the cost-effectiveness test that
2 you apply affect how much energy efficiency you get. And there
3 are a variety of cost-effectiveness tests for energy
4 efficiency, and depending on which test you use, you will get
5 more or less that is deemed to be cost-effective.

6 My point in raising the least-cost imperative was
7 merely to say what I think we all understand, and many of the
8 speakers have alluded to this, and that is that there are
9 actions that can be taken to reduce the total cost that Florida
10 and its consumers see for meeting their electricity energy
11 needs that will have a deleterious effect upon the utility.
12 And what we are interested in is in breaking down those
13 barriers so that good outcomes occur without harming the
14 utility financially.

15 And so decoupling is one -- as one speaker mentioned,
16 and I fully agree with -- is one in a suite of policies that
17 the state ought to consider for assuring that the utilities'
18 financial interests are aligned with the broader public policy
19 goals. You know, least-cost action, reduced energy costs for
20 desired levels of service. We are not talking about reducing
21 consumption for the sake of reducing consumption, we are
22 talking about using the energy we have much more efficiently to
23 the benefit of consumers, economically and environmentally. So
24 that was really the context in which I put that.

25 **MR. JACOBS:** Thank you.

1 **MR. WESTON:** Thank you.

2 **MS. WEBB:** In keeping with what we were speaking
3 about a few moments ago, we would like for someone to comment
4 on whether more frequent base rate case review would moderate
5 the effects that increased sales between the rate cases have
6 had on revenue growth. Does that go without saying?

7 **MR. McWHIRTER:** Everybody hates rate cases. That
8 goes without saying. Except lawyers, lawyers really like rate
9 cases.

10 **MS. CHASE:** So I guess what you are saying is that
11 there are competing goals here, then. It might have that
12 impact of mitigating the effect, but more frequent rate cases
13 brings with it other --

14 **MR. McWHIRTER:** I think we have already got
15 decoupling in place for 70 percent of the utilities' revenues.
16 Everything comes through the cost-recovery clauses. It
17 includes costs other than fuel in the fuel clause, et cetera,
18 et cetera. So what you might want to look at is how is
19 decoupling -- how is that very broad decoupling activity
20 working? Is it working to the satisfaction of customers and
21 the utilities now? And maybe you can do that without a base
22 rate case.

23 With respect to base rate cases, there was
24 legislation in place that required utilities to file minimum
25 filing requirements at least every four years that was

1 repealed. When they did a sunset of the Public Service
2 Commission a number of years ago, they put that in place. You
3 get more when minimum filing requirements are filed than you do
4 with the normal surveillance report.

5 My suggestion would be that if you are more
6 aggressive with your auditing of surveillance reports to
7 trigger activities that may be causing base rates to be too
8 high, that should be sufficient without triggering base rate
9 cases all the time.

10 **MS. CHASE:** Well, without a base rate case, how could
11 the Commission address your proposal of the change in rate
12 design? Wouldn't a rate case be needed for that?

13 **MR. McWHIRTER:** Yes. Well, you could change a rate
14 structure, but I think because rate cases generally come about
15 when expensive power plants are built, and we haven't built
16 serious power plants in quite awhile, but now we are into that
17 phase again. The nuclear plant, they have been able to avoid a
18 base rate case in that connection, but I think you are going to
19 see base rate cases come in and you will have a chance to look
20 at rate structures and whether the rate structures are
21 satisfactory to recover fixed costs and also consumption costs.
22 And if you can make consumption costs relate only to fuel,
23 then -- or really variable expenses, then people really will
24 conserve because they will see that as a clear way to reduce
25 their electric bill.

1 One of the problems we have got in Florida, and I
2 didn't emphasize this, is a serious customer hardship problem.
3 And when you have as many foreclosures as we have got and as
4 many discontinuance notices going out, there is not too much
5 more you can do to the typical residential customer without
6 creating serious turmoil. So this needs to really be studied
7 carefully.

8 **MS. CHASE:** Does anybody have any comments or
9 reaction to Mr. McWhirter's suggestion that the way
10 the adjustment clauses work really actually is maybe a form of
11 decoupling in Florida? Does anybody have a reaction to that,
12 agreeing or disagreeing?

13 Ms. Clark.

14 **MS. CLARK:** JoAnn, this is Susan. I would only
15 comment that those -- I think I would disagree a little bit
16 with Mr. McWhirter's characterization as I saw it as
17 guaranteeing a return. These are just a flow through of the
18 costs for those items that are largely beyond the control of
19 the utility, and I think it has worked well in terms of
20 reducing the need for rate cases, which as he pointed out is
21 sometimes not a good thing. So I think that -- I guess in some
22 sense it is a decoupling, but I think the reasons for it are
23 different than what is being suggested here.

24 **MS. CHASE:** Okay.

25 **MR. WESTON:** May I? This is Rick, again; may I jump

1 in? This question was asked of me earlier, and I have given a
2 little thought to it, a little more thought to it. Again, I
3 haven't studied how the mechanisms work in Florida, but I would
4 ask this question in looking at them, and that is how do the
5 mechanisms actually work, and, indeed, does the utility make or
6 lose money with the mechanism. If it is purely a pass-through
7 of actual costs, that's one thing. But there are a number of
8 fuel adjustment clauses around the country that actually have
9 interesting side effects. We can get into this. We have
10 written -- one of the papers that I mentioned at the end of my
11 presentation actually gets into this issue, but there are some
12 fuel adjustments clauses that work based on average fuel costs
13 in a period, and that actually can have a lot of effects and
14 utilities can actually make or lose money through such clauses.

15 Without getting into the detail of it here, I just
16 want folks to be thinking about how the clause actually works
17 relative to the costs it's intended to cover, before you can
18 make a determination as to whether it is, you know, sort of a
19 partial -- excuse me, a limited decoupling mechanism.

20 **MS. WEBB:** Mr. Carter, I believe, did you have your
21 hand up at one point?

22 **MR. CARTER:** Yes. I just wanted to comment on the
23 question about decoupling in the context of the frequency of a
24 rate case. And you have got to consider that a rate case
25 really thinks about what your margin is doing, your cost

1 structure, as well as the greater economic circumstance, at
2 least your cost of capital. In all of that, if you hold
3 everything else constant but the margin, if you are in a
4 situation of increasing use per customer, yes, bringing it down
5 to a decoupled level means you are going to reduce that margin
6 growth, and all else being equal, you would have a more recent,
7 more frequent rate case.

8 However, if you are putting things more in context of
9 conservation, and, again, where you would expect to see
10 actually a net decrease in consumption, and so you would have
11 lower overall usage on average, by decoupling that and making
12 that margin at a more stable level, then you should have less
13 frequent rate cases. So it is really in the context of what is
14 happening absent the decoupling from a customer usage
15 standpoint.

16 **MR. JACOBS:** This is Leon Jacobs, again. I want to
17 echo the comments that Rick made, again. And I want to, if I
18 can, focus on one particular example. As I understand it,
19 right now the way the Commission looks at and determines
20 whether or not an energy efficiency measure is cost-effective
21 is that it determines what the level of revenue that will be
22 lost by that utility as a cost for implementing that measure.

23 In my mind, this speaks very clearly, in my mind, to
24 the danger of looking too narrowly of what you want to do with
25 decoupling. If all you want to do is look at the bottom line

1 revenue impact to the utility, that is one thing. But I would
2 suggest to you that if you were to do a really complete
3 analysis, you would probably find, I think, there is evidence
4 before this Commission that if a utility were to look at some
5 of these energy efficiency measures and back away from the idea
6 that cost of lost sales, they would find ways to make money by
7 putting in those energy efficiencies and thus lower the overall
8 operating costs. So, in that instance, you are going to
9 implement the bottom line, but you are doing it through a more
10 robust, and I would suggest to you a broader perspective of
11 what decoupling is attempting to accomplish.

12 If you only look at it from the standpoint that every
13 quiver of revenue disruption has to be adjusted immediately by
14 a decoupling reaction, then I think that is one thing. But if
15 you are looking at it from the overall long-run perspective of
16 how that utility can evolve and actually grow in the context of
17 the state energy planning, I think there are some incredible
18 opportunities here, particularly if you look at how we now
19 evaluate energy efficiency. And I would highly suggest to you
20 that if you look at more of a long-run perspective, if you look
21 legitimately at what is available to the marketplace now in
22 terms of these efficiency and conservation measures, I think
23 you will find ways that if you don't count that lost revenue as
24 a cost-effectiveness, that you look at maybe a decoupling kind
25 of mechanism to adjust for that, you will find ways to reduce

1 overall costs for those utilities. And I think that has
2 actually been borne out maybe in some areas of the country. I
3 stand to be corrected, but I think that that experience has
4 actually been borne out by the utilities in other areas of the
5 country that have taken that kind of a broad-based approach.

6 **MS. WEBB:** Do we have any comments or reactions to
7 Mr. Jacobs' comments?

8 Does anyone have any more points they would like to
9 bring up in regards to objectives or methods of decoupling
10 before we go on to application?

11 **MR. CAVROS:** I just wanted to make one comment.

12 **MS. WEBB:** Yes, sir.

13 **MR. CAVROS:** Mr. McWhirter had mentioned sort of the
14 inability of the rate base to handle any more -- any more
15 increases. And, you know, the rate base has been hit with
16 quite a few rate impacts and upcoming rate impacts from fuel
17 charges, from new plant construction, which are in the \$7 a
18 month range to \$9 a month range, and that is just for new
19 construction. So, you know, if there is a mild increase, an
20 incremental increase in rates to customers of maybe one
21 percent, two percent of their bill, that would be pretty much
22 insignificant. And to sort of deny that, I think, is really
23 unjustifiable, you know, given the fact that the other rate
24 impacts that they are being hit with. And the rate impacts
25 associated with energy efficiency implementation will actually

1 help them lower their bills by allowing them to invest more in
2 energy efficiency, where the other rate impacts for new
3 generation and fuel costs do nothing to help them lower their
4 bills.

5 **MS. WEBB:** All right. Getting down to a little more
6 finer detail. The decoupling method, regardless of the type,
7 should that apply to all customer rate classes or selected
8 customer rate classes? Do we have anybody who would like to
9 speak as to how a decoupling mechanism should be structured?

10 **MR. McWHIRTER:** In Order 95-0097, the one that Mrs.
11 Clark referred to, the Florida Power Corporation order
12 approving decoupling, it shows only the residential class.
13 And, of course, that pleased my clients, who were industrial
14 and large commercial customers, but the reason that we thought
15 was appropriate is because the rate structures for larger
16 customers have a demand component and an energy component. And
17 the utility is able to recover its fixed costs or should -- the
18 demand charge should be set so that the fixed costs applicable
19 to that class of customers are covered through the demand
20 charge. And when that happens, the energy charge is reduced,
21 but the rest of the story is that you track costs more
22 appropriately.

23 If you move to the residential class, you have a
24 fairly modest customer charge that covers the meter and that
25 pot that is on the pole in front of your house, and then you

1 have an energy consumption charge that covers all of the other
2 operations of the utility. It's generating plants, it's
3 transmission lines, it's distribution lines and so forth. And
4 that modest customer cost doesn't give anything towards those
5 fixed costs. So the utility must collect those fixed costs and
6 it does that through an energy consumption rate.

7 When utilities were first regulated, they had what
8 they called the Hopkinson rate design. It was called a
9 declining block rate. And when a customer consumed
10 600-kilowatt hours of electricity, they said, now, that
11 customer has recovered all the fixed costs that are
12 applicability to that customer, and, therefore, we reduce the
13 energy charge for the remaining costs.

14 In the 1970s, the declining block rate was eliminated
15 and the Commission went to a flat rate across the board. In
16 the last few years you have gone to an inverted rate so that
17 the more you consume the more you pay, and the larger
18 residential customers subsidize the people that consume 1,000
19 kilowatt hours or less because they don't pay their full cost.
20 And the problem with that is you have large families in
21 uninsulated homes that have a lot of washing and they are the
22 ones that really get hit by the inverted rates, whereas if I
23 have a condominium unit that I only use three months out of the
24 year, I get the benefit of the lower rate.

25 And so I think if you did what the automobile

1 companies that are in competition move to, which is they charge
2 you \$50 a day to rent the car, but that covers the fixed cost
3 of that car and you take care of the gas, or they will take
4 care of the gas when you come back and charge it to you. That
5 way, if a customer only goes five miles with his rental car, he
6 has covered the rental car company's full cost, and if you put
7 that on a customer that drove 1,000 miles with that rental car,
8 the guy that only used it five miles would be renting cars all
9 the time because he could get them for an el cheapo rate based
10 on the miles he drove, whereas people that use the cars to go
11 on a tourist trip would be discouraged from doing it.

12 Telephone is the same way. They have gotten away
13 from the minutes charge. When you do water and sewer rates,
14 you have a base facilities charge. It gives a utility a return
15 on its investment in pipes and the treatment plant. In those
16 rates the consumption charge should be lower.

17 I have gone on more than I should, but I'm trying to
18 suggest to you that it's appropriate at this time for customers
19 that have rates based upon their demand, you don't need to do
20 decoupling with them, because most of their energy cost is
21 closer to the variable cost, whereas with customers whose bill
22 is based on consumption, that's where decoupling should come
23 in, if at all. But I recommend that it not come in. That what
24 you do is restructure those rates so that the utility gets a
25 fair return from the customer for its investment in all of its

1 facilities for that customer.

2 **MS. CLARK:** This is Susan Clark. I just wanted to
3 make sort of a general comment regarding C, all of C and the
4 subquestions that you have there, the application of
5 decoupling. And I think I would harken back to what Mr. Carter
6 said that there should be no wholesale endorsement of
7 decoupling. That it really does depend on the specific
8 proposal and the company who has made that proposal. And I
9 think then all of these questions would relate to the proposal
10 and frankly what you are trying to accomplish by that proposal.

11 I am a little -- and I would say the Florida
12 experience was it did only apply to residential. There were
13 mechanisms in there to address customer growth, economic
14 conditions, weather conditions, and frankly it got rather
15 complicated because you are trying to draw it so narrowly so it
16 really is tied to the energy efficiency that it made it a
17 complicated mechanism, I think.

18 One of the things that I'm not clear on and wanted to
19 comment on specifically is the three Is, what would be the new
20 revenue driver if profits are decoupled from sales. And I'm
21 not sure I understand that. I don't think the revenue driver
22 is different. You still want to cover your expenses, a
23 reasonable -- a return of your investment and the return on
24 your investment. So what dictates the level of revenue does
25 not change. And that's why maybe I have misunderstood what you

1 are looking for here. I guess I don't have any specific
2 responses to these questions, because I think it does depend on
3 a specific proposal from a specific company as to how you would
4 answer these things.

5 **MS. WEBB:** Thank you.

6 I wanted to mention to your first point, we are not
7 providing any type of endorsement, we are merely fact finding
8 and want to understand the nature of a decoupling proposal.
9 But your points are well taken regarding the revenue driver.

10 If I understand correctly, the forecasts that are
11 present at the time a decoupling proposal would be implemented
12 are frozen in time and the revenues are based upon that, as
13 they existed at the time the mechanism was implemented, is that
14 correct? I want to make sure that I understand all of the
15 characterizations made.

16 **MS. CLARK:** I'm sorry, Karen, would you say that
17 again?

18 **MS. WEBB:** If a decoupling mechanism is established
19 and implemented, whatever projections were made for revenues at
20 that time, those are frozen in time and that there is no
21 revenue driver because projections are frozen as they were
22 previously. Is that correct?

23 **MS. CLARK:** I guess -- let me state it another way.
24 The revenues that you would target for recovering from
25 customers may, in fact, go up when you have more customers or

1 other factors. So I guess what I'm suggesting is the revenue
2 number would change from year to year.

3 **MS. CHASE:** I think another point on that, on the
4 third one there, the new revenue driver, the way that it works
5 now without, of course, any decoupling mechanism, if a utility
6 between rate cases is able to increase their sales and control
7 costs, then profits do go up. But if you put in a mechanism
8 where the sales -- where that won't have that impact because
9 the decoupling mechanism would work both ways. One of the
10 slides that one of the presenters had showed that. Then what
11 is the driver to a utility? What is the incentive to a
12 utility? Is it to control costs, continuing to control costs?
13 Is it no longer to try to increase sales? I think we are
14 trying to get at that. Does anybody --

15 **MS. WEBB:** And at what point does energy efficiency
16 come in.

17 **MS. CHASE:** Right.

18 **UNIDENTIFIED SPEAKER:** I will take a first crack at
19 it. The driver behind it becomes certainly a decoupling from
20 sales. The incentive is on cost management. As the example
21 that Mr. Weston put out, it is still on adding customers
22 because it is trued-up on a margin per customer basis. But
23 then as customers change, then that margin in total dollars can
24 go up or down based on customer count change. So you still
25 have the incentive to add customers and deploy capital at a

1 rate that those customers that come on the system are paying at
2 or above system average so that you are enhancing that system.
3 But very much a focus on efficiency of your middle line costs
4 which are user controllable costs, your O&M of operating your
5 distribution or wire system.

6 **MS. WEBB:** Is there anyone that advocates that a
7 purpose of decoupling is to flourish energy efficiency
8 programs, or anyone that believes that implementing DSM becomes
9 a driver for the utility after the implementation of
10 decoupling?

11 We are discussing the nature of what becomes a driver
12 for the utility if decoupling is implemented, and it was stated
13 that the utility would then focus on cost management and adding
14 new customers if they had decoupling applied. My question is
15 is there anyone who advocates that utilities are then motivated
16 to implement DSM programs and energy efficiency?

17 **MR. MARTINEZ:** And you mean that absent any explicit
18 requirement on the utility or any financial penalty or reward
19 for it?

20 **MS. WEBB:** Yes. Does anyone believe that decoupling
21 does provide an incentive for DSM and energy efficiency?

22 **MR. MARTINEZ:** Based on what I said in my
23 presentation, and what I said was it removes the disincentive,
24 although it doesn't provide an explicit incentive for an energy
25 efficiency. That would need to be a separate hopefully

1 parallel process where you provide an incentive or a
2 requirement for the utility to acquire energy efficiency.

3 And just to finish answering number three, the new
4 revenue driver, it is to manage cost, and in a lot of places
5 there is also a performance-based reward for reliability and
6 for customer service. So there is an additional focus on those
7 two. I'm not sure if they exist in Florida, but a lot of
8 places do have them in place. So the focus shifts from
9 additional sales to limiting costs, reliability, and customer
10 service, quality of customer service.

11 **MS. CHASE:** I think a lot of the presentations did
12 touch on many of the things that we have listed here in c.
13 But, in general, does anybody have anything to add to what was
14 said today that would help address some of the questions that
15 we have listed here? Any other general comments or anything
16 specific they want to add to this?

17 **MR. WESTON:** This is Rick Weston. I would only
18 reiterate -- I would only encourage you, again, to take a look
19 at our Minnesota report. Many of the comments that have been
20 made today, and all of these questions I believe in some way or
21 another are addressed in that report, and it spares you having
22 to listen to me if you read the report.

23 **MS. WEBB:** If no one has any other comments on the
24 application of decoupling, then, we will move on to impact
25 identification.

1 Mr. McWhirter.

2 **MR. McWHIRTER:** Let me pose a query. It has been my
3 observation, which may be totally incorrect, that where you
4 have a rustbelt state where there is not much growth, and
5 growth and sales are falling off, utilities in those states and
6 perhaps regulators in those states would prefer decoupling.
7 Utilities in Florida have resisted it because it locks in
8 revenue at a level as it was at the last rate case.

9 In the 1995 Florida Power order, they tried to
10 address this. What do we do about more customers coming in,
11 because a lot more customers were coming in, and should you
12 reduce the charge per customer that you anticipate receiving
13 when these new customers come in? The compromise was made
14 that, no, for the three-year test period as new customers come
15 in, Florida Progress, Florida Power at that time will get the
16 benefit of the revenue from those customers and we will not
17 apply revenue decoupling. Then with respect to weather, they
18 moved the total cost of weather changes, the risk of that to
19 customers and away from the utility. So that was a win in the
20 settlement for the utility.

21 And the third thing they did was, well, what about
22 the economy. And if the economy goes bad and sales fall off,
23 do we still apply decoupling? And what the Commission ruled in
24 the '95 order for the test period was what we will do is look
25 at what's going on in the national economy reports, and if

1 people can afford it, we will pass it through. But if they
2 can't, we won't.

3 And so most of the things that have been talked about
4 today were covered in that very thorough order, the '95 order.
5 And the funny thing is we don't see anything happen after the
6 end of the study. There's nothing in the public record that
7 says why the decoupling was abandoned. And I think it would be
8 very helpful to your studies if you would get the audit reports
9 that were done and get the analyses that were done of why that
10 decoupling program failed. Maybe you already know and it is
11 just not in the public record.

12 **MR. WESTON:** If I may -- this is Rick again. If I
13 may jump in and respond to a couple of those points. I think
14 you are right that you can gauge -- you can predict a utility's
15 reaction to decoupling by taking a look at certain ratios. For
16 example, if a utility's customers -- and we are talking in this
17 case about revenue per customer decoupling. If a utility's
18 revenues -- excuse me, customers are growing at a greater rate
19 than their sales per customer, one might conclude that a
20 utility would be interested in a revenue per customer
21 decoupling mechanism. And that if their sales are growing at a
22 greater rate than their number of customers, they may be
23 interested in continuing under a traditional regulatory regime
24 or some other form of regulation that rewards them for
25 increased sales.

1 But I would suggest that that prediction shouldn't be
2 the key factor, if a factor at all, in your decision to adopt a
3 decoupling mechanism. Ultimately, the question is what are the
4 public policy goals that you want to advance and does
5 decoupling help you advance them. And if the answer is no,
6 well, then you do something else. But I think that's the
7 question you want to ask.

8 Certainly one of the components of that public policy
9 analysis will be, you know, how do we assure that the utility
10 continues to provide safe, adequate, reliable service and earn
11 a fair rate of return, absolutely. But the fundamental
12 question is, I think, what are the public policy goals we are
13 trying to achieve in the electric industry and how do we do
14 that.

15 I would add, as well, oh, gosh, one other point,
16 which has just escaped me in this moment, so I'm going to have
17 to stop. There is another point you made, and it just escaped
18 me. When it comes back, I'll jump back in. I'm sorry.

19 **MS. CHASE:** Mr. Weston, this is JoAnn Chase with
20 staff, and I thank you for that comment, because that is
21 absolutely correct. Whatever the Commission might do with
22 decoupling, the first step is the public policy. Why does the
23 Commission if it wants to -- why would they want to do
24 decoupling, and then based on that they would address how do
25 you look at growth, what do you do to adjust growth if you want

1 to, or the weather, or the economy. So I do thank you for
2 that. That is obviously the number one step.

3 **MR. WESTON:** And I have just remembered the other
4 point I wanted to make, if I may. I hope I'm not keeping us
5 from getting to lunch. My other point is related to this, and
6 that question is -- and I didn't address it directly in my
7 presentation because I didn't have time, but our report does
8 and other work that we have done does, and I would be more than
9 happy to help you think about it. And that question is what
10 risks do you want the utility and the customers to bear?

11 I have been talking generically about full
12 decoupling. And in full decoupling weather risk, economic
13 risk, any risk affecting sales levels is removed. Not only is
14 it removed for the utility, not only are these risks removed
15 for the utility, and this is very important, they are removed,
16 eliminated for the customer, as well. This one requires some
17 thinking and some, you know, deliberation. But if under full
18 decoupling what you have said is it doesn't matter what the
19 sales levels are, these are the revenues you are going to get.
20 And, again, we are talking about revenues, not profits. And
21 the profitability of the company will depend upon its ability
22 to manage its costs within that budget, and that is a good
23 thing. We still want that incentive, certainly.

24 But if what you said is these are the revenues and
25 they will not be affected by changes in sales, what you have

1 said effectively is weather and the economy are not going to be
2 factors. They are not going to be risks that the company faces
3 but neither are they for the customer. And let me just
4 explain.

5 In a hot summer and a cool winter, I suspect this is
6 generally true in Florida. It is certainly true in the
7 northeast and in the northwest and midwest. In a hot summer
8 and in a cool winter, sales, utility sales, electric sales are
9 higher than they would be in a cool summer and a warm winter,
10 okay? And when we do rate cases and full cost of service, we
11 do it on a weather normalized basis. So, again, if it is a
12 warmer than normal summer and a cooler than normal winter, the
13 utility will collect more revenues than it would otherwise. If
14 it is a cooler summer than normal and a warmer winter than
15 normal, they will collect -- the utility will collect less
16 revenues than they would under a weather normalized situation.

17 Decoupling effectively treats all years as weather
18 normalized and says that's it, there will be no weather risk.
19 The utility will neither lose money nor make money associated
20 with changes in weather, and the customers will neither pay
21 more nor pay less as a consequence of changes in weather.

22 So I just raise this as something to think about, but
23 the fundamental question is what risks do you want the
24 customers and the utility to bear, and do you think that under
25 traditional regulation the utilities and the customers are

1 better off bearing those risks the way they do or is there
2 perhaps a better way of handling them.

3 Sorry to go on. I realize we are probably headed for
4 the lunch hour, so forgive me.

5 **MS. WEBB:** Would anyone like to address Mr. Weston's
6 comment on what risks you would want the utility and the
7 customer to bear?

8 **MR. MCGLOTHLIN:** Well, this is Joe McGlothlin of OPC.
9 Mr. Weston, I don't know if we can cover this ground in this
10 informal setting with you on the telephone, but I'm at a loss
11 to understand how you can eliminate risk of weather or economy
12 from both the utility and the customer. That's going to take a
13 bit more explanation.

14 **MR. WESTON:** And I would be happy at any time to sit
15 down and chat with you about it either through e-mail, on the
16 telephone, and if it make sense to get together personally.
17 Our report to Minnesota goes through this in some detail, so I
18 would suggest you start there, but I would be more than happy
19 to chat with you or anyone in the room. Feel free to call me.

20 **MS. WEBB:** And in response to Mr. Weston's question
21 about lunch, if it is acceptable to all those in attendance
22 today, we are nearing the end of our planned questions for this
23 workshop, so unless there are any objections we can push
24 through and finish early today. It appears that there are no
25 objections.

1 If all comments have been received on application of
2 decoupling, we will move on to impact identification, and we
3 can start the conversation on this with sort of a lump sum of
4 all the questions. If anyone has any comments they would like
5 to make on expected impacts of a decoupling mechanism.

6 **MS. CLARK:** I just want to harken back to something
7 that I indicated in the prepared remarks. I think one of the
8 things that you need to be careful about and think about in a
9 decoupling is by removing the disincentive for the utility, are
10 you creating a disincentive to customers. And I think that
11 gets somewhat glossed over in these conversations, and I think
12 what is forgotten is we are talking about customers doing
13 things, things located on customer premises. And you have to
14 have a willing customer to do that, and they have to see an
15 advantage in doing that. And, you know, if, depending on how
16 you set it up, they don't see enough of a differential in their
17 bills by doing it, they won't be incented to employ these
18 measures.

19 And I think I would also say keep in mind that
20 conservation isn't just the responsibility of the utility, it's
21 also the customer that needs to look at it and determine what
22 is best for them, and pursue those measures that benefit them,
23 maybe regardless of what incentive they may get from the
24 utility.

25 **MS. WEBB:** Mr. Cavros.

1 **MR. CAVROS:** Yes. I had mentioned earlier in my
2 comments that in the other states that have used the suite of
3 policies, the impact to ratepayer bills have been very modest,
4 anywhere from one percent to four percent. And I don't know if
5 the question assumes that there is no other energy efficiency
6 policy in place or whether the question assumes that revenue
7 decoupling is sort of a stand-alone tool. But if there are
8 other energy efficiency policies in place that drive some
9 incentive on the part of the utilities to encourage customers
10 to invest in energy efficiency, you know, I think the customers
11 can see dramatic decreases in their electricity rates.

12 And the problem customers have is they don't have
13 good information, and they don't have appropriate incentives to
14 invest in energy efficiency. And decoupling coupled with
15 policies that promote energy efficiency, some sort of
16 performance targets and some sort of incentives on behalf of
17 the utility, will encourage the utility to get that information
18 to the customer so they can implement those products and adopt
19 those measures. And especially, you know, if there is greater
20 incentives involved you will see a higher rate of adoption
21 among the rate base.

22 So, you know, I don't see where the confusion would
23 come in with, you know, with the customer if decoupling was
24 coupled with energy performance targets and energy performance
25 incentives.

1 **MS. WEBB:** Do you think that impacts on a customer
2 would be lessened if decoupling was taken as part of a suite or
3 heightened, and in which ways?

4 **MR. CAVROS:** I'm not sure. I'm going to defer to
5 someone else who wants to take that question.

6 **MS. WEBB:** Mr. Martinez.

7 **MR. MARTINEZ:** Sure, I can take a shot at it: It
8 impacts on the customer bill as part of the suite of programs,
9 including decoupling and energy efficiency, is that the
10 question? I'm just trying to get some more --

11 **MS. WEBB:** Yes, or if there is another scenario you
12 would like to mention. Somebody, I believe it might have been
13 you, was talking about renewable portfolio standards.
14 Decoupling stand-alone or as a suite of options, how would the
15 impacts differ on a customer?

16 **MR. MARTINEZ:** I mean, we generally advocate for
17 decoupling as part of a suite of policies aimed at reducing
18 bills via energy efficiency. And the outcome that we see and
19 the outcome that we expect to see is reductions in bills by
20 energy efficiency investments. By itself, decoupling, like I
21 mentioned before, reduces or eliminates a disincentive, but it
22 is not a great incentive for the utility. For the customer, I
23 don't expect to see much change, if any, on their bills or
24 rates. It's just depending on -- I would say on average, I
25 wouldn't expect to see much change at all.

1 So we do advocate for it as part of a suite of
2 policies. Basically as part of decoupling and an energy
3 efficiency procurement requirement on the utility, giving them
4 an opportunity to earn some incentives, penalties, or rewards
5 for performance.

6 **MS. CHASE:** Mr. Martinez, this is JoAnn Chase with
7 staff. Is your point that even with decoupling, which will
8 increase the rate if it is passed through to the customer, that
9 they see a benefit because their bills are going to go down
10 because of conservation, because of efficiencies that they have
11 implemented?

12 **MR. MARTINEZ:** I got lost in the first part of your
13 question. I'm not sure decoupling would increase rates. I
14 mean, if the utility is selling above forecast, it would
15 decrease rates because they would -- you would take those extra
16 sales from the utility and give them back to customers. And if
17 it is below forecast, then it would increase rates on the
18 following year, because you add that surcharge. So I would say
19 decoupling by itself on average wouldn't -- you wouldn't see
20 much of a change at all on rates or bills.

21 **MS. CHASE:** Unless there was long-term or consistent
22 conservation by the customers and efficiencies, then there
23 would be a reduction.

24 **MR. MARTINEZ:** Then there would probably be an
25 increase in rates and a decrease in bills.

1 **MS. CHASE:** And a decrease in bills.

2 **MR. MARTINEZ:** Yes.

3 **MS. CHASE:** Okay. Now, for the customers that don't
4 take advantage or don't participate in conservation programs,
5 what is the impact on them?

6 **MR. MARTINEZ:** That is a harder one to answer,
7 because I have basically thought about it from the perspective
8 of just a T&D utility, so just a wires company, and on gas.
9 Basically, the way we answer this question when we are talking
10 about gas utilities that are just pipes, if you reduce overall
11 gas consumption, there's plenty of reports that say that you
12 will reduce the price of gas. So consumers, even when they
13 don't engage in conservation measures, can still see a benefit
14 from decoupling from a reduced price of the fuel. But taking
15 it to other fuels, or looking at a completely integrated
16 utility, I haven't thought about it enough.

17 **MS. CHASE:** Okay, thank you.

18 **MR. CAVROS:** I would like to add to that response, if
19 I could, unless Mr. McWhirter wanted to add specifically to
20 that response.

21 **MR. McWHIRTER:** Go ahead.

22 **MR. CAVROS:** Okay, thanks. I imagine your question
23 was getting to cross-subsidization, is that correct? Okay.
24 Most of the times when you have participation by some members
25 of a class and not by others you are going to have some amount

1 of cross-subsidization. And, you know, that may be reflected
2 in -- for instance, I will give you an example. You know,
3 maybe going to a different, you know, cost-effectiveness test.

4 Right now we use the rate impact measure. If we go
5 to a different test that looks at the benefit to the whole
6 ratepayer base as opposed to just individual consumers who are
7 nonparticipants, what other states have found is that there has
8 been a greater good to the whole rate base that exceeds the
9 rate impact to an individual, an individual consumer. So I
10 think the best way to answer that is that there will be some
11 nonparticipants in any utility program, but that the benefit to
12 the whole rate base far exceeds that impact.

13 **MR. McWHIRTER:** John McWhirter, again. A comment or
14 two. My opinion, which may be incorrect, is that about
15 70 percent of the revenue paid by Florida customers is already
16 covered by decoupling because it's in the cost-recovery clause.
17 So what we are really talking about here is the impact of
18 customers in base rates, so are you going to make some kind of
19 adjustment in base rates. And there the issue is if sales fall
20 off, the utility will collect less base rates than it would
21 otherwise if we conserve, and then will that have an impact on
22 customers?

23 Well, the answer to that is as long as the utility is
24 earning within the range of reasonableness, which now runs from
25 about 10 percent to 12.75 percent, then there should be no

1 impact on customers, so the conserving customer would benefit
2 by a lower electric bill and the other customers wouldn't be
3 hurt by it. Unfortunately, in the '95 order, the Commission
4 said that it wouldn't look at that. It would allow the utility
5 to recover even though it was recovering in excess of the
6 authorized limit of the range of reasonableness, which was
7 difficult for me to understand, and that program failed anyway.

8 So base rates should be no impact on customers if the
9 utility is earning satisfactorily, but then with cost-recovery
10 that's an intriguing issue. Look at Gulf Power. The
11 Commission has approved an environmental program for
12 potentially \$1.2 billion, and that's more than I think Gulf
13 Power's existing rate base. So right now about \$1.2 billion in
14 environmental costs are going to begin to flow through the
15 environmental clause, and they are going to flow through on the
16 basis of kilowatt hour consumption. And when and if that
17 happens, if some customers conserve, what's going to happen is
18 all the other customers are going to pick up the lost revenue
19 for the capital investment and environmental activities; and in
20 addition to that, the people who conserved are also going to
21 face a rate increase because their base bill on the energy they
22 do consume will go up.

23 So I think in your study what you ought to do is look
24 at not only the base rates, I think that's pretty easy to
25 solve, but look at cost-recovery. Look specifically at

1 environmental cost where there are a lot of capital costs, but
2 not much energy costs, and find out what's going to happen.
3 And you can do a pretty easy study. You can look at existing
4 sales and what would happen if sales fall off. And the
5 terrible irony of decoupling comes into play if people
6 disregard conservation and consume even more, then their rates
7 will go down with respect to those fixed cost elements.

8 **MS. WEBB:** Mr. Cavros, you had a follow-up comment?

9 **MR. CAVROS:** Yes. Actually I have a follow-up
10 comment to my own comment. But what I wanted to stress is that
11 in relation to my last comment is that even though there may be
12 short-term rate impacts to nonparticipants, the general
13 ratepayer body as a whole is better served by aggressive energy
14 efficiency implementation, because it's widely held that energy
15 efficiency measures are about one-third to one-fourth the cost
16 of new generation capital costs in meeting demand. So what you
17 are doing is by investing in energy efficiency, all
18 cost-effective energy efficiency, you are deferring the
19 construction of new generation units which benefits the whole
20 body of ratepayers.

21 **MS. WEBB:** Would someone please provide for me a time
22 frame of what might be considered short-term effects and what
23 might be considered long-term effects? Is this three years, or
24 ten years, or more than that?

25 Would it be fair to say that five years would be a

1 good number of years to consider any short-term ratepayer
2 impacts? Because Mr. Cavros was saying he expected in the
3 short-term there might be ratepayer impacts, but in the
4 long-term it would be beneficial to the general body of
5 ratepayers. If anyone had a guesstimate on what that
6 demarcation might be, I would like to hear that.

7 **MR. CAVROS:** I'm just going to take a guesstimate,
8 but it would be at the point where the energy efficiency
9 measures are out in the field, the products are out in the
10 field and being used. So, assuming, you know, aggressive
11 promotion of energy efficiency measures by the utilities to
12 their rate base it could be -- and maybe some someone from the
13 utility would like to answer this, but I imagine you could
14 start seeing results in several years.

15 **MS. WEBB:** Maybe the short answer is as soon as
16 possible.

17 **UNIDENTIFIED SPEAKER:** This will be totally wrong,
18 but one way to think about it is, again, just going back as a
19 reference point to the filing we made in Virginia. We looked
20 at payback periods on investment and efficiency, and those vary
21 between you know, six months, two years, seven years. The
22 point at which your investment in that crosses over into a
23 benefit. So it's very situational, I would say, but I would
24 certainly look at it in the context of the cost and when that
25 cost transforms over into a net benefit is probably the break

1 point from a short-term -- whatever the short-term cost is to
2 the long-term benefit.

3 And if I was guessing, you know, three to five years
4 is probably a reasonable range. That's just a gut check.

5 **MS. WEBB:** Thank you. Does anyone have any other
6 comments they would like to make in regards to impact
7 identification on either customers or utilities? All right.

8 **MS. CLARK:** Karen, I'm not sure it's a comment with
9 respect to the impact identification. Maybe it is with respect
10 to the last. I think everyone who might advocate decoupling
11 has stated that it's not enough to promote energy efficiency,
12 that you have to have goals, as well. And we are, as I
13 indicated in my remarks, setting about getting new goals and
14 doing the groundwork to determine what those goals should be.
15 And it is not clear to me how doing decoupling will change
16 those goals in any way. And so I think that's important to
17 think about. At least for Florida, is it something that will
18 help promote more energy efficiency?

19 **MS. WEBB:** All right. Well, we thank you all for
20 being a part of our discussion today. A transcript of this
21 workshop will be available two weeks from today, that's
22 Thursday, August 21st. We ask those of you who choose to
23 submit written comments, please do so by Friday, August 29th,
24 so that staff may begin to include those in the analysis for
25 the report.

1 Please submit all your questions and comments to
2 either me, Karen Webb, or Mark Futrell. I believe you have our
3 contact information. I am regularly the one that sends out the
4 e-mails to those of you who have signed our sign-up sheet in
5 the past.

6 And as we discussed earlier, all the presentations
7 and materials that were provided today will be available on the
8 PSC Website. Thank you very much, and have a good rest of your
9 day.

10 * * * * *

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

STATE OF FLORIDA)

 :

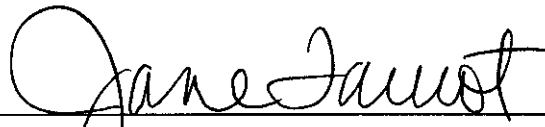
COUNTY OF LEON)

CERTIFICATE OF REPORTER

I, JANE FAUROT, RPR, Chief, Office of Commission Clerk, do hereby certify that the foregoing proceedings, Pages 1 through 104, was transcribed from digital recording.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED 19th day of August, 2008.



JANE FAUROT, RPR
Office of Commission Clerk
(850) 413-6732