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GULF POWER
A SOUTHERN COMPANY

September 30, 2014

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 130202-EI

Dear Ms. Stauffer:

Attached is Gulf Power Company's Post-Hearing Brief and Statement of Issues and Positions to be filed in the above-referenced docket. Pursuant to the Order Establishing Procedure, a copy of this Post-Hearing Brief prepared using Microsoft Word is being provided to Commission staff and parties.

Sincerely,

Robert L. McGee, Jr.

Robert L. McGee, Jr.
Regulatory and Pricing Manager

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Attachments

cc: Beggs & Lane
Jeffrey A. Stone, Esq.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Commission review of numeric conservation goals (Gulf Power Company) /	Docket No.: 130202-EI Filed: September 30, 2014

POST-HEARING BRIEF AND STATEMENT OF ISSUES AND POSITIONS OF GULF POWER COMPANY

Gulf Power Company, ("Gulf Power," "Gulf," or "the Company"), by and through its undersigned attorneys, files the following as its post-hearing brief and post-hearing Statement of Issues and Positions in this proceeding pursuant to Order No. PSC-14-0356-PHO-EU and Rule 28-106.215, Florida Administrative Code ("F.A.C.").

GENERAL DISCUSSION

Gulf Power's proposed demand-side management ("DSM") goals represent the total cost-effective winter and summer peak MW demand reductions and annual GWh savings which are reasonably achievable in Gulf Power's service area for the period 2015 through 2024. [Tr. 814] The Company's proposed goals are consistent with the fundamental legal requirements of the Florida Energy Efficiency and Conservation Act ("FEECA"), the Commission's rules, and are the product of a thorough and deliberative process which spanned nearly one year. [Tr. 820-31] To be sure, Gulf's proposed goals are lower than its current goals and the goals proposed by the Company in the 2009 goals proceeding. [Tr. 851] This is entirely appropriate for a number of reasons. For example, in the 2009 goals proceeding Gulf's next planned generating unit need occurred in 2014. [Tr. 815] In the instant proceeding, Gulf's next projected need does not occur until 2023. [Id.] The timing of a utility's generation need affects the utility's avoided cost calculations which, in turn, affect the amount of DSM which is found to be cost-effective. Generally speaking, as a need moves out in time, less DSM will be cost-effective. The magnitude of Gulf's proposed goals is also a function of newer, more efficient, building codes and appliance efficiency standards. [Tr. 851] These new standards reduce the potential energy savings that Gulf can achieve through DSM programs. [Id.] Finally, Gulf's proposed goals are based on the achievable potential of measures passing the Rate Impact Measure ("RIM") test which mitigates upward rate pressure for all customers and avoids cross-subsidies between participating and non-participating customers. [Tr. 815] The objective of this proceeding is not to establish goals based on comparisons to other states or on how much DSM is theoretically achievable, but instead, how much DSM is cost-effective for Gulf's customers as a whole. [Tr. 852] Gulf's proposed goals achieve this objective.

The starting point in establishing DSM goals is to determine the technical potential for DSM savings in a utility's service area. In order to ensure the consistency and integrity of the process used to develop the technical potential underlying Gulf's proposed goals, Gulf and the other FEECA utilities worked collaboratively to update the technical potential study performed on behalf of the FEECA utilities by a well-respected expert, Itron, Inc. ("Itron"), in connection with the 2009 goal setting proceedings. [Tr. 821] As noted in the Commission's Order Consolidating Dockets and Establishing Procedure dated August 19, 2013, the parties and Commission Staff agreed during a publicly noticed conference on June 17, 2013 that it would be appropriate to "update" the Itron technical potential study rather than performing an entirely new study. See, Order No. PSC-13-0386-PCO-EU at p. 2 The rigorous technical potential study developed by Itron was the product of a time-tested methodology which included relevant and verifiable end-use baseline and measure cost/savings data. Gulf Power's update to the technical potential study was equally rigorous. [Tr. 821-23]

After developing its technical potential, the Company performed additional analyses to develop its economic and ultimately its achievable potential, which formed the basis for the Company's proposed DSM goals. These analyses conformed in all respects to FEECA and the Commission's goal-setting rule, 25-17.0021, F.A.C. [Tr. 833-37] Gulf Power's proposed goals were derived using the RIM and Participant's tests. [Tr. 814] Use of the RIM and Participant's tests will enable Gulf to achieve considerable DSM savings in a way that places downward pressure on rates and that benefits Gulf Power's general body of customers as a whole—not just participants in DSM programs. [Tr. 835-36] The same cannot be said of the Total Resource Cost ("TRC") test. While the goals proposed by Gulf do pass both the RIM and TRC tests, relying solely on the TRC test for goal setting purposes will result in upward rate pressure for all customers and cross-subsidization of DSM program participants by non-participants, including many low-income customers. [Tr. 825-26]

Compare the FEECA utilities' analysis to the approaches advocated by the Southern Alliance for Clean Energy ("SACE"), the Sierra Club ("Sierra Club") and the Environmental Defense Fund ("EDF") (collectively the "Environmental Intervenors") in this proceeding. The Environmental Intervenor witnesses did not perform any state or utility-specific studies or analysis. [Tr. 1620-21] Instead, they offered generalized, misplaced and sometimes misleading criticisms of the Commission's goals setting policies and the FEECA utilities' analyses. Sierra Club and SACE employed a "back of the envelope" arbitrary approach to proposing goals. [Tr. 1620-21] They did not base their proposed goals on any analysis of what would be reasonably achievable in Florida, but rather on the bare assumption that because a handful of purportedly "leading" jurisdictions aspire to save approximately one percent of electricity sales each year, then a similar goal must necessarily be appropriate for Florida. [Id.] While simplistic in its appeal, this arbitrary approach fails to meet the requirements of section 366.82, Florida Statutes and Rule 25-17.0021, Florida Administrative Code. [Id.] Section 366.82(3) requires evaluation of the full technical potential of available energy efficiency and demand-side renewable measures and consideration of four specific criteria in establishing goals. Rule 25-17.0021(1), in turn, requires that goals be "based on an estimate of total cost-effective kilowatt and kilowatt-hour savings reasonably achievable through demand-side management in each utility's service area." [Id.] This rule also requires consideration of building codes which are specific to Florida, free riders and specific market segments and end-use categories. [Id.] The intervenors' proposed goals are not based on the criteria set forth in the statute or rule, but rather on an arbitrary percentage of sales. [Id.] The simplistic nature of the proposed goals was laid bare when SACE witness Mims was asked why SACE's proposed goals did not account for free-riders. Ms. Mims explained that: "[i]t's benchmarking, which I know is contentious, but I believe it's appropriate to look around the southeast and see what the other utilities are doing and say that Florida can reach that level, the Florida utilities can reach that level of efficiency and can ramp up." [Tr. 1055] This superficial approach to goal setting ignores many significant factors that differ between states including climates, regulatory frameworks, utility rates, building codes, utility planning processes and historical DSM achievements. [Tr. 1622]

Tellingly, the intervenors did not offer any quantification of the substantial cost impacts to Florida's ratepayers if their proposals were adopted, or any analysis suggesting that approaches adopted by other jurisdictions like Vermont, California and Massachusetts would be workable or appropriate for a state like Florida. Sierra Club witness Woolf readily acknowledges that his proposals would result in rate increases. [Tr. 1164] SACE witness Mims goes further to suggest that she believes that consideration of cross-subsidization is "irrelevant" in establishing energy efficiency goals. [Tr. 1048] These assertions are incredible and serve to further underscore these parties' indifference to the financial impacts that their policy recommendations will have on utility customers throughout the State of Florida.

The FEECA utilities used a two-year payback criterion to screen for free riders—customers who would implement efficiency measures in the absence of a utility incentive. [Tr. 828] Rule 25-17.0021(3) specifically requires that free riders be considered in setting goals. The two-year payback criterion was initially accepted by the Commission as a means of reducing free riders in Order No. PSC-94-1313-

FOF-EG and has been relied upon in subsequent goal-setting proceedings. Screening of measures having a customer payback of two years or less is an objective, reasonable and efficient means of reducing free-ridership. [Tr. 1628]

With respect to demand-side renewables, Gulf does not support extension of the solar programs beyond the pilot phase at any incentive level. The solar programs are not cost-effective under RIM or TRC at their current incentive levels and would continue to fail these cost-effectiveness tests even if the incentives were reduced to zero. [Tr. 873] Consequently, continuation of these programs at any incentive level beyond the pilot phase would result in upward rate pressure and cross-subsidization of the worst kind—from low income to high income customers. [Tr. 881] Gulf does not believe that it is appropriate for the Company's general body of customers to continue to subsidize these non-cost-effective programs. Gulf also opposes addressing "value of solar" in this docket. Adoption of this nascent and controversial methodology would represent a sweeping change in policy for Florida that is well beyond the scope of these proceedings. [Tr. 1629-30]

Gulf Power respectfully urges the Commission to reject the intervenors' superficial proposals which are based on specious logic and do not comply with Florida's laws or the Commission's rules and to approve the Company's proposed goals for the period 2015 through 2024. Gulf Power stands prepared to actively pursue and promote energy and demand savings within its customer base, and to do so in a manner that comports with utility-planning processes, avoids cross-subsidization and places downward pressure on rates for the Company's general body of customers as a whole. Unlike the approaches recommended by the Environmental Intervenors, Gulf's approach is consistent with FEECA, the Commission's rules and years of reasoned and responsible Commission precedent.

DISCUSSION OF SPECIFIC ISSUES [1]

ISSUE 1: Are the Company's proposed goals based on an adequate assessment of the full technical potential of all available demand-side and supply-side conservation and efficiency measures, including demand-side renewable energy systems, pursuant to Section 366.82(3), F.S.?

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SUMMARY: Yes. Through its update to the 2009 Itron study, Gulf has performed an adequate assessment of the full technical potential of all available demand-side conservation and energy measures, including demand-side renewables. An assessment of supply-side conservation and efficiency measures is outside the scope of this docket.

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DISCUSSION:

Technical potential represents the amount of energy and demand savings that is technically feasible without regard to cost, customer acceptance, cost-effectiveness or other real-world constraints. [Tr. 821] Technical potential forms the starting point for developing DSM goals. [Id.] As noted in the Commission's Order Consolidating Dockets and Establishing Procedure dated August 19, 2013, the parties and Commission Staff agreed during a publicly noticed conference on June 17, 2013 that it would be appropriate to "update" the Itron technical potential study developed in connection with the 2009 DSM goals proceeding rather than performing an entirely new study. See, Order No. PSC-13-0386-PCO-EU at p. 2 Gulf and the other FEECA utilities worked collaboratively on the update of the 2009 Itron study in order to ensure the consistency and integrity of the process. [Tr. 821] The update consisted of three steps: (a) removing measures that had become obsolete due to changes in building codes and standards; (b) identifying and incorporating new commercially-viable measures that were not included in the previous study; and (c) adjustment of the technical potential to reflect customer growth and historical DSM achievements. [Tr. 822] Gulf's technical potential was based upon 285 unique end-use efficiency, demand response and photovoltaic measures. [Tr. 822] The process employed by Gulf

[1] The listing of issues and position summaries that follow in this section is also intended to serve as Gulf Power's post-hearing Statement of Issues and Positions required by Order No. PSC-14-0356-PHO-EU.

was rigorous and resulted in an accurate assessment of technical potential within the Company's service area. [Tr. 821-23] SACE and the Sierra Club contend that certain measures and economic sectors were excluded from consideration by the FEECA utilities, thus understating their technical potential. The utility analyses were based upon available, state-specific data and the technologies underlying many of the measures which the intervenors claim were omitted were actually included in the study. [Tr. 1627-28] Moreover, at the June 17, 2013 conference with Commission Staff, all parties were invited to provide input on new measures, including Florida-specific data, which they believed should be considered in the updated study. [Tr. 1627] SACE provided a measure list to Commission Staff but failed to include any savings data associated with these measures, Florida-specific or otherwise. [Id.] The FEECA utilities subsequently notified SACE that data would be needed in order to evaluate and quantify the savings associated with the proposed measures. [Id.] SACE did not provide any additional information in response to the utilities' request. [Id.] Given Gulf's robust analyses and given the intervenors' failure to provide the utilities or the Commission with any state-specific data necessary to evaluate their proposals, the Commission should reject the intervenors' unfounded critique of Gulf's technical potential analyses.

ISSUE 2: Do the Company's proposed goals adequately reflect the costs and benefits to customers participating in the measure, pursuant to Section 366.82(3)(a), F.S.?

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SUMMARY: Yes. The measures included in the development of Gulf's goals adequately reflect the costs and benefits to participating customers. This was accomplished by performing the Participant's Test and requiring that all measures included in the goals pass this test.

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DISCUSSION:

Consistent with the requirements of Rule 25-17.008, F.A.C., all measures included in Gulf Power's proposed goals passed the Participant's Test. [Tr. 836] As its name implies, the Participant's

Test measures cost effectiveness from the perspective of the participating customer. [Tr. 824] This test considers bill savings and incentives as benefits and out-of-pocket expenses as costs. [Id.] The purpose of the Participant's Test is to determine whether program participation is economically beneficial for the customer that the program targets. No party to this proceeding has challenged the propriety of using the Participant's Test to evaluate costs and benefits to participating customers. Nevertheless, SACE and Sierra Club contend that the utilities failed to properly calculate the cost and benefit components of the test. For example, witness Mims contends that the utilities failed to consider non-energy benefits such as "improved health and safety," "increased comfort and aesthetics," and "reduced maintenance cost for participants" in evaluating the benefits of measures. [Tr. 1009-10; Order No. PSC-14-0356-PHO-EU at p. 26] Assigning a monetary value to these nebulous and unquantifiable concepts is squarely at odds with the Commission's Cost-Effectiveness Manual and the rigorous process used in evaluating cost-effectiveness in this proceeding. [Tr. 1626] Stated simply, Gulf's methodology for calculating the cost-effectiveness of measures in this proceeding is consistent with process approved in the 2009 goals proceeding and in compliance with FEECA and Rule 25-17.008, F.A.C. [Tr. 1625]

ISSUE 3: Do the Company's proposed goals adequately reflect the costs and benefits to the general body of rate payers as a whole, including utility incentives and participant contributions pursuant to Section 366.82(3)(b), F.S.?

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SUMMARY: Yes. By passing the RIM test, Gulf's proposed goals reflect the costs (including incentives) and benefits that minimize overall rate impacts for the general body of customers, whether or not they participate in one of the resulting conservation programs. In addition, by only including measures that also pass the Participant's Test, these proposed goals adequately consider participant contributions as a component of overall customer impact.

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DISCUSSION:

Gulf Power's proposed goals reflect measures that passed both the RIM and Participant's tests. [Tr. 814] By passing the RIM test, Gulf's proposed goals reflect costs and benefits (including utility incentives) that minimize overall rate impacts for the general body of customers as a whole, regardless of whether they participate in one or more DSM programs. [Tr. 836] In addition, by only including measures that also pass the Participant's Test, the proposed goals adequately consider participant contributions as a component of overall customer impact. [Id.]

There has been extensive debate in this proceeding concerning the proper interpretation of section 366.82(3)(b), Florida Statutes. SACE and Sierra Club take the position that the 2008 amendments to section 366.82(3)(b), Florida Statutes mandate use of the TRC test and prohibit the Commission from utilizing the RIM test in setting goals. See, Order No. PSC-14-0356-PHO-EU at pp. 29, 30, 38 One thing is certain: the statute does not reference a specific cost-effectiveness test by name. Had the legislature desired to mandate exclusive use of the TRC test in goal-setting proceedings, it easily could have done so. The amended language requires the Commission to <u>consider</u> the "costs and benefits to the general body of ratepayers as a whole, including utility incentives and participant contributions." § 366.82(3)(b), <u>Fla</u>. <u>Stat</u>. (emphasis supplied) It does not "mandate" any particular test. This conclusion is supported by the Commission's 2009 DSM goals order in which the Commission concluded that "the language added in 2008 did not explicitly identify a particular test that must be used to set goals. Based on the analysis above, we find that consideration of both the RIM and TRC tests is necessary to fulfill the requirements of Section 366.82(3)(b) F.S." See, Order No. PSC-09-0855-FOF-EG at p. 15 The RIM test is the only test that ensures that all customers benefit through lower electricity rates over time. [Tr. 832] Further, it is the only test that avoids cross-subsidies between participating and non-participating customers. [Id.] SACE and Sierra Club attempt to divert the Commission's attention from the upward rate pressure and cross-subsidies associated with TRC-based goals by stating that, on average, customer bills will go down under their proposals. [Tr. 971-72, 1138] To be sure, customers who participate in a utility program and receive an incentive will generally use less energy and may experience reductions in bills. The fact remains, however, that rates will be higher for <u>everyone</u> and those customers who do not, or cannot, participate in a utility program will be saddled with higher rates <u>and</u> higher bills.

<u>ISSUE 4</u>: Do the Company's proposed goals adequately reflect the need for incentives to promote both customer-owned and utility-owned energy efficiency and demand-side renewable energy systems, pursuant to Section 366.82, F.S.?

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SUMMARY: Yes. Gulf's proposed goals were developed utilizing the RIM and Participant's tests. In practice, these tests provide incentives to participating customers through the payment of rebates, to the general body of customers by preventing cross-subsidization between DSM program participants and non-participants, and to the utility by ensuring that incorporation of DSM in the resource planning process results in net benefits that put downward pressure on rates. Gulf Power does not believe that additional utility performance incentives are necessary under a RIM-based goal proposal.

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DISCUSSION:

Prior to 2009, the Commission's preference for relying on the combination of the RIM and Participant's tests in the evaluation and approval of utility conservation programs provided the necessary structure to ensure that the interests of all stakeholders were balanced. [Tr. 837] In practice, these tests have provided incentives to customers through the payment of rebates, to the utility by balancing the impacts of avoided cost benefits against revenue impacts, and to the general body of customers by preventing cross-subsidization between DSM program participants and non-participants. [Id.] Consequently, Gulf Power does not believe that utility performance incentives are needed under a RIM-based goal proposal. [Id.] If, in establishing Gulf Power's goals, the Commission were to adopt the recommendations of the Environmental Intervenors or establish goals which otherwise disturb the appropriate balance between the interests of all stakeholders, Gulf believes that the consideration of utility performance incentives may be warranted.

ISSUE 5: Do the Company's proposed goals adequately reflect the costs imposed by state and federal regulations on the emission of greenhouse gases, pursuant to Section 366.82(3)(d), F.S.?

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SUMMARY: Yes. Gulf is not incurring costs associated with state or federal regulations on the emission of greenhouse gasses. Therefore, Gulf has appropriately not included assumptions for costs of greenhouse gas emissions in the development of its proposed goals. Gulf's DSM evaluations are consistent with the statute's directive and with the assumptions used in determining the next generating unit identified in the Company's 2013 Ten Year Site Plan.

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DISCUSSION:

When establishing DSM goals, section 366.82(3)(d), Florida Statutes, requires the Commission to consider "[t]he costs <u>imposed</u> <u>by</u> state and federal regulations on the emission of greenhouse gases." (emphasis added). Gulf Power is not incurring costs associated with state or federal regulations on greenhouse gases. [Tr. 837] Consequently, the Company appropriately did not include assumptions for hypothetical costs of greenhouse gas emissions in the development of its proposed goals. [Id.] Gulf's DSM evaluations are consistent with assumptions used in determining the next generating unit identified in the Company's 2013 Ten Year Site Plan. [Id.] The Environmental Intervenors' suggestion that the Commission must consider potential or speculative unquantifiable costs associated with greenhouse gas regulation is not consistent with the statutory language. The Commission's 2009 goals order acknowledges as much: "[t]he statute does not define 'greenhouse gases,' nor requires [sic] us to consider projected costs that <u>may</u> be imposed." See, Order No. PSC-09-0855-FOF-EG at p. 15 (emphasis added). In the 2009 goals proceeding Gulf included projected CO2 costs in determining its 2009 goal proposals. [Tr. 1626] Ultimately, DSM goals were set based upon assumed CO2 costs which did not materialize during that proceeding and have not materialized to date. [Id.] Because these decisions impact the level of DSM expenditures borne by all customers, Gulf does not believe it is appropriate to incorporate non-existent CO2 costs into the Company's cost-effectiveness evaluations in this proceeding. [Id.]

The Environmental Intervenors make much of the fact that the Environmental Protection Agency ("EPA") recently published its proposed rule concerning carbon emissions from existing generating facilities (the "Clean Power Plan"). However, this proposed rule and the individual state plans for implementing it are far from final. Even if one were to assume that rule will take effect in the timeframes the EPA has proposed, it would be premature at this stage to speculate about its impact on carbon costs and utility resource planning. The Commission is required to re-assess the FEECA utilities' goals in five years and has the discretion to re-assess the goals prior to such time should it deem necessary. [Tr. 1642-43] In the event the proposed Clean Power Plan, or any other regulation for that matter, imposes actual costs on the emission of greenhouse gases, these costs would be appropriate for consideration in the next goal setting process, but they should not be speculatively considered here. Sierra Club contends that immediate action is necessary based on its presumption that it takes a number of years to "ramp up" energy efficiency programs from conception to implementation. [Tr. 1638] However, Gulf's own experience with its 2010 goals demonstrates the fallacy of this presumption. In December 2009, the Commission approved goals for Gulf that were approximately ten times higher than Gulf's then existing goals. [Tr. 1639] Gulf's DSM plan was approved in spring 2011 at which time Gulf began implementing the new plan. [Id.] By 2012, Gulf was achieving its new goals. [Id.] Gulf has demonstrated its commitment to promoting DSM in the past and will be no less committed in the future. However, the Company also remains committed to ensuring that DSM is accomplished in a measured, thoughtful and cost-effective manner. Speculation concerning carbon compliance costs stemming from the EPA's proposed Clean Power Plan does not accomplish these objectives.

ISSUE 6: What cost-effectiveness test or tests should the Commission use to set goals, pursuant to Section 366.82, F.S.?

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SUMMARY: The Commission should use the combination of RIM and Participant's tests to set goals for Gulf Power. This combination of tests is consistent with the language contained within section 366.82(3)(b), Florida Statutes. These tests provide an appropriate balance between participating and non-participating customer benefits and ensure downward pressure on overall electric rates while still supporting significant conservation activities.

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DISCUSSION:

The Commission should use the combination of RIM and Participant's tests to set goals for Gulf Power.[2] [Tr. 835-36] Section 366.82(3)(b), Florida Statutes, requires the Commission to consider "[t]he costs and benefits to the general body of ratepayers as a whole, including utility incentives and participant contributions." By passing the RIM test, Gulf's proposed goals reflect costs and benefits (including utility incentives) that minimize overall rate impacts for the general body of customers as a whole, regardless of whether they participate in one or more DSM programs. [Tr. 836] In addition, by only including measures that also pass the Participant's Test, the proposed goals adequately consider participant contributions as a component of overall customer impact. [Id.] The RIM test evaluates the cost-effectiveness of a measure from a non-participant's perspective. [Tr. 825] In this way, it measures whether cross-subsidy occurs between participating and non-participating customers that ultimately results in upward rate pressure. [Id.] The RIM test considers avoided capacity and fuel costs as a benefit compared to costs of program implementation including utility incentives and utility revenue decreases. [Id.] When benefits exceed costs in the RIM test, implementation of the efficiency measure or program

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[2] In its 2009 goals order, the Commission concluded that "[c]onsideration of both the RIM and TRC tests is necessary to fulfill the requirements of Section 366.82(3)(b), F.S. Both the RIM and the TRC Tests address costs and benefits beyond those associated solely with the program participant. By having RIM and TRC results, we can evaluate the most cost-effective way to balance the goals of deferring capacity and capturing energy savings while minimizing rate impacts to all customers." Order No. PSC-09-0855-FOF-EG at p. 15 In advocating for use of the RIM/PT, Gulf is not suggesting that the Commission should abandon consideration of TRC results in setting goals. To the contrary, Gulf is suggesting that comparison of the RIM and TRC results in this proceeding leads to the conclusion that RIM-based goals strike the appropriate "balance" between advancing energy efficiency and minimizing customer rate impacts.

will not result in cross-subsidy and will cause downward pressure on utility rates for all customers. [Id.] This is why the test is often referred to as the "no losers" test. [Id.] All customers benefit from RIM-based DSM. In contrast, the TRC test results in "winners" and "losers." The TRC test does not include customer incentives or decreases in utility revenues as "costs" in the cost/benefit equation. [Id.] These, however, are true costs to the utility which must ultimately be recovered from all customers. Customers who participate in TRC-based DSM programs "win" in the sense that they may be able to avoid or mitigate the increase in rates by virtue of reducing their electrical consumption through utility-sponsored DSM. However, the remaining customers, which are by far the greater number, "lose" in the form of paying higher rates without the benefit of reduced consumption. This is the nature of the cross-subsidization inherent in use of the TRC test. Sierra Club witness Woolf acknowledges that TRC-based goals will result in higher rates for all customers, but attempts to sidestep the issue by summarily concluding that such rate impacts would likely be "very small." [Tr. 1117] That has certainly not been Gulf Power's experience. In 2009, Gulf's goals were increased substantially through assignment of the TRC achievable potential as the Company's goals. Since that time, Gulf's associated cost to customers that is recovered through the Energy Efficiency and Conservation Clause ("ECCR") has more than doubled. [Tr. 1624-25] Witness Woolf's conclusion is also at odds with Gulf's projected annual bill impacts for the RIM-based goals and TRC achievable potential presented by Gulf in this docket. In 2015, the Company's proposed RIM portfolio is projected to impact a 1,200 kWh residential customer's bill by $8.71, a significant decrease from the bill impact of the currently approved goals. [Tr. 832-33] This increases to $12.60 in 2024. [Id.] In contrast, the TRC portfolio is projected to cost a 1,200 kWh residential customer $23.34 in 2015 and $66.82 per year by 2024. [Tr. 833] While Gulf did not perform bill impact calculations for non-residential classes, such as large commercial and industrial consumers, the financial impacts on these customers would also be significant. [Tr. 856] As noted during the hearing, rate levels strongly impact these larger customers' ability to compete in the marketplace. [Tr. 73] Thus, in considering the appropriateness of using RIM versus TRC as a primary cost-effectiveness test, Gulf asks the Commission to remain mindful of the impact the decision will have on economic development in Florida. Economic development is an important aspect of the utility business as increased sales provide contributions toward the fixed costs of the utility system. [Tr. 831] This, in turn, benefits all customers. The Commission has been a strong proponent of utility-sponsored economic development initiatives for these very reasons. [Id.] Indeed, the importance of considering economic development in establishing energy efficiency goals is highlighted by the Commission's own rules. Rule 25-17.001(7) clearly states that implementation of FEECA should not restrict growth necessary to support economic development and, instead, should enhance economic growth through lowering energy costs from what they would otherwise be absent cost-effective efficiency goals. The primary means of achieving this objective through the goal setting process is by use of the RIM test insofar as this test ensures that all customers benefit through lower electricity rates over time. [Tr. 832]

The Environmental Intervenors do not dispute that use of the TRC test results in higher electricity rates or cross-subsidies. In fact, they are quite open in their acknowledgment that this will occur. Instead, they suggest that the Commission should not concern itself with such matters because, with high customer participation in DSM programs, customer bill savings will offset any rate increases. [Tr. 980, 1139-40, 1624] The flaw in this argument is that it completely ignores the voluntary nature of utility-sponsored DSM programs. Regardless of how aggressively a utility promotes DSM to its customer base, there will be many customers who are either unwilling or unable to participate. For example, since the aggressive launch of Gulf's 2010 DSM program, voluntary participation in Gulf's programs only represents 11 percent of the Company's entire customer base. [Tr. 1624] Even if customer participation quadrupled, the number of customers realizing bill savings would still be a minority, while the majority would suffer upward rate pressure associated with TRC-based programs. [Id.] In reaching a decision on this issue, Gulf urges the Commission to remain mindful of the financial impacts that its decision will have on all of Gulf's customers, including those who cannot or do not participate in utility-sponsored DSM programs. Reliance on the RIM test will ensure that DSM benefits Gulf's general body of customers as whole.

<u>ISSUE 7</u>: Do the Company's proposed goals appropriately reflect consideration of free riders?

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SUMMARY: Yes. As required by Rule 25-17.0021, Florida Administrative Code, the goals established in this proceeding must account for the effects of free ridership. Consistent with past DSM goals proceedings, Gulf utilized a two-year payback criterion to account for free ridership. The two-year payback criterion is an objective, reasonable and efficient method of addressing free ridership during the goal-setting process as required by Commission rule.

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DISCUSSION:

The FEECA utilities used a two-year payback criterion to screen for free riders—customers who would implement efficiency measures in the absence of a utility incentive. [Tr. 828] If included as part of a utility's goal, the expense associated with the promotion of measures having a customer payback of two years or less would be an unnecessary cost burden on all utility customers since these measures are more likely to be adopted even without a utility program. [Tr. 829] The Environmental Intervenors are critical of the use of the two-year payback criterion. Despite their criticism, they offered no meaningful alternatives for screening free riders at the goal-setting phase. In fact, SACE witness Mims acknowledged during questioning that SACE's proposed goals do not reflect any consideration of free-ridership at all. [Tr. 1055] Rule 25-17.0021(3) specifically requires that free riders be considered in setting goals.[3] The two-year payback criterion was initially accepted by the Commission as a means of

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[3] SACE witness Mims states in pre-filed testimony that free ridership should be addressed through evaluation, measurement and verification at the program level rather than the goal-setting level. [Tr. 1002] This

reducing free riders in Order No. PSC-94-1313-FOF-EG and has been relied upon in subsequent goal-setting proceedings. Screening of measures having a customer payback of two years or less is an objective, reasonable and efficient means of reducing free-ridership. [Tr. 1628] The basic premise behind the use of this criterion is simple and compelling: utilities, and their customers, through ECCR recovery of program costs, should not be paying incentives to customers who already have sufficient economic incentive to implement DSM on their own. [Tr. 828-29] To be clear, Gulf is not contending that 100 percent of customers will adopt measures having a payback of two years or less. [Tr. 891] Achieving 100 percent adoption is likely not possible even if a utility were to give measures away at no cost. [Id.] Gulf's contention is that its general body of customers should not be required to subsidize customers who have sufficient economic incentive to implement DSM on their own.

That is not to say, however, that the utilities do, or should, ignore these measures. For example, Gulf Power routinely informs its general body of customers about measures having a payback of two years or less during its energy audits, home shows, website and through its energy education program. [Hearing Exhibit 1, Gulf's Response to Staff Interrogatory No. 46] Gulf also includes two-year payback measures in its existing low-income program known as the Community Energy Saver program. [Tr. 858-59] Finally, as discussed by Gulf witness Floyd, if the Commission adopts Gulf's proposed goals, Gulf is committed to continue offering a low-income program which includes a portfolio of two-year payback measures. [Id.] Offering these measures through a low-income program is superior to increasing Gulf's DSM goals to account for some or all of the achievable potential associated with two-year payback measures because it targets a subset of customers who are most likely to require incentives to adopt these measures. Gulf's proposed approach also reduces the costs and cross-subsidies associated with offering such incentives to Gulf's general body of customers, many of whom can easily afford such

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recommendation, however, is in direct conflict with Rule 25-17.0021(3).

measures. [Tr. 1663-64] In short, tailoring a two-year payback program to low-income customers will benefit the customers who are truly in need of assistance while also relieving these same customers from having to subsidize other more affluent customers to install these quick payback measures.

During cross-examination of Mr. Floyd, counsel for SACE implied that it would be impermissible under FEECA to develop a DSM program including two-year payback measures unless the achievable potential for those measures is also included in Gulf's goals. [Tr. 1663-64] This suggestion is not supported by FEECA or past Commission precedent. Section 366.82(7), Florida Statutes states that: "[f]ollowing adoption of goals pursuant to subsections (2) and (3), the commission shall require each utility to develop plans and programs to meet the overall goals within its service area." The statute does not preclude a DSM plan from incorporating measures which were not included in the utility's goals. This is consistent with the Commission's holding in the 1994 goals proceeding wherein the Commission set goals based upon the achievable potential of measures passing RIM but also encouraged utilities to evaluate inclusion of certain TRC passing measures in their DSM plans. See, Order No. PSC-94-1313-FOF-EG at p. 22

ISSUE 8: What residential summer and winter megawatt (MW) and annual Gigawatt-hour (GWh) goals should be established for the period 2015-2024?

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RESPONSE:

Proposed Numeric Conservation Goals – Savings at the Generator

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Residential											
Annual Energy (GWh)	2.3	3.2	4.2	5.1	6.0	6.8	7.6	8.3	8.9	9.5	62.1
Summer Peak Demand (MW)	2.3	3.2	4.1	5.0	5.9	6.7	7.5	8.1	8.8	9.3	60.9
Winter Peak Demand (MW)	1.3	1.8	2.3	2.9	3.4	3.8	4.3	4.6	5.0	5.3	34.8

ISSUE 9: What commercial/industrial summer and winter megawatt (MW) and annual Gigawatt hour (GWh) goals should be established for the period 2015-2024?

RESPONSE:

Proposed Numeric Conservation Goals – Savings at the Generator											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Commercial/Industrial											
Annual Energy (GWh)	0.8	1.2	1.5	1.8	2.2	2.5	2.7	3.0	3.2	3.4	22.2
Summer Peak Demand (MW)	0.3	0.4	0.5	0.6	0.7	0.8	0.9	0.9	1.0	1.1	7.1
Winter Peak Demand (MW)	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	1.9

ISSUE 10: What goals, if any, should be established for increasing the development of demand-side renewable energy systems, pursuant to Section 366.82(2), F.S.?

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SUMMARY: All demand-side renewable energy systems were evaluated using the same cost-effectiveness standards as other energy efficiency measures. No renewable measures are cost-effective under either the RIM or TRC cost-effectiveness tests and, therefore, none are reflected in Gulf's achievable potential results. In past FEECA proceedings, the Commission determined that it was appropriate to set goals equal to zero in cases where no DSM measures were found to be cost-effective. Given that no renewable measures passed the Commission's approved cost-effectiveness criteria, setting renewable goals at a level above zero in this proceeding would not be appropriate

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DISCUSSION:

If the Commission determines that it is required to establish goals for increasing the development of demand-side renewable energy systems, the goals should be set at zero. All demand-side renewable energy systems were evaluated using the same cost-effectiveness standards that were used in evaluating other energy efficiency measures. [Tr. 835] These evaluations included capacity benefits, energy benefits and avoided line losses. [Tr. 882] All renewable measures failed both the RIM and TRC cost-effectiveness tests. [Tr. 873] This is the case regardless of the incentive amount offered. Even if the incentive were reduced to zero dollars, the measures would still fail RIM and TRC. [Id.] The intervenors do not dispute the results of these evaluations. Instead, they assume that demand-side renewable generation might be cost-effective under a presumed "Value of Solar" ("VOS") analysis which has not been evaluated or adopted in Florida. [Tr. 1631] The VOS methodology is a new concept for assigning value to distributed solar resources. [Tr. 1629] Adoption of this new—and controversial—concept would represent a sweeping change in policy for Florida which is well beyond the scope of this docket. [Tr. 1629-30] In addition to representing a fundamental policy shift, adoption of these recommendations could potentially require modifications to existing legislation and rules such as those involving net-metering. [Id.]

Value of Solar aside, it is indisputable that these technologies do not pass any of the Commission's approved cost-effectiveness tests. In past FEECA proceedings, the Commission determined that it was appropriate to set goals equal to zero in cases where no DSM measures were found to be cost-effective. For example, in Order No. PSC-00-0588-FOF-EG dated March 23, 2000, the Commission considered establishing numeric conservation goals for JEA for the period 2001 through 2010. The record evidence demonstrated that no measures were cost-effective for JEA. The Commission held as follows: "[i]n conclusion, because no DSM measures were found cost-effective for JEA, <u>it is not appropriate to establish conservation goals for JEA</u>. Accordingly, we find that JEA's proposed annual residential winter and summer kW and annual residential kWh conservation goals of zero for the period 2001 through 2010 are appropriate. Likewise, we find that proposed annual commercial/industrial winter and summer kW and annual commercial/industrial kWh conservation goals of zero for the period 2001 through 2010 are appropriate." Order at p. 3 (emphasis added). The Commission reached similar conclusions in Order Nos. PSC-00-0587-FOF-EG, PSC-04-0768-PAA-EG, and PSC-04-0767-PAA-EG. Given that no renewable measures passed the Commission's approved cost-effectiveness criteria, setting renewable goals at a level above zero in this proceeding would not be appropriate. [Tr. 835]

ISSUE 11: Should the Company's existing Solar Pilot Programs be extended and, if so, should any modifications be made to them?

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SUMMARY: No. Based on the results of the pilot, Gulf recommends not continuing the programs past the pilot phase. Neither the PV nor the solar thermal water hearing technologies are cost-effective under the RIM or TRC test and therefore cause a cross-subsidy to occur. The solar pilots ultimately cost Gulf's general body of customers more than the benefits realized by these systems. This is not to say that PV systems cannot be cost-effective to the participating customer. In fact, the decreases in system costs have improved the cost-effectiveness of PV systems to the point that additional customer-subsidized funding is not appropriate.

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DISCUSSION:

The solar programs should not be extended beyond the pilot phase. Pursuant to FEECA, the Commission is permitted to approve "experimental rates, rate structures, or programs" in support of DSM. § 366.81, Fla. Stat. In its 2009 goals order, the Commission directed the investor-owned utilities to develop "pilot" programs for solar thermal water heating and photovoltaic systems. Order No. PSC-09-0855-FOF-EG at p. 29 The designation of these programs as pilots suggests that they should be re-evaluated and discontinued, if appropriate. Today, nearly five years after the pilots were adopted, these renewable technologies are still not cost-effective under any of the Commission-approved cost-effectiveness tests. [Tr. 845] As of February 2014, Gulf had expended over $2,600,000 on these non-cost-effective programs to subsidize approximately 300 customer installations. [Hearing Exhibit 46, Schedule 16, Tr. 893] Of the customers who received rebates for photovoltaic and solar thermal water heating systems, 76 percent have annual incomes above the Northwest Florida median of $47,800 and 63 percent have home values greater the Northwest Florida median of $170,000. [Tr. 844] Because these renewable systems fail the RIM and TRC tests, they result in cross-subsidies which ultimately cost Gulf's general body of customers more than the benefits realized by the systems. [Tr. 846] These cross-subsidies cannot be eliminated by reducing the incentive amounts paid to customers. Even if the incentive were reduced to zero dollars, the measures would still fail RIM and TRC. [Tr. 873] That is not to say that photovoltaic systems cannot be cost-effective for customers who choose to purchase such systems absent utility incentives. [Tr. 846] In fact, reductions in system costs have reached the point that subsidized funding by the utilities is no longer appropriate. [Id.]

In lieu of extending the programs beyond the pilot phase, Gulf proposes to increase educational efforts around renewable energy through its existing energy education program. [Id.] As renewable technologies evolve, customer education is an increasingly important aspect of the service Gulf provides to all customers. [Id.] Helping customers understand the opportunities and limitations associated with alternatives like photovoltaic systems can lead to a better customer experience. [Tr. 846-47] Increasing the focus on renewable energy alternatives in school-based and community education efforts can help accomplish this goal. [Id.] Gulf can also work with low-income agencies to seek educational opportunities for this customer segment. [Id.] As photovoltaic costs continue to decline, customers in lower income brackets may have opportunities to leverage the benefits of renewable energy alternatives. [Id.] Increased customer education among this customer segment can help ensure successful development of these projects. [Id.]

CONCLUSION

Gulf recognizes the important role that energy efficiency and renewable technologies play in utility resource planning and is committed to actively pursuing and promoting renewables and DSM in a manner that comports with utility-planning processes, minimizes free-ridership, avoids cross-subsidization and places downward pressure on rates for the Company's general body of customers as a whole. Gulf's proposed goals accomplish all of these objectives while also adhering to FEECA and the Commission's rules. In sharp contrast, the Environmental Intervenors' proposals are based on arbitrary "benchmarking" theories which ignore the utility-planning process and free-ridership, promote cross-subsidization, and place upward pressure on customer rates. While promoting energy efficiency is important, it must be accomplished in a thoughtful and deliberative manner. The Environmental Intervenors' haphazard proposals run counter to these objectives. For all of the foregoing reasons, Gulf Power respectfully requests that the Commission approve its goal proposals as filed and without modification.

Respectfully submitted this 30th day of September, 2014.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Commission review of numeric conservation goals**)

Docket No.: **130202-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by electronic mail this 30th day of September, 2014 to the following:

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