State of Florida

Public Service Commission

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

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

DATE: November 21, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Brown, Baxter, Harlow, Slemkewicz)
Office of the General Counsel (Fleming)

RE: Docket No. 060678-EI – Petition for approval to make renewable energy pilot program (f/k/a green energy rate rider) permanent, by Tampa Electric Company.

AGENDA: 12/05/06 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 60 – DAY SUSPENSION DATE: 12/11/2006

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060678.RCM.DOC

Case Background

The Commission first approved Tampa Electric Company's (TECO) pilot green energy program and green energy tariff in Docket No. 000697-EI, In Re: Petition by Tampa Electric Company for approval of a Pilot Green Energy Rate Rider and Program. This originally approved TECO's Pilot Green Energy Rate Rider and Program (GE Rate Rider) through December 31, 2003. See Order No. PSC-00-1741-TRF-EI, issued September 25, 2000. The pilot GE Rate Rider is a voluntary program that gives interested consumers an option to support renewable energy by paying the incremental cost of renewable energy over the utility's cost of providing the energy from fossil fuels. The original pilot GE Rate Rider offered to all classes included a $5.00 monthly fee in addition to applicable tariff charges for each 50 kilowatt hours (kWh) block of green energy purchased, up to five blocks. TECO provided renewable energy to participating customers from three company-owned sources: 1) an 18 kilowatt (kW) photovoltaic array located at Tampa's Museum of Science and Industry, 2) a 30 kW micro-turbine fueled with land-fill gas, and 3) co-firing biomass fuels in TECO's existing coal-fueled generators. The Commission also approved an allocation of $100,000 from TECO's Conservation Research & Development (R&D) Program to partially fund the pilot GE Rate Rider. On June 4, 2001, the Commission issued Order No. PSC-01-1238-TRF-EI, in Docket No. 010423-EI, In Re: Petition by Tampa Electric Company for Approval of Modification to Pilot Green Energy Rate Rider and Program, which eliminated the purchase limit of five blocks of renewable energy per month per participating customer.

In Docket No. 030959-EI In Re: Petition by Tampa Electric Company for Approval of Extension of Pilot Green Energy Rate Rider and Program through December 31, 2006, TECO petitioned the Commission for several modifications of the pilot GE Rate Rider including: 1) an extension of the program through December 31, 2006, 2) an increase in the energy block size from 50 kWh to 100 kWh, and 3) $150,000 from its Conservation R&D program to partially fund the proposed extension. TECO's petition for an extension was approved by the Commission under the condition that the company submit a business plan for the proposed program extension which shows the assumptions, budgets, marketing programs and estimated penetration rates. TECO was also required to explain whether, after the three-year extension, the program would be self-sustaining. If the program was not going to be self-sustaining, TECO was required to indicate what level of subsidy it anticipates would be necessary to continue the program beyond the three-year extension.

Upon receiving the additional requested information from TECO, on April 8, 2004, the Commission issued Order No. PSC-04-0386-TRF-EI, in Docket No. 030959-EI In Re: Petition by Tampa Electric Company for Approval of Extension of Pilot Green Energy Rate Rider and Program through December 31, 2006. In granting the extension of the pilot program, the Commission did note that because TECO expected the program to be self-sustaining by 2007, TECO should be required to provide reports to staff on the program's progress every six months. The reports were to include the participation levels achieved, energy produced, and cost and revenue estimates.

On October 12, 2006, TECO filed a petition to make the pilot GE Rate Rider Program permanent. By making the program permanent, the full-time program would now be known as TECO's Renewable Energy Program. The pilot GE Rate Rider is currently set to expire December 31, 2006.

The Commission has jurisdiction under Sections 366.04, 366.05, 366.06, 366.80, 366.81, and 366.82, Florida Statutes.

Discussion of Issues

Issue 1: Should Tampa Electric Company's (TECO's) petition to make its pilot Green Energy Rate Rider Program permanent be approved?

Recommendation: Yes. TECO's pilot Green Energy Rate Rider Program has shown that under reasonable assumptions, it can be a self-sustaining program. TECO's Green Energy Rate Rider Program should be permanently referred to as the Renewable Energy Program effective January 1, 2007. Customers will be able to purchase blocks of 200 kWh of renewable energy for $5.00 per block in addition to the customer's applicable tariff rates. Finally, TECO should not be allowed to establish a regulatory liability for recording the deferral of program revenues in excess of program expenses. However, Account 253, Other Deferred Credits, includes amounts which cannot be entirely cleared or disposed of until additional information has been received. Staff believes that Account 253 is the appropriate account to be utilized for recording the deferral of program revenues in excess of program expenses. (Brown, Harlow, Baxter Slemkewicz)

Staff Analysis:

Under the Renewable Energy proposal, the customer costs and guidelines will be established by tariff titled the Renewable Energy Program Third Revised Tariff Sheet No. 6.400. This tariff sheet is included as Attachment A.

Currently, TECO's pilot GE Rate Rider Program is not a self-sustaining program. Since the program revisions were approved, program revenues were $162,245 and expenses were $184,492, yielding a deficit of $22,247. However, during the reporting period of April 2006 through September 2006, TECO experienced an unexpected maintenance expense of about $29,000 for an inverter replacement on the company's largest photovoltaic array and a variable speed compressor replacement on the microturbine. If the expense for the equipment failure had not occurred, TECO's pilot GE Rate Rider Program would be in self-sustaining status. Through September 2006, 1,422 customers were participating in the pilot program, purchasing a total of 1,919 blocks of renewable energy. In addition to the utility owned facilities, participating customers have utilized over 3.9 Gigawatt-Hours of renewable energy from a biomass facility in South Florida since the inception of the program. The company also purchases the energy generated from several photovoltaic systems and landfill gas facilities, with total capacities 39 kW and 30 kW, respectively.

TECO's Renewable Energy Program will be available to residential, commercial, and industrial customers. The initial term of service will be twelve months. After the initial twelve months, the customer can terminate service after giving TECO two months' notice. In order to increase participation in the renewable energy program, TECO proposes to increase the monthly block size from 100 kWh to 200 kWh, while holding the price constant at $5 per block per month. TECO expects this change to result in increased participation, particularly by commercial and industrial customers. This will reduce the incremental kWh charge for renewable energy from 5 cents to 2.5 cents per kWh which can be added to the utility's incremental fuel cost when TECO purchases energy from renewable facilities.

TECO's revenues and expenses for the Renewable Energy Program should be recorded separately in its Energy Conservation Cost Recovery (ECCR) clause filings. TECO will provide a summary of the program's progress in its testimony which is submitted during the true-up proceedings. If revenues fall below expenses, TECO's administrative costs should be recovered through the ECCR clause. Once revenues begin to exceed costs, TECO will credit back the prior excess expenses, with interest, through the ECCR clause.

TECO has requested that it be able to establish a regulatory liability for recording the deferral of program revenues in excess of program expenses. TECO will use excess revenues from the program toward investigating the potential of new renewable resources, efforts to increase program participation, reduction of monthly fees to participants, program administration, marketing, and continued education of customers on the attributes of renewable energy. Items recorded in Account 254, Other Regulatory Liabilities, represent the amounts that would have been normally included in net income during the current period but for it being probable that either the amounts will be included in future periods or will be refunded to customers. TECO's request to defer the excess revenues and to use them for other program purposes does not meet either of these tests. However, Account 253, Other Deferred Credits, includes amounts which cannot be entirely cleared or disposed of until additional information has been received. Staff believes that Account 253 is the appropriate account to be utilized for recording the deferral of program revenues in excess of program expenses.

In conclusion, staff recommends that TECO's petition be approved. If approved by the Commission, the pilot program shall be named the Renewable Energy Program with an effective date of January 1, 2007. Since April 2004, customer participation in the program has increased from 233 participants to 1,422 participants. Despite a few unexpected expenses, TECO's pilot Green Energy Rate Rider Program appears to be a self-staining program in that the revenues the company receives from the program participants will cover program expenses. Also, the program has the ability to provide its customers with alternative sources to meet their energy needs. The existing structure of the renewable energy block size will increase from 100 kWh to 200 kWh with the price per block remaining constant at $5.00. All other areas of the pilot program previously approved by the Commission shall remain as approved. However, the company should summarize the program's progress in its testimony which is submitted in the Commission's annual ECCR true-up proceedings.

Issue 2: Should this docket be closed?

Recommendation: Yes, if Issue 1 is approved, this tariff should become effective on January 1, 2007. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Fleming)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on January 1, 2007. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.