Report to the Legislature

On Utility Revenue Decoupling

Submitted to the Governor,

the President of the Senate, and

the Speaker of the House of Representatives

To Fulfill the Requirements of Chapter 2008-227,

Section 114, Laws of Florida,

Enacted by the 2008 Florida Legislature

(House Bill 7135)

Florida Public Service Commission
December 2008

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Section 1. Executive Summary

Revenue decoupling is a rate setting mechanism that is designed to isolate utility revenues from sales volumes. Decoupling is commonly established after revenue requirements and rates are set through a traditional rate case. Regular proceedings are held to adjust rates to match collected revenues with revenue requirements. Changes to rates may be needed to compensate for sales fluctuations due to weather, economic cycles, or conservation. Adjustments are performed by (1) collecting an additional surcharge from ratepayers during such periods when the utility under-collected and (2) crediting ratepayers during periods when the utility over-collected. The frequency of and justification for these adjustments are determined in the design of the decoupling mechanism.

Decoupling design varies by service area, and no single method is widely accepted. Typically, methods vary by jurisdictional area and risk tolerance. Consideration must be given to such factors as (1) whether decoupling would apply to all customer rate classes or if it would be limited to a select customer class, such as residential; (2) whether the decoupling would be phased-in or if an immediate deadline would be imposed for a utility; (3) whether to allow for weather fluctuations, population changes, and economic conditions in the revenue adjustments; (4) the frequency of rate adjustments; and (5) administrative resources required from the applicable utilities and the regulators for implementation.

Environmental and conservation groups advocate revenue decoupling as a means of removing the perceived disincentive for electric utilities to pursue energy conservation. Proponents of decoupling contend that lost revenues represent a disincentive that must be removed for energy conservation to reach its full potential. Because the link between electricity sales and profits would be severed under a decoupling mechanism, the utility would have no innate bias against investment in energy conservation programs that would reduce electricity sales.

Florida's investor-owned electric utilities (IOUs) contend that revenue decoupling represents an obstacle to revenue growth. This effect on growth may have the effect of limiting the utility's ability to earn a fair rate of return for its stockholders. Alternatively, utilities would have to file more frequent rate cases in order to maintain their authorized earnings levels. Florida's electric IOUs also note that decoupling mechanisms tend to be complicated and difficult to administer, requiring additional adjudicatory proceedings to adjust for such factors as fluctuations in weather, population, and economic cycles that are not directly associated with levels of conservation.

Both the environmental/efficiency proponents and the decoupling opponents acknowledge that revenue decoupling by itself does not provide a utility with an incentive to pursue energy conservation. Many proponents advocate decoupling as one in a suite of complementary policies that regulatory commissions should consider when evaluating their efficiency strategies. These programs include energy efficiency performance goals, financial incentives towards energy efficiency, rate restructuring, and implementation of cost effectiveness tests that favor energy savings measures and cost recovery for utility programs.

Energy Conservation in Florida

Florida's utilities have been successful overall in implementing the objectives of the Florida Energy Efficiency and Conservation Act (FEECA) of 1980. This legislation was passed to slow the growth of weather-sensitive peak demand, to reduce and control the growth of electricity consumption, and to reduce the consumption of expensive resources such as petroleum fuels. Numeric peak demand and energy savings goals are set by the Florida Public Service Commission (FPSC) every five years to comply with FEECA. Programs implemented by utilities to meet the FEECA goals include energy audits, consumer education, customer incentives for demand and energy savings measures, load management, and research and development of renewable technologies. These programs benefit the general body of ratepayers by deferring the need for future power plant construction, reducing current production costs, and improving reliability.

Estimated savings from Florida utility-sponsored demand-side management programs are among the highest in the nation. The following table illustrates these savings since 1980:

Estimated Cumulative Savings from Utility-Sponsored DSM Programs Since 1980

	2007	By 2016
Summer Peak Demand	5,685 MW	7,422 MW
Winter Peak Demand	6,100 MW	7,570 MW
Energy Consumption (Annual)	6,977 GWh	9,051 GWh

Source: FPSC's *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, February 2008

The FPSC establishes numeric energy efficiency goals for the utilities subject to FEECA at least every five years. Goals were last set in 2004 and are scheduled to be revised by December 2009. The FPSC has begun a proceeding in which it will assess the technical and economic potential savings from energy efficiency measures. The costs of energy efficiency measures will also be assessed in order to determine the net impact on customers. Legislation passed during the 2008 session authorized the FPSC to place more emphasis on control and reduction of customer energy usage, in addition to previous utility efforts to reduce peak demand. The goals proceeding provides an opportunity, through a deliberative data intensive process, to establish more aggressive energy conservation and efficiency goals for the electric utilities. Establishing and enforcing more aggressive mandatory energy efficiency goals will increase utility conservation efforts more than would a decoupling mechanism.

Ratemaking in Florida

In jurisdictions where they have been adopted, decoupling mechanisms are typically implemented following the establishment of allowed revenues in a utility's rate case. Rates are set to compensate the utility for the costs of providing service plus an allowed return on its capital investments. Two types of charges combine to form rates: (1) base rates and (2) cost recovery clauses.

(1) Base Rates

Through base rates, the utility recovers the investment costs in the plant and facilities and also the normal business operating and maintenance costs that are required to produce and deliver electricity to the utility's customers. Base rates can be changed only through a rate case proceeding, which can be expensive and time-consuming.

(2) Cost Recovery Clauses

Cost recovery clauses provide for an annual review of expenses that are subject to frequent and significant short term changes, or for which clause recovery is authorized by statute. Currently in Florida, approximately 53 to 69 percent of utility costs are recovered through clauses. Cost recovery clauses have been established to recover fuel costs, purchased power costs, costs associated with encouraging energy conservation, costs of complying with governmentally mandated environmental programs and standards, and costs of new nuclear power plants. In recent years, the volume of capital items flowing through cost recovery clauses has grown. As described in Section 5, the Generation Base Rate Adjustment (GBRA) and early recovery of nuclear plant costs have contributed greatly to this trend.

In the annual cost recovery clause proceedings, the rate to be applied to customer bills is determined by dividing the approved costs to be recovered by a forecast of electricity sales for the upcoming year. The electricity sales forecast is updated annually and takes into consideration factors that affect sales including energy efficiency efforts, customer growth, consumption per customer, economic conditions, and weather. Thus, the cost recovery clauses are effectively decoupled in that changes in sales are annually reflected in the rate charged to customers. Additionally, this growing trend has reduced risk for utilities and has removed a disincentive against investing in items that could result in efficiency improvements. A decoupling mechanism would not apply to these 53 to 69 percent of charges in Florida.

With the introduction of cost recovery clauses, the need for utilities to apply for base rate adjustments has lessened. Earnings reviews in the last few decades for Florida's electric IOUs are illustrated in Appendix C: Earnings Review History. As seen in Appendix C, earnings reviews have continued through recent years for all five of Florida's IOUs. In each of these cases, the FPSC considered sales levels in the determining orders, ensuring that utility risk was appropriately considered. This frequency of base rate review also lessens the impact and need for revenue decoupling, as sales and forecasts are adjusted based on conservation.

Major Factors Affecting Design of the Decoupling Mechanism

In designing a revenue decoupling mechanism: (1) policy objectives must be clearly identified and (2) the likely impacts on customers, utilities, and regulatory agencies must be weighed with those policy objectives. A comprehensive list of the expected benefits of implementing rate restructuring should be established. Results must be identified and then be measurable, monitorable, and verifiable. Once these policy objectives are established, utility obligations and other components of a decoupling mechanism can be determined.

(1) Clear Identification of Policy Objectives

The objectives of decoupling are widely debated, but proponents typically cite that decoupling removes a disincentive for a utility to implement energy efficiency and conservation programs. Theoretically, if a utility has nothing to gain by promoting increased electricity sales, the utility would have nothing to lose by promoting reduced electricity sales. Should the decoupling mechanism succeed in rendering the utility indifferent to sales volumes, it could potentially increase the likelihood that a utility would make greater investments in efficiency and conservation. If the utility is enticed into such investments, the result could be reduced environmental impact of electricity generation.

Other parties suggest that decoupling serves as a risk management tool for utilities, guaranteeing revenues while providing an incentive toward cost cutting and other operational efficiencies. As discussed above, approximately 53 to 69 percent of utility costs in Florida flow through a cost recovery clause, mitigating the risk associated with declining sales for a utility. Additionally, legislative changes in recent years have increased the level of capital items eligible for cost recovery. In this way, ratemaking in Florida has been structured to a considerable degree to resemble the most common objectives of decoupling.

(2) Consideration of Stakeholder Impacts

Impacts on ratepayers and utilities would depend on the design of the decoupling mechanism. Concerns raised in industry literature include the possibility of inappropriate pricing signals to consumers, since reductions in consumption by the decoupled customer class would result in a higher energy rate, whereas increased consumption by that class would result in a decreased energy rate. Additionally, decoupling mechanisms may shift the financial risks from the utility to the ratepayer, without a corresponding decrease in the utility's return on equity. In contrast, proponents of decoupling contend that the fluctuations would be insignificant and would amount to no more than one to four percent in either direction for the ratepayer.

Workshop participants agreed that while decoupling may remove a disincentive for utility investment in energy efficiency and conservation programs, it does not specifically provide an incentive for such investment. For this reason, any forecasted impacts of decoupling must be weighed against prospective achievements in energy efficiency and conservation. Specific impacts observed during a three-year decoupling experiment conducted by Progress Energy Florida (formerly Florida Power Corporation (FPC)) in the 1990s are detailed in Section 6. In addition to ratepayer and utility impacts, the effect on the government in implementing the decoupling mechanism should also be considered. Decoupling is likely to entail special rate cases triggering increased administrative burdens, as well as the time and expense of designing and maintaining the mechanism. Regulatory lag could potentially result in further regulatory proceedings and require additional staffing.

Conclusion

Altogether, stronger mandates for conservation, the administrative complexity of decoupling mechanisms currently implemented in other states, and the FPC revenue decoupling experiment support the position that Florida is already paving a path toward the objectives of decoupling without incurring the cost and difficulties associated with design, implementation and maintenance of a specific decoupling mechanism. This consideration must be weighed with the fact that a significant portion of revenues (including an increasing level of capital costs) are currently being recovered through clauses, achieving a similar effect as would be achieved with a decoupling mechanism. The greater the emphasis placed on achieving mandatory energy efficiency goals, the lesser the impact that would be gained by implementing a decoupling mechanism.

Section 2. Introduction

During the 2008 Regular Session, the Florida Legislature enacted HB 7135, Chapter 2008-227, Laws of Florida, to establish policies on energy and global climate change. Section 114 of the bill instructs the FPSC to analyze utility revenue decoupling and provide a report to the Governor, the President of the Senate, and the Speaker of the House of Representatives by January 1, 2009.

In preparation for this report, the FPSC staff conducted a workshop in August 2008 to provide an opportunity for discussion on relevant issues. Parties presenting at the workshop included the Regulatory Assistance Project, the Natural Resource Defense Council, four of Florida's electric investor-owned utilities (IOUs), the Florida Industrial Power Users Group, AGL Resources, the Southern Alliance for Clean Energy, and the Office of Public Counsel. Following the workshop, FPSC staff conducted a literature and data search for relevant information. In addition, the FPSC staff also reviewed the results of a three-year pilot of revenue decoupling conducted by the Florida Power Corporation (now operating as Progress Energy Florida) from 1995 through 1997.

Based on the research described above, the following report primarily addresses electric utility revenue decoupling as a means of removing disincentives for utility-sponsored energy conservation. While decoupling mechanisms can be employed by electric, natural gas, and water and waste-water utilities for other objectives, such as revenue stability, the legislative intent appears to be focused on enhancing electric energy conservation.

This report is organized into the following sections:

Section 3. FPSC Workshop Summary

On Thursday, August 7, 2008, FPSC staff held a workshop on utility revenue decoupling in response to the requirement in HB 7135, Chapter 2008-227, Laws of Florida. Represented at the workshop were the Regulatory Assistance Project, the Natural Resources Defense Council, four of Florida's investor-owned electric utilities, the Florida Industrial Power Users Group, AGL Resources, the Southern Alliance for Clean Energy, and the Office of Public Counsel. Discussion during the workshop focused on identifying the objectives, methods, application, and impacts of revenue decoupling.

Frederick Weston with the Regulatory Assistance Project identified two primary objectives for revenue decoupling: (1) to protect the utility from the "financial harm" associated with least-cost actions such as energy efficiency and other customer-sited resources and (2) to remove the utility's incentive to increase profits by increasing sales. Mr. Weston stated that a regulatory commission considering the appropriateness of applying a decoupling mechanism must first decide which public policy goals it wishes to advance, and then it must analyze whether revenue decoupling works toward those goals. If a commission chooses to pursue evaluation of decoupling options, it must determine the level of risk that can be tolerated by both the utility and the customer separately.

In discussing the methods, application, and impacts of revenue decoupling, Mr. Weston indicated that no "set-recipe" exists, but that general policies apply to most situations. The mechanism should not decouple customer bills from consumption in order to ensure the appropriate financial signals are sent to the customer regarding consumption decisions. Pass-throughs, such as purchased fuel and purchased power adjustment clauses, should not be included as part of the decoupling mechanism, as it is commonly viewed that these components of a customer's bill are essentially "decoupled" without the benefit of an additional mechanism. Because the mechanism would be applied to the base non-commodity costs, distribution-only utilities such as the Florida Public Utilities Company (FPUC, a Florida investor-owned utility) would benefit more from a decoupling mechanism in a decreasing sales environment than would a generating utility, due to the lack of avoided commodity costs. A report written by Mr. Weston's Regulatory Assistance Project for the Minnesota Public Utilities Commission advises that the mechanism should include reporting requirements and a deliberate determination of whether efficiency goals were achieved. Utility incentives could include performance-based adjustments to the utility's rate of return or shared savings mechanisms.

Mr. Weston described "full decoupling" as that in which any variation in sales resulting from conservation, energy efficiency, weather, the economic cycle, or any other causes, would result in an adjustment of collected utility revenues to allowed revenues. "Partial decoupling" refers to a mechanism wherein a partial adjustment is made to utility revenues in the event of sales variation, leaving the utility with some degree of influence over its profitability through maximizing sales. "Limited decoupling" mechanisms allow for adjustments only when the sales variation is due to weather-related circumstances. Limited decoupling is widely used by gas companies, for whom the majority of sales variations are attributable to weather variations.

Mr. Weston advised workshop attendees that in a regulatory environment where a utility's customers are growing at a rate greater than its sales per customer, a revenue per customer decoupling mechanism would likely benefit the utility. Conversely, if the utility's sales are growing at a greater rate than their number of customers, then the utility may be interested in continuing under a traditional regulatory regime or some other form of regulation that rewards them for increased sales. The following tables indicate the annual consumption per residential, commercial, and industrial customer in Florida from 2004 to 2006:

Florida's Electric Customers by Class and Consumption in 2004

Customer Class	Number of Customers	Energy Sales (GWh)	Sales Per Customer (kWh)
Residential	7,762,998	110,383	14,219.12
Commercial	958,450	75,077	78,331.68
Industrial	32,850	22,485	684,474.89

Source: FPSC's *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, February 2006

Florida's Electric Customers by Class and Consumption in 2005

Customer Class	Number of Customers	Energy Sales (GWh)	Sales Per Customer (kWh)
Residential	7,962,111	114,156	14,337.40
Commercial	981,885	78,809	80,262.96
Industrial	36,188	23,431	647,479.83

Source: FPSC's *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, February 2007

Florida's Electric Customers by Class and Consumption in 2006

Customer Class	Number of Customers	Energy Sales (GWh)	Sales Per Customer (kWh)
Residential	8,158,148	115,279	14,130.50
Commercial	1,006,646	80,474	79,942.70
Industrial	37,769	23,425	620,217.64

Source: *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, February 2008

As seen in the tables above, the number of customers in all three customer classes grew each year of the most recent three year period. Sales per residential customer and commercial customer remained approximately equal during this time, while sales per industrial customer decreased significantly.

Luis Martinez with the Natural Resources Defense Council pointed to the decoupling example set by California, wherein electricity demand has remained flat for the last 20 to 30 years by implementing a "suite" of conservation and energy efficiency policies along with decoupling. While this suite of policies has reportedly resulted in more expensive rates for California than customers have experienced in Florida, lower overall customer bills have resulted in California due to energy efficiency and conservation. Mr. Martinez stated that a decoupling mechanism is needed to align consumer and shareholder interests, insulating a utility from deviations in sales. A decoupling mechanism equates to the removal of a disincentive, that being the disincentive for a utility to seek energy efficiency programs due to interference with profitability. Because of this, implementation of decoupling does not constitute an incentive to establish such programs, and therefore the mechanism should be paired with conservation goals and/or energy efficiency requirements.

Susan Clark presented on behalf of four of Florida's investor-owned electric utilities[1] that decoupling is currently unnecessary for Florida electric utilities. Ms. Clark stated that under FEECA, Florida's energy efficiency goals are aggressive and that achievements toward these goals have been significant in Florida. Ms. Clark quoted national statistics ranking Florida highly on implementation of demand response and energy efficiency programs, including spending, which, she stated, has resulted in a significantly lower cost per megawatt hour of efficiency in Florida versus the national average.[2] With these numbers, Ms. Clark concluded that Florida's existing regulatory system has worked well for customers and that adjustments could be made for increasing fuel costs and global warming concerns without resorting to decoupling. Ms. Clark stated that it remains under debate as to whether decoupling would in itself result in increased efficiency. She listed a number of what she termed "unintended consequences" of decoupling, including: (1) frequent and expensive rate reviews, (2) a creation of disincentives for customers to employ conservation, (3) an obstacle for Florida's multi-year rate settlements, (4) increased rate volatility, (5) cost shifting among customers, and (6) reduced incentives for cost control by utilities. Ms. Clark summarized the results of the Florida Power Corporation (FPC) decoupling experiment to include large true-ups, difficulty in showing a definitive link between revenue decoupling and increased conservation, and high regulatory costs of administering the mechanism. She noted that the FPSC has already begun the process of setting new goals for conservation.[3] Also, the recently passed state energy legislation gives the FPSC authority to supplement existing programs and provide financial rewards for achievement of goals, as well as penalties for non-achievement.

John McWhirter spoke on behalf of the Florida Industrial Power Users Group, stating that decoupling is not the appropriate solution for Florida at this time, suggesting instead that the focus of the FPSC's efforts should be on rate restructuring and reducing the state's consumption of fossil fuels. Mr. McWhirter emphasized that utilities currently receive full recovery for all costs passed through a clause, and therefore, any decoupling mechanism that might be

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[1] Florida Power & Light, Gulf Power, Progress Energy Florida, and Tampa Electric Company.

[2] Ms. Clark indicated that Florida pays approximately $9.50 per megawatt hour of efficiency achieved compared to the national average of $21.30, which she calculated as having saved Floridians almost $300 million in program costs.

[3] The FPSC will reset energy efficiency goals for the seven utilities subject to FEECA in 2009, to be effective in 2010.

implemented in Florida would apply only to the approximately 30 percent of revenues that are attributable to base rates. Isolating the utility's profits from its sales volumes provides an incentive for the utility to preserve older plants for longer periods, as opposed to making further investment in more efficient plants. Utilities under decoupling would experience difficulty recruiting new investors since the mechanism would prevent the promise of increasing returns. In a declining economic market, a decoupling mechanism would freeze a utility's rate of return at the higher level established prior to the downturn, negatively impacting consumers. Mr. McWhirter echoed Ms. Clark's concern that inappropriate financial signals could be sent to customers under a decoupling mechanism, since achieving success in customer conservation would result in a rate increase, and rates would be reduced only after customers increased consumption. In place of instituting decoupling, Mr. McWhirter recommends the FPSC undertake rate restructuring to remove items from the pass-through clauses that belong in base rates. This rate restructuring, he believes, will ensure that utility fixed costs are met in periods of declining sales. He asks that the FPSC practice aggressive auditing of surveillance reports in search of any activities excessively boosting base rates.

Scott Carter with AGL Resources, a natural gas utility holding company, presented the idea that decoupling is feasible for both the electric and gas industries, albeit not for every state or situation. Mr. Carter summarized his observations on decoupling in other states, indicating that larger, more sophisticated users typically are attuned to the mechanics of decoupling and can work within the system to maximize their profitability. Conversely, smaller consumers such as residential customers, are less likely to be successful in using the system to their advantage. He emphasized that it was not certain whether a qualified decision could be made in favor of or against instituting decoupling merely by examining generalities. Mr. Carter asked that individual utilities be granted the opportunity to implement decoupling mechanisms if they so desire.

George Cavros spoke on behalf of the Southern Alliance for Clean Energy, advocating for the FPSC to implement decoupling as one "tool in the toolbox." Mr. Cavros explained that by instituting energy efficiency financial incentives and performance goals, along with decoupling, other states have experienced energy efficiency savings ranging from one to three percent of sales. He suggested the FPSC establish the total resource cost test as the first order of business in the upcoming FEECA goal-setting proceedings, and also should require the utilities to implement all energy efficiency programs deemed cost-effective under the test. Mr. Cavros indicated that the current regulatory structure sends the wrong economic signals to utilities and discriminates against energy efficiency and demand-side renewable energy, as evidenced by Florida's largest utilities achieving minimal results, or below the one percent annual savings goal, from energy efficiency programs in 2006 through 2007. In response to the criticisms of decoupling presented during the workshop, Mr. Cavros argued they are theoretical, since utilities would continue to be subject to fluctuations in cost under decoupling and would not have their revenues guaranteed regardless of energy sales. Mr. Cavros agreed that decoupling could send inappropriate financial signals to consumers, but maintained these signals would have minimal impact on a customer's bill, ranging from one percent to four percent, and that those funds would go toward investments in energy efficiency that would ultimately lower customer bills.

Joe McGlothlin from the Florida Office of Public Counsel (OPC) spoke on behalf of Florida's utility consumers, stating that his office has yet to view a formulation of decoupling that works in the customers' interests, since no mechanism can sever the relationship between risk and return. OPC's view is that the adoption of decoupling would have the effect of reducing the utility's risk and would necessitate a corresponding reduction in the utility's allowed return on equity. Mr. McGlothlin questioned the contentions of earlier presenters that risks due to variation in weather could be neutralized for consumers.

Post-Workshop Comments

Written comments in response to the staff workshop on utility revenue decoupling were filed by George Cavros representing the Southern Alliance for Clean Energy, Susan Clark on behalf of four of Florida's investor-owned utilities,[4] Paula Gant representing the American Gas Association, John Wilson with the Southern Alliance for Clean Energy, and Luis Martinez with the Natural Resources Defense Council. Comments from Mr. Cavros, Ms. Clark, and Mr. Martinez echoed their presentations at the workshop as summarized above. The American Gas Association registered its endorsement of decoupling as a means to achieving energy efficiency and reducing greenhouse gas emissions. Mr. Wilson's comments supported the information submitted by Mr. Cavros.

[4] Florida Power & Light, Gulf Power, Progress Energy Florida, and Tampa Electric Company.

Section 4. Literature Search

FPSC staff reviewed a variety of industry reports on decoupling and its effects on energy efficiency programs. The following reports summarized below are among the more substantial resources relied upon for factual information presented in this report.

The National Association of Regulatory Utility Commissioners, "Decoupling for Electric & Gas Utilities: Frequently Asked Questions," Washington, D.C., 2007. In this publication, the National Association of Regulatory Utility Commissioners (NARUC) provides answers to some of the most frequently asked questions it has received on decoupling to assist state regulatory commissions in determining whether decoupling might be implemented in those states. Topics explored include the basics of decoupling, as well as some discussion of application in differing jurisdictions. Among the conclusions of the report are the following: (1) decoupling is not designed to create an incentive for energy efficiency, (2) whether decoupling in itself results in increased efficiency is still the subject of debate, (3) decoupling could create higher bills for customers who do not participate in efficiency programs, (4) the utility remains at risk for any changes in costs because decoupling affects only revenues, and (5) utilities under decoupling can improve its profitability through efficiency investments.

Center for Climate Strategies, "Florida's Energy and Climate Change Action Plan," Tallahassee, FL, October 2008. Originally a part of the discussion of the Energy Supply and Demand technical working group, decoupling was explored by the Climate Action Team as a possible addition to its policy recommendations to the Governor. The report indicates that the FPSC has "been tasked by HB 7135 to analyze utility revenue decoupling and provide a recommendation and report to the Governor, President of the Senate and Speaker of the House of Representatives by January 1, 2009." The report notes that the FPSC initiated a workshop, but makes no findings with regards to decoupling.

U.S. Environmental Protection Agency, "Aligning Utility Incentives with Investment in Energy Efficiency," Washington, D.C., November 2007. This report lists decoupling as a potential component of a state's plan for energy efficiency, and explores snapshots of other state experiences as well as some of the benefits and costs of revenue decoupling. The report is highly objective, but states that the "specific nature of the decoupling mechanism and, in particular, the nature of adjustments for factors such as weather and economic growth, will determine the extent to which the link between sales and profits is affected."

Regulatory Assistance Project, "Revenue Decoupling Standards and Criteria: A Report to the Minnesota Public Utilities Commission," Montpelier, VT, June 2008. This report was recommended to FPSC staff by Frederick Weston, a director of the Regulatory Assistance Project and presenter at the FPSC staff's August 2008 decoupling workshop. The report defines decoupling, identifies impacts, provides applications, gives general recommendations for inclusion in a decoupling proposal, and presents specific recommendations for inclusion in a gas utility decoupling proposal for Minnesota. Among the general recommendations for inclusion in a decoupling proposal are the following: (1) clear identification of objectives, (2) explicit description of the mechanism including establishment of the revenue requirement, (3) detailed class cost of service analysis, (4) explanation of service quality standards and a schedule of penalties for failure to meet them, (5) description of revenue adjustment procedures, (6) a defined set of reporting requirements, and (7) a procedure to address how customers would be informed of the pertinent aspects of the decoupling.

The National Regulatory Research Institute (NRRI), "Decoupling and Public Utility Regulation," Columbus, OH, August 1994. This report presents the findings of research economists with NRRI from a study on the relationship between decoupling and public utilities regulation. Conclusions in the report suggest that the primary function of a decoupling mechanism is to insulate the utility from risk associated with the financial effects of weather fluctuations, competition, misforecasts of ratepayer growth, unanticipated movements in the business cycle, and demand-side management. NRRI's economists state that ratepayers under a decoupled utility may have to bear "substantial price volatility." Despite the type of decoupling, they concluded that "decoupling makes it more difficult for regulators to justify the promotion of demand-side management to ratepayers on the basis of cost savings," and that "[d]ecoupling is shown to *increase* the private costs of demand-side management from the ratepayers' perspective," (emphasis theirs). Decoupling is stated in this report to increase the system cost of a generation expansion plan that includes demand-side management as opposed to a generation expansion plan that does not include demand-side management, since the demand-side management lowers the utilization rates of the facility. The interaction between decoupling and integrated resource planning increases the private cost to the utility of a generation expansion plan with demand-side management, driving up short-term electricity prices. The report further states that "the one uncompromised justification for decoupling is that decoupling preserves the financial integrity of the utility and protects the environment. This is usually at the cost of a high probability of periodic increases of electricity prices that could continue for some time into the future." This report was prepared with funding provided by participating member commissions of NARUC.

Section 5. Ratemaking in Florida and Decoupling

Rate Design Overview

Decoupling mechanisms are typically implemented following the establishment of allowed revenues in a utility's rate case. Rates are set to compensate the utility for the costs of providing service plus an allowed return on its capital investments. Two types of charges combine to form rates: (1) base rates and (2) cost recovery clauses.

(1) Base Rates

Through base rates, the utility recovers the costs of its investments in the plant, facilities, and normal business operating and maintenance costs that are required to produce and deliver electricity to the utility's customers. Base rates do not include the costs of fuel. Base rates can be changed only through a rate case proceeding. The three basic components of revenue requirements are (1) rate base, the original cost of the utility's in-service plant minus all accumulated depreciation; (2) the cost of capital, which includes the utility's cost of debt and its authorized return on equity; and (3) operating expenses, which involve the expenses of the utility, such as maintenance, depreciation, administration, and taxes. Revenue requirements are determined based on the costs for the customer sales in a particular test year. Costs are allocated to sales that are projected with increases into future years beyond the test year, while rates designated for the test year remain in effect into future years. In this way, the utility can maximize its revenues by exceeding the sales projected under the costs and rates established in the most recent rate case. Increasingly efficient utilities find it possible to exceed allowed returns under this traditional ratemaking design.

(2) Cost Recovery Clauses

Cost recovery clauses provide for an annual review of expenses that are subject to more frequent and significant short term changes than are base rates. The separation of these specific charges into clauses allows the utility to bypass the expensive and time consuming base rate case process. Currently in Florida, approximately 53 to 69 percent of utility costs are recovered through clauses. Florida has separate clauses for the following cost categories: fuel price costs, purchased power costs, costs associated with encouraging energy conservation, costs of complying with governmentally mandated environmental programs and standards, and new nuclear plant costs. As described below in this section, the Generation Base Rate Adjustment (GBRA) is another method of recovery. Only charges deemed reasonable, prudent, and related to the utility's obligation to provide service to customers may be recovered through these clauses. The costs associated with recovery clauses are spread over the utility's projected sales and are adjusted annually based on the utility's actual sales. A decoupling mechanism would not apply to these 53 to 69 percent of charges in Florida, as they are inherently decoupled from base rates. It should be noted, however, that a utility would likely still choose to increase sales under these cost recovery clauses or a decoupling mechanism, as either route would allow for the utility to distribute its fixed costs over the increased sales units, easing the utility's profitability and providing it additional flexibility in its projections.

Passing fluctuation risk and the costs from the utility to the ratepayer provides the customer an opportunity to respond to price increases with conservation. For example, prudent costs of fuel are recovered through the fuel cost recovery factor. Should fuel prices increase, the quick translation of this higher cost to a customer's bill would likely prompt conservation, which would in turn theoretically lower demand, decreasing the cost of fuel for all users in subsequent periods. If customers choose not to conserve, their higher usage is met with higher fuel prices. The capacity (or purchased power) recovery clause allows the utility to pass on costs incurred when purchasing power from other utilities in circumstances where it was less expensive to do so than for the utility to generate the power itself. The energy conservation cost recovery clause allows the utility to recover the prudent expenses associated with encouraging energy conservation, thereby reducing the need for additional power plants. The environmental cost recovery clause provides for the recovery of costs associated with complying with any government mandates involving increased environmental programs or standards, which have recently received increased focus. Finally, a storm restoration surcharge was authorized upon petition of three IOUs following the 2004 hurricane season, which resulted in widespread recovery efforts and mounting costs associated with reinstating the state's infrastructure. Three of the state's electric IOUs expressed concerns of inadequate response to future storms if recovery from the 2004 storm season had not been made. The storm recovery was addressed separately for each of these utilities and should be completely phased out for all by the year 2018.

In recent years, the volume of capital items flowing through cost recovery clauses has grown. This movement of items from base rates to cost recovery clauses represents an increasing degree of costs decoupled from the associated sales in Florida. Costs passed through recovery clauses as a percentage of utility revenues have increased significantly since 1999, as have costs passed through recovery clauses as a percentage of utility expenses. The following two tables illustrate this increasing trend:

Costs Recovered Through Clauses as a Percent of Annual Revenues by Generating Utility 1999 – 2007

	FPL	**PEF**	**TECO**	**Gulf Power Co.**
December 1999	38%	43%	34%	33%
December 2000	40%	45%	39%	35%
December 2001	48%	45%	41%	39%
December 2002	46%	48%	43%	37%
December 2003	50%	49%	44%	37%
December 2004	52%	53%	48%	38%
December 2005	53%	56%	47%	44%
December 2006	60%	62%	56%	47%
December 2007	58%	61%	57%	48%

Source: Earnings Surveillance Reports, Schedule 4.

Costs Recovered Through Clauses as a Percent of Annual Expenses by Generating Utility 1999 – 2007

	FPL	PEF	TECO	Gulf Power Co.
December 1999	43%	49%	40%	37%
December 2000	46%	50%	45%	24%
December 2001	54%	52%	47%	43%
December 2002	53%	56%	49%	42%
December 2003	56%	57%	50%	42%
December 2004	58%	60%	55%	43%
December 2005	59%	61%	57%	48%
December 2006	66%	66%	62%	51%
December 2007	64%	69%	64%	53%

Source: Earnings Surveillance Reports, Schedule 4.

For each of the four predominant IOUs, the trend of costs being recovered through a clause has grown over the above years.

Two recent examples of Florida's IOUs recovering capital items through a cost recovery clause are (1) Florida Power & Light's (FPL) petition for a rate increase in Docket Number 050045-EI, and (2) Progress Energy Florida's (PEF) petition for a rate increase in Docket Number 050078-EI. In each case, the FPSC approved the terms of the settlements presented to it by the parties. The thrust of each settlement was to define a period during which (1) the utility would not seek an increase in base rates, subject to certain exceptions, and (2) the ceiling on the utility's performance would be governed by revenue limitations rather than a specific authorized return on equity.

In Order Number PSC-05-0902-S-EI, issued September 14, 2005, in Docket Number 050045-EI, the FPSC ruled that for any power plant complying with specified conditions, FPL's base rates will be increased by the annualized base revenue requirement for the first 12 months of operation, to account for costs not fully recovered through cost recovery clauses. This action represented a permanent change to FPL's base rates. This arrangement was referred to as a Generation Base Rate Adjustment (GBRA). In the event that the actual capital costs of the project were lower than projected in the need determination proceeding, the difference would be trued-up through the capacity cost recovery clause. The stipulation ends December 31, 2009. FPL has recently filed a test year letter notifying the FPSC of its intent to file for a base rate increase with new rates going into effect by 2010.

In Order number PSC-07-0900-PAA-EI, issued November 7, 2007, in Docket Number 050078-EI, the FPSC ruled that costs associated with the Hines Unit 2 could be recovered through the fuel cost recovery clause until the in-service date of Hines Unit 4. At that time, PEF would transfer the recovery of Hines Unit 2's 2006 full revenue requirements, excluding the unit's non-fuel Operations and Maintenance (O&M) expenses, from the fuel cost recovery clause to base rates. The practice of recovering capital cost items through cost recovery clauses has reduced risk for utilities by removing a disincentive against investing in items that could result in efficiency improvements.

Furthermore, rate case proceedings, such as the two examples listed above, take into consideration current and projected sales volumes, as well as the accompanying distribution of costs over those sales. With the introduction of cost recovery clauses, the need for utilities to apply for rate adjustments has lessened. Earnings reviews in the last few decades for Florida's electric IOUs are illustrated in Appendix C: Earnings Review History. As seen in Appendix C, earnings reviews have continued through recent years for all five IOUs. In each of these cases, the FPSC considered sales levels in the determining orders, so utility risk was appropriately considered.

Tampa Electric Company (TECO) has recently filed for rate case review. FPL and PEF are expected to file rate cases in the first quarter of 2009. During rate case reviews, the FPSC may consider specific decoupling requests and other alternatives, such as lost revenue recovery and stepped rates based on sales forecasts.

Following the establishment of rates in a rate case, the total annual revenues may fluctuate based on a number of factors including weather, economic conditions, changes in population growth, and per-customer usage. If sales are greater than forecast, then utilities will recover their fixed costs and may increase profits. Conversely, if sales are less than forecast, then utilities will experience reduced profits and may not recover all of their fixed costs. Between rate cases, a utility is at greatest risk for price fluctuations and, therefore, has a natural incentive to keep costs as low as possible.

Rate design has undergone continuous changes in recent years, from its previous position based on historical data to its current position based on forecasted sales. Changes in rate design continue to date, with the creation of a clause for early cost recovery associated with the construction of nuclear plants. As rate design evolves, so does the frequency of and justification for rate case review. Rate case review establishes the foundation upon which a decoupling mechanism can be designed.

Overview of Decoupling

Revenue decoupling is a rate setting mechanism that is designed to isolate utility revenues from sales volumes. Decoupling represents different concepts across interest groups. Environmental groups typically view the decoupling of the link between sales growth and rates as removing a disincentive for utilities to pursue energy conservation. Through this perspective, the utilities will not expend resources on programs that reduce sales, such as conservation and energy efficiency programs, since the utilities' profitability is tied to sales growth. Designing a decoupling mechanism so that the utility can no longer maximize profits through increased sales would "remove a disincentive" against investment in such programs. Conversely, utilities view the decoupling of the link between sales growth and rates as removing the utility's ability to maximize profits through increased sales.

Decoupling is commonly established after revenue requirements and rates are set through a traditional rate case. True-ups adjust the level of collected revenues up or down to the level of revenues approved during the utility's most recent rate case. Other adjustments are made to compensate for sales fluctuations due to weather, economic cycles, or conservation. Adjustments are made by collecting an additional surcharge from ratepayers during such periods when the utility under-collected, and by crediting ratepayers during periods when the utility over-collected. These modifications represent a shifting of risk from the utility to the ratepayer, without a corresponding decrease in the utility's return on equity. The frequency of and justification for these adjustments is determined in the design of the decoupling mechanism.

Design varies by service area. As discussed during the FPSC staff workshop, no single method of decoupling is widely accepted. Typically, methods vary by jurisdictional area and risk tolerance. Consideration must be given to such factors as (1) whether the decoupling would apply to all customer rate classes or if it would be limited to a select customer class, such as residential; (2) whether the decoupling would be phased in or if an immediate deadline would be imposed for a utility; (3) whether to allow for weather fluctuations, population fluctuations, and economic cycle fluctuations in the revenue adjustments; (4) the frequency of true-ups; and (5) administrative resources required from the applicable utilities and regulators for implementation.

The appropriateness of applying a decoupling mechanism depends in large part on whether the industry is experiencing sales growth or sales stagnation/decline. Typically in Florida, electric sales are continuing to increase, while gas sales are remaining level or are in decline due to industrial fuel switching. As such, the objectives of decoupling are different for Florida's electric utilities versus Florida's gas utilities. With electric utilities, one purpose of implementing a decoupling mechanism would be to encourage conservation. Because the link between sales and profits is severed under a decoupling mechanism, the utility would have no innate bias against investment in energy conservation programs that would reduce electricity sales.

Generally, a decoupling mechanism by itself does not provide a utility with an incentive to establish energy efficiency and conservation programs. Instead, the mechanism renders the utility indifferent to fluctuations in its sales volumes. This sentiment is echoed in the letter to the National Association of Regulatory Utility Commissioners (NARUC) submitted jointly by the Edison Electric Institute (EEI) and the Natural Resource Defense Council (NRDC), as seen in Appendix D: Letter Supporting Lost Revenue Recovery. In this letter, the Edison Electric Institute and the NRDC appeal to NARUC Commissioners to consider their joint recommendations on resource planning and energy efficiency. Specifically, the letter states that most and perhaps all utilities will require higher savings and investment targets to achieve the goal of implementing all cost-effective energy efficiency programs. These utilities will require regulatory action to ensure (1) cost recovery for prudent investment, (2) an earnings opportunity with verified success in delivering cost-effective savings, and (3) wholeness for authorized fixed costs as sales volumes decline. The letter acknowledges the "need to allow initially approved fixed-cost revenue requirements to adjust upward between rate cases in ways that reasonably reflect utilities' prudently incurred cost increases, while reaffirming our mutual support for true-up mechanisms that ensure recovery of such appropriately adjusted, PUC-authorized fixed-cost revenue requirements, regardless of retail sales fluctuations." EEI and NRDC continue to state that "[m]ere removal of disincentives is not enough to ensure the level of committed action needed."

Decoupling Benefits and Costs

Initial consideration of revenue decoupling must include identification of the expected benefits and costs of the mechanism. Because decoupling mechanisms can be as varied as the jurisdictions they serve, all components must be specifically tailored to a given service area and should promote the objectives supported by the regulatory entity. With electric utilities, the purpose of implementing a decoupling mechanism would be to encourage conservation through increased utility investment in conservation programs. Because the link between sales and profits is severed under a decoupling mechanism, the utility would have no innate bias against investment in programs that would reduce electricity sales, thereby promoting conservation.

As it might apply to Florida, a decoupling mechanism would have the following expected benefits and costs.

Expected Benefits

Workshop discussion and industry literature suggest that benefits of decoupling include but are not limited to (1) utility risk reduction through a guarantee of utility revenues and (2) removal of a disincentive for the utility to invest in energy efficiency and DSM programs.

(1) Utility Risk Reduction

The general concept of decoupling is to first establish a level of allowed revenues for a utility, typically through a rate case. The utility then allocates its fixed costs over the projected sales required to achieve those allowed revenues. If any discrepancy occurs in a given period between the actual collected revenues versus those allowed, the utility then makes an adjustment in the form of a collection from the ratepayers or a credit to the ratepayers. In this way, the risk associated with fluctuating sales volumes due to reasons of weather, economic cycles, or conservation and efficiency is shifted away from the utility to the ratepayer. The assurance of revenues and recovery of fixed costs that are intended to be provided by decoupling essentially restrict the utility to a budget. This budget theoretically means that a utility would not be contradicting its operational needs by investing in energy efficiency or conservation programs, since any reduction in kWh sold would not affect its revenues or fixed cost recovery.[5]

One participant at the August 2008 staff workshop on utility revenue decoupling suggested that utility risk could, in fact, be heightened by decoupling, as the inability to promise an increasing return would deter new investors in an IOU. Participants also stated that decoupling provides the utility with an incentive to prolong the life of existing plants instead of investing in newer, more efficient plants. Potential investors may view older, less efficient plants and infrastructure as a less desirable investment, thus increasing risk for the utility. Furthermore, as discussed above, a natural incentive is created by the existing system of base

[5] General agreement exists that the costs associated with "pass-through" clauses are essentially decoupled without the benefit of a decoupling mechanism. Therefore, Florida IOU risk is minimized by the current application of these clauses. Any decoupling practice initiated in Florida would therefore apply to the component of base rates not subject to any fuel or cost recovery clauses.

rate review, which drives the utilities to maintain tight cost controls in the face of exposure to fluctuations in costs beyond the utilities' control. Implementation of a decoupling mechanism could remove that natural incentive towards efficiency.

(2) Removal of Disincentive

The existing regulatory structure is described by decoupling advocates as incenting utilities to maximize their sales volumes. Because a utility's revenue is based largely on energy sales and because reduced sales volumes can interfere with a utility's ability to recover its fixed costs, the utility does not have an incentive to invest money in areas that will reduce its sales volume. Theoretically, if the link between sales volumes and revenues is severed, then the utility will become indifferent to sales levels, which may result in increased energy efficiency and environmental benefits. This concept is frequently referred to as "removing a disincentive" against investments in such benefits.[6] If the decoupling mechanism achieves the objective of inducing the utility toward energy efficiency, then less energy is produced, contributing less to environmental degradation. Environmental objectives typically cited by decoupling supporters include pollution control, natural resource conservation, reduction in greenhouse gas emissions, and avoidance or deferment of the need for additional plant capacity.

Overall, Florida's utilities have been successful in implementing the objectives of FEECA. This legislation was passed in 1980 to slow the growth of weather-sensitive peak demand, to reduce and control the growth of electricity consumption, and to reduce the consumption of resources such as petroleum fuels. Numeric peak demand and energy savings goals are set by the FPSC every five years to comply with FEECA. Florida's electric utilities have achieved estimated savings from utility-sponsored DSM programs among the highest in the nation. The following table illustrates these savings since 1980.

Estimated Cumulative Savings from Utility-Sponsored DSM Programs Since 1980

	2007	**By 2016**
Summer Peak Demand	5,685 MW	7,422 MW
Winter Peak Demand	6,100 MW	7,570 MW
Energy Consumption (Annual)	6,977 GWh	9,051 GWh

Source: FPSC's *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, February 2008

Numeric energy efficiency goals for the utilities subject to FEECA were last set in 2004 and are scheduled to be revised by December 2009. The FPSC has begun a proceeding in which it will assess the technical and economic potential savings from energy efficiency measures. The costs of energy efficiency measures will also be assessed in order to determine the net impact on

[6] It should be noted, however, that as discussed below in reference to the staff's workshop on decoupling, discussion by the interested parties was in agreement that this removal of a disincentive does not equate to creation of an incentive to invest in energy efficiency, and therefore, implementation of a decoupling mechanism does not directly translate to investments in energy efficiency by the utility.

customers. Legislation passed during the 2008 session authorized the FPSC to place more emphasis on control and reduction of customer energy usage, in addition to previous utility efforts to reduce peak demand. The goals proceeding provides an opportunity, through a deliberative data intensive process, to establish more aggressive energy conservation and efficiency goals for the electric utilities. Establishing and enforcing more aggressive mandatory energy efficiency goals will increase utility conservation efforts more than would a decoupling mechanism.

Once the expected benefits of decoupling have been clearly identified, the regulatory agency can proceed in designing a mechanism. This design should include provisions for regularly evaluating impacts to ensure that the mechanism is achieving the intended result, be it energy efficiency and environmental benefits, or simply the creation of indifference toward increased sales volumes. Objectives must be carefully constructed in order to guide the development of subsequent decisions.

Expected Costs

Workshop discussion and industry literature suggest that costs of decoupling include but are not limited to (1) the potential to send inappropriate pricing signals to utility customers, (2) the lack of incentive for utility investment in efficiency or conservation, and (3) increased administrative burden.

(1) Inappropriate Pricing Signals to Ratepayers

Concerns raised in industry literature and the FPSC staff workshop include the possibility that decoupling would send inappropriate pricing signals to consumers, since reductions in consumption by the decoupled customer class would result in a higher energy rate, whereas increased consumption by that class would result in a decreased energy rate. Proponents of decoupling state that the fluctuations in overall rates would be insignificant and would amount to no more than one to four percent in either direction. If overall consumption is down for the period, the utility would not have received its guaranteed revenues under the mechanism, and would appeal to its regulatory entity for a rate increase to offset the lost revenues. Finally, the likelihood is slim that actual revenues collected would routinely match the allowed revenues for each utility, and therefore, frequent surcharges and credits to ratepayers could result in rate volatility. Adjustments due to fluctuating sales volumes shift the risks from the utility to the ratepayer, regardless of whether the fluctuation is due to weather, economic cycles, or conservation. Increased risk for the ratepayer is an additional concern for regulatory entities to consider when contemplating decoupling for their jurisdictions.

(2) Lack of Incentives for Utility Investment in Desired Programs

The consensus regarding utility incentives is that decoupling serves to remove a disincentive against investment in efficiency and conservation, which is distinct from creating an incentive to invest. If decoupling were considered for Florida with the objective of increasing utility investment in efficiency and conservation, the FPSC would need to begin a separate proceeding to establish incentives. The FPSC is currently reviewing utility conservation goals as required every five years by FEECA. Incentive suggestions made by interested parties have included the establishment of performance-based adjustments to the utility's rate of return as well as shared savings mechanisms.

(3) Increased Administrative Requirements

A fully functioning revenue decoupling mechanism would require the implementation of numerous administrative functions. These functions could include (1) implementing policy regulations through rulemaking, rate reviews, and ongoing dockets; (2) monitoring utility activities in energy efficiency and conservation; and (3) evaluating the costs of administering the mechanism versus the likely investments in energy efficiency and conservation in an un-decoupled market. Including a process to periodically review the mechanism's structure and goals over time could assist in reducing the risk for ratepayers and ensuring that the development of energy efficiency and conservation programs is progressing as expected. Administration of these functions would be performed by the FPSC and the affected IOUs. It should be noted that in the Florida decoupling experiment conducted by the Florida Power Corporation, discussed in the following section, the utility found the mechanism to be administratively burdensome.

Section 6. FPC (PEF) Decoupling Experiment

At the agenda conference on October 3, 1994, the FPSC approved[7] a Florida Power Corporation (FPC)[8] proposal for a revenue decoupling experiment. The proposal was submitted in response to an agreement reached during the 1993 FPC rate case, wherein the Legal Environmental Assistance Foundation (LEAF) testified that the FPSC should adopt a procedure for decoupling the utility's revenues from electric sales and for providing the utility with an economic incentive to pursue cost-effective DSM programs. LEAF and FPC agreed during the hearing that LEAF would defer further consideration of its decoupling and incentive issues during the rate case. In return, the utility would submit a proposal for revenue decoupling and DSM incentives for the FPSC's consideration within 60 days after the conclusion of the case. The utility submitted separate DSM and decoupling proposals in April 1993, and both proposals were designed to be implemented on a three-year trial basis.

The utility proposed a revenue per residential customer mechanism with a target based on the allowed revenue of $612 per residential customer. For the purpose of matching target revenues with seasonal variations in sales, the monthly revenue per customer target was designed to be set by dividing the annual revenue per customer amount of $612 by a monthly revenue adjustment factor reflecting historical monthly variations in revenues. FPC proposed a growth factor for the revenue per customer calculation of 1.5 percent per year. Later, a modification was made by FPC to adjust the revenue per customer amount based on changes in personal income.

FPSC staff then filed its recommendation on measurement criteria and implementation details for the proposal, allowing the utility to begin its revenue decoupling experiment with residential revenues on January 1, 1995. The experiment continued for three years and concluded on December 31, 1997. During the experiment period, residential revenues fluctuated between $11 million over-recovery to a $23 million under-recovery, primarily due to weather variations. The FPSC was unable to identify the effect of conservation on lost revenues.

In a letter[9] to FPSC staff subsequent to the experiment, the utility identified three primary factors leading to its conclusion that the experiment did not achieve the intended results. First, the utility stated that the decoupling mechanism was designed to insulate its financial condition from variances in revenues due to increased energy conservation and to variations in weather and other factors; however, the utility concluded that weather variation proved to be the dominant effect of decoupling, overshadowing impacts on conservation. Second, FPC stated that the complexity of the decoupling mechanism required significant time to administer and was not understood readily by those not directly involved in its administration. Third, the utility stated that there was a general concern among utility management that decoupling "may not be compatible with the more market-oriented direction that Florida Power will need to pursue in response to the possibility of industry restructuring and retail competition." The letter indicated

[7] FPSC Order No. PSC-95-0097-FOF-EI, Docket No. 930444-EI, Request for Approval of Proposal for Revenue Decoupling, by Florida Power Corporation, issued January 18, 1995.
[8] FPC now operates as Progress Energy Florida.
[9] The letter dated May 7, 1998, was signed by James A. McGee, Senior Counsel with FPC, and was addressed to Lee Colson, engineer at the time with the FPSC's former Division of Electric and Gas.

that the experiment removed a disincentive for FPC to pursue energy efficiency programs that do not meet the Rate Impact Measure (RIM) cost-effectiveness standard, but that the experiment did not provide an affirmative incentive to pursue such programs. At the conclusion of the decoupling experiment, all of FPC's energy efficiency programs were RIM-based. Following its analysis of the experiment, FPSC staff concluded that the greatest impact of the decoupling experiment was the neutralization of variances in the utility's revenues due to variations in weather. During the experiment, FPC exceeded its megawatt goals, albeit to a lesser degree than Florida Power & Light exceeded its megawatt goals during the same time without the benefit of decoupling. The experiment suggested little or no change in FPC's energy efficiency policy due to decoupling, and the estimated cost of revenue decoupling to FPC ratepayers was $337,820, in 1997 dollars.

Section 7. Conclusion

The FPSC's efforts to study decoupling mechanisms for Florida have raised a number of issues that should be investigated further before determining whether decoupling should be adopted for Florida's electric IOUs. Questions remain as to whether decoupling is a prerequisite to encourage conservation. Administrative issues relating to the design and maintenance of a mechanism are likely to prove expensive and time consuming. Questions exist as to whether the costs of implementing decoupling would be outweighed by any benefits of decoupling. The greater the emphasis placed on achieving mandatory FEECA energy efficiency goals, the lesser the impact that would be gained by implementing a decoupling mechanism.

Revenue decoupling is unique to the circumstances of each utility. As a result, determination of whether decoupling would be an appropriate measure for a utility should be made on a case-by-case basis. The best likely scenario to examine the appropriateness of decoupling for a particular utility would be in a rate case hearing. Currently, three of the four predominant Florida electric IOUs are planning to come before the FPSC with rate case filings during 2009.

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Appendix B. State Overview

In assessing all potential strategies for development of a decoupling mechanism, staff reviewed the existing proposals and policies in other states. According to the Natural Resources Defense Council, 21 states plus the District of Columbia have instituted some form of decoupling, whether for the electric or gas industries. Staff has profiled these decoupling proposals and policies below.

Arizona

Arizona's two largest gas companies, Southwest Gas and UniSource Gas, have both applied for decoupling during past rate cases. In all cases so far, the Arizona Corporation Commission has rejected their proposals, though one case is still pending. The two companies have both seen their revenues decline in recent years, and financial considerations on the part of the companies might have motivated their proposals.

Arkansas

Arkansas initiated a gas decoupling program in late 2007. Arkansas's three major gas companies, Centerpoint Energy, Arkansas Western Gas Company, and Arkansas Oklahoma Gas Corporation, are all taking part in the program. The Arkansas decoupling mechanism involves identifying lost revenue from efficiency programs and allowing cost recovery for that lost revenue. Rates will be reviewed and adjusted annually beginning April 1, 2009. Currently, Arkansas PSC staff considers the program too new to merit full evaluation.

California

California has one gas utility that has revenue decoupling. Pacific Gas and Electric has a rate recovery account that was established in its last rate case in late 2002. The other gas utilities are expected to decouple their revenues in their upcoming rate cases. The outcomes have been a compromise of the parties involved in the rate proceeding. The mechanism will not be applied consistently among the utilities. There have not been particular problems with decoupling, and no major issues have been raised. In 2001, California amended Section 739 of their statutes to allow for utilities to recover reasonable amount of revenue. These changes were designed to keep the utilities whole regardless of the amount of usage. This legislation was a result of California's energy crisis. It is not known if the electric utilities in California will use the new statute in future rate cases.

Colorado

One gas company in Colorado, Public Service, proposed a gas decoupling mechanism in December 2006 that was adopted the following year by the Colorado Public Utility Commission. Annual gas use per customer had been declining among Public Service's customers every year (except in 2005, where it increased by 0.1 percent) since at least 2001. Revenue requirements were pegged to a test year running from July 2005-June 2006. The program has been running since 2007 with no adjustments in the interim.

Delaware
Delaware has handled electrical and gas decoupling together. In 2007, Chesapeake Utilities Corporation (Chesapeake), a gas company, and Delmarva Power and Light (Delmarva), a gas and electric utility, proposed decoupling structures that relied on surcharges to recover lost revenue. On September 16, 2008, the Delaware Public Service Commission issued an order that largely, but not completely, rejected surcharges as a basis for decoupling. The order did, however, allow for decoupling, favoring a rate design approach. The Delaware PSC decided that decoupling would be handled on a company-by-company basis during their next rate cases. Chesapeake had a rate case active at that time, and has had a decoupling proposal instituted through rate design. Delmarva has not yet instituted a proceeding for a new rate case as of September 2008.

District of Columbia
The District of Columbia has a pending electrical decoupling case moving forward with one of its electrical utilities, Potomac Electric Power Company (Pepco). The program in DC is known as a Bill Stabilization Adjustment (BSA). Pepco already has a BSA operative in parts of Maryland and is an affiliate of Delmarva in Delaware. The program has not yet been finalized or fully approved, so its active date is still uncertain.

Hawaii
The Hawaii Public Utilities Commission has held workshops and notified stakeholders of their likely intention of implementing a decoupling mechanism in the near future. No formal program has been initiated yet, however, and no dates for action have been established.

Idaho
The Idaho Public Utility Commission (IPUC) instituted a pilot program in electrical rate decoupling in March 2007. Idaho's program, Fixed Cost Adjustment (FCA), was initiated for Idaho Power Company (IPC) as a three-year program that would apply only to residential and small-business customers. In the first year of the program, average energy use per customer increased for residential customers, but decreased for the general service class, resulting in over collection of approximately $2.4 million. The IPUC recommended refunding this balance to customers in both classes on a per-kwh basis, resulting in a rate reduction of 0.045676 cents per kwh. Two years remain on the program, so the FCA has not yet been fully evaluated.

Illinois
Peoples Gas and North Shore Gas companies were approved for decoupling in February 2008. The cases have been appealed and are awaiting a hearing. The state's other gas companies have pending rate cases where decoupling is proposed, or they are expected to propose decoupling in their future rate cases.

Indiana
Duke Energy has proposed decoupling in its Save-A-Watt proposal. The utility and the Utility Consumer Council have agreed to a stipulation to allow for decoupling. The stipulation was submitted in August 2008. The Indiana Regulatory Commission is reviewing the stipulation but has not rendered a decision. Decoupling was established as a means to help with conservation.

The first gas utilities were decoupled in early 2007. The results of decoupling have not yet been analyzed.

Maine

Maine initiated an experiment in decoupling in the electric industry in Spring 1991. Central Maine Power (CMP) began revenue decoupling in an intended three-year experiment at that time, but which ended three months early in 1993. By that time, almost $41 million dollars in revenue had been deferred, representing a 5 percent rate increase, due primarily to an extended recession in Maine (and elsewhere) during the experiment period. In 2007, a new attempt to pass legislation mandating electric decoupling died in the legislature.

Maryland

Maryland has instituted both gas and electricity decoupling for several companies at the utilities' initiation. Baltimore Gas and Electric Company (BGE) instituted decoupling in 1998, Washington Gas Light Company (WGL) in 2005, and Chesapeake Utilities Corporation (Chesapeake) in 2006. BGE and WGL have decoupling mechanisms tied to a total level of revenue, while Chesapeake's mechanism is tied to an allowed level of revenue per customer. Electrical decoupling in Maryland is more recent, having been instituted in 2007. Two companies, Pepco and Delmarva, both of which are owned by Pepco Holdings Inc., instituted BSAs substantially similar to their program in DC. The BSA works on a revenue per customer basis, rather than a total level of revenue allowed.

Massachusetts

The Department of Public Utilities in Order DPU 07-50-A, established that utilities would propose mechanisms to decouple rates. The Commission was concerned about rising rates for gas and electric service and the disincentive for the promotion of energy efficiency programs. The Order was issued on July 16, 2008, and the utilities are in the process of complying with the order.

Nevada

In 2007, the Nevada legislature passed a bill requiring the Nevada Public Utilities Commission to implement a rule that would remove financial disincentives for gas utilities to participate in conservation programs. The Nevada Commission has taken up the rulemaking in two phases. The first phase has been approved to allow for a rider to cover conservation programs. The second phase, decoupling, is still in rulemaking.

New Hampshire

Docket DE07-064 was filed in May 2007 in New Hampshire. The docket addresses energy efficiency rate mechanisms. The New Hampshire Public Utilities Commission has not yet made a ruling on the docket.

New Jersey

The New Jersey Board of Public Utilities (BPU) instituted gas decoupling in October 2006 with two companies, New Jersey Natural Gas and South Jersey Gas. The New Jersey program, called a Conservation Incentive Program (CIP), was instituted on a three-year pilot program basis. The CIP applies to residential and most commercial customers, though it segregates them into groups to avoid cross-subsidization. Under the CIP, the BPU allows the gas companies to recover lost revenues due to reduced customer usage and weather-related usage the following year through a CIP Rider. At the conclusion of the pilot program, the BPU has the option of discontinuing the CIP. Results so far, however, have exceeded expectations, with gas use per customer declining beyond expectations and beyond the non-decoupled gas utilities in the state. Recent state legislation in New Jersey granted the BPU explicit permission to entertain proposals for decoupling by the state's electric utilities. As of September 2008, no electric utility has made a formal decoupling proposal.

New Mexico

The information gathered on electric decoupling does not match the information from the NRDC map. The following information was gathered from discussions with staff from New Mexico Public Regulation Commission. No mechanisms exist for decoupling in New Mexico. No current movement is under way for revenue decoupling. A recent movement to look at disincentives for energy efficiency may incorporate decoupling.

New York

The New York State Public Service Commission issued an order in April 2007 to gas and electric utilities to propose mechanisms for revenue decoupling. The utilities have submitted plans that are currently being evaluated by the commission. A report of the findings may be available as soon as June 2009.

North Carolina

North Carolina initiated an experimental gas decoupling program with Piedmont Natural Gas Company in 2005, which was initially scheduled to expire in 2008. Since initiating the program, Piedmont has had a drop of 12 percent consumption per customer per year, while expanding its customer base 3 percent per year. Customer use of natural gas had been declining prior to 2005, however. Piedmont has been supportive of the program, and the North Carolina Utilities Commission (NCUC) is considering expanding the program. As of September 2008, the NCUC's decision is still pending.

Ohio

Ohio has had two docketed gas decoupling cases. The first involved Duke Energy with decoupling proposed within a rate case. Duke was approved for straight fixed variable decoupling in May 2008. In the second case, East Ohio Gas Company has also proposed decoupling in its rate case. The order approving decoupling was issued in October 2008, and the structure for East Ohio is similar to that of Duke.

Oregon

In 2002, The Public Utility Commission of Oregon approved the Northwestern Gas Company's Distribution Margin Normalization. As part of the order approving the tariff, the utility was to arrange for an independent study of the effectiveness of partial decoupling. The report found that decoupling is effective in reducing the link between sales and profit but did not completely remove the link. The information on electric decoupling does not exactly match the information from the NRDC map. The following information was gathered from discussions with staff from the Oregon Public Utilities Commission. The state had decoupling in the early 1990s as part of an elective decision by the state's two largest IOUs. The utilities decided against decoupling after about one year.

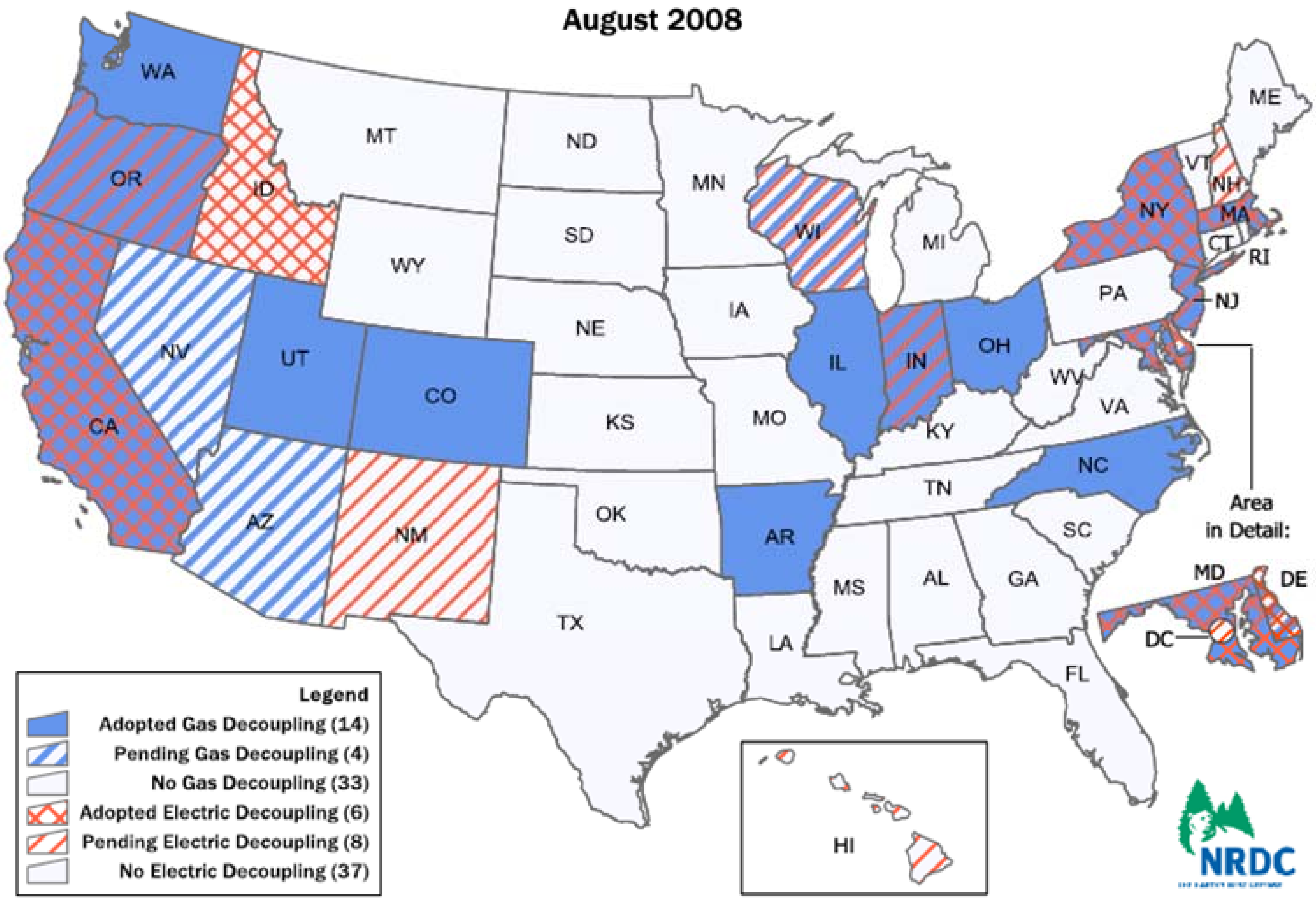
Utah

Questar was approved by the Utah Public Service Commission for a pilot program for gas decoupling in 2006. The program is designed to promote energy resource conservation. The program is still in the pilot stage, and there is no review of the program to date.

Wisconsin

The Public Service Commission of Wisconsin has initiated a generic docket to use as a basis for decoupling. On September 25, 2008, Wisconsin Public Service Corporation (WPS), a utility distinct from the Wisconsin PSC, became the first utility to hold a hearing applying for decoupling under the generic docket. WPS is a combined gas and electric utility and was applying for decoupling under both. As of September 2008, the Wisconsin PSC's decision is still forthcoming.

Gas and Electric Decoupling in the US



Appendix C. Earnings Review History

REVENUE REDUCTIONS AND INCREASES ORDERED
BY THE FLORIDA PUBLIC SERVICE COMMISSION FOR CERTAIN
UTILITIES FROM 1960 TO PRESENT
(All Utilities from 1968 to Present)

Revised 12/10/2008

ELECTRIC COMPANIES

Docket No.	Order No.	Date of Order	Effective Date	Nature of Case	$ Amount Requested	$ Reduction		$ Increase	Allowable Return on Equity Set	Allowable Return on Equity Range
PROGRESS ENERGY FL., INC. (Formerly Florida Power Corporation)										
6414-EU		02-28-62	05-01-62	Company Request		1,600,000				
	3684	08-31-64	10-01-64	Company Request		513,000				
7739-PU	3843	07-22-65	08-01-65	Commission Required		2,418,638				
7767-EU	4139	03-15-67	01-01-68	Commission Required		726,000				
9426-EU	4341	04-09-68	06-01-68	Commission Required		4,094,000				
9731-EU	4488	12-31-68	02-01-69	Company Request		1,519,213				
69230-EU	4654	05-07-69	07-01-69	Commission Required		1,730,998				
69486-EU	4804	12-01-69	01-01-70	Commission Required		2,500,000				
71370-EU	5619	12-29-72	02-01-73	Company Request	18,600,000			1,796,096	13.75%	13.50 - 14.25%
	5904	10-24-73	11-30-73					1,558,016		
74061-EU	6094	04-05-74	04-10-74	Company Request	12,348,975			12,120,919	13.50%	13.50 - 14.25%
74461-EU	6289	09-18-74		Company Request	14,500,000					
74806-EU	6450	01-09-75	01-29-75	Company Request	65,600,000		(Interim)	33,283,144		
	6794	07-22-75	08-22-75				(Final)	45,081,074	14.60%	14.30 - 14.90%
770316-EU	7791	04-28-77	04-28-77	Company Request	62,325,262		(Interim)	60,767,961		
	8160	02-02-78	02-07-78				(Final)	59,468,468	14.30%	14.30 - 14.90%
800119-EU	9451	07-15-80	08-06-80	Company Request	99,000,000		(Interim)	54,606,000		
	9577	10-02-80	10-07-80				(Interim)	40,434,000		
	9864	03-11-80	03-22-81	Company Request			(Final)	58,378,993	15.50%	14.50 - 16.50%
	10162	07-27-81	07-30-81				(Reconsideration)	57,108,497		
820100-EU	11165	09-15-82	09-29-82	Company Request	169,225,000		(Interim)	33,129,000		
	11628	02-17-83	02-27-83				(Final)	111,330,000	15.85%	14.85 - 16.85%
830470-EU	13771	10-12-84	10-11-84	Company Request	40,827,000			10,182,000	15.55%	14.55 - 16.55%
			01-31-85	Company Request (CR5)	83,259,000			83,253,000	15.55%	14.55 - 16.55%
861096-EI	16862	11-19-86	01-01-87	Ξ Income Tax & ROE		54,000,000 #			12.50%	
870220-EI	18627	01-04-88	01-01-88	Ξ Complaint-Occidental	(61,679,000)	121,500,000			12.60%	12.60 - 13.60%
						18,500,000 #				
	20632	01-20-89	01-01-89	Complaint-Occidental	10,669,000			10,669,000		
					(11,879,000)	11,879,000 #				
891298-EI	22437	01-22-90	01-01-90	Commission Required		11,879,000				
900935-EI	23910	12-21-90	01-01-91	Company Request	11,879,000			11,879,000		
910890-EI	92-0208	04-14-92	04-23-92	Company Request	31,601,000		(Interim)	31,208,000		
	92-1197	10-22-92	11-01-92	Company Request	108,096,000		(Final)	57,986,000	12.00%	11.00 - 13.00%
			04-01-93	Company Request	13,320,000 ✱			9,660,000 ✱	12.00%	11.00 - 13.00%
			11-01-93	Company Request	24,437,000 ✱			18,111,000 ✱	12.00%	11.00 - 13.00%
000824-EI	02-0655	05-14-02	05-01-02	Ξ Earnings Review		35,000,000 #				
				Ξ Earnings Review		125,000,000				
	03-0876	07-30-03		2002 Sharing		23,034,004 #				
				2003 Sharing		18,354,585 #				
				2004 Sharing		9,051,959 #				
				2005 Sharing		0				
050078-EI	05-0945	09-28-05	01-01-06	Ξ Company Request 2006	205,556,000			0	11.75%	N/A
070290-EI	07-0900	11-07-07	01-01-08	Hines Unit 2	36,339,546			36,339,546		
				Hines Unit 4	52,354,000			52,354,000		
080603-EI	08-0779	11-26-08	01-01-08	CR3 Uprate (MUR)	1,297,979			1,297,979		

\# One-time Refund
Ξ Stipulation
✱ Step Increase

Docket No.	Order No.	Date of Order	Effective Date	Nature of Case	$ Amount Requested	$ Reduction		$ Increase	Allowable Return on Equity Set	Range
FLORIDA POWER & LIGHT COMPANY										
6015-EU		03-25-60	04-01-60	Commission Required		200,000				
6165-EU		12-19-60	01-01-61	Commission Required		6,250,000				
U-273		05-08-64	05-08-64	Commission Required		10,000,000				
7739-PU	3737	01-11-65	02-01-65	Commission Required		3,750,000				
7759-EU	3926	11-10-65	01-01-66	Commission Required		9,467,900				
	4078-A	12-15-66	01-01-67	Commission Required		7,073,000				
71627-EU	5620	12-29-72	01-31-73	Company Request	80,000,000			14,566,384	12.875%	12.75 - 13.25%
	5696	04-03-73	05-10-73	Company Request	79,900,000			40,062,804		12.75 - 13.25%
	5905	10-25-73	11-30-73					6,173,528		
74509-EU	6456	01-10-75	01-28-75	Company Request	143,000,000		(Interim)	68,983,743		
	6591	04-01-75	05-01-75				(Final)	77,377,918	13.75%	13.50 - 14.00%
760727-EU	7668	03-04-77	03-14-77	Company Request	349,000,000		(Interim)	87,877,577		
	7943	06-16-77	07-08-77				(Final)	195,496,841	13.75%	13.50 - 14.00%
770810-EU	9025	08-22-79	11-01-79	Commission Required		14,446,975 #				
810002-EU	9941	04-09-81	04-29-81	Company Request	476,000,000		(Interim)	147,928,930		
	10306	09-23-81	10-04-81				(Final)	257,004,289	15.85%	14.85 - 16.85%
	10467	12-21-81	02-01-82				(Reconsideration)	255,832,324		
820097-EU	10931	06-23-82	07-22-82	Company Request	281,220,000		(Interim)	44,427,000		
	11437	12-22-82	12-23-82				(Final)	100,805,000	15.85%	14.85 - 16.85%
	12348	08-09-83	09-07-83	Company Request	256,716,000			237,816,000 ✣		
830465-EI	13537	07-24-84	07-20-84	Company Request	335,274,000		(Final)	81,464,000		
	13948	12-28-84	10-31-84				(Reconsideration)	84,103,000	15.60%	14.60 - 16.60%
	13537	07-24-84	01-31-85	Company Request	120,279,000		(Final)	114,984,000		
	14005	01-16-85	01-31-85				(Reconsideration)	120,447,000	15.60%	14.60 - 16.60%
880355-EI	19158	04-19-88	06-01-88	1987 Tax Savings		56,470,774 #			13.60%	
890319-EI	21143	04-28-89	05-01-89	1988 Tax Savings		38,221,663 #			13.60%	
	22334	12-22-89	01-01-90	1988 Tax Savings		38,460,672				
900478-EI	23349	08-13-90	09-04-90	1989 Tax Savings		39,553,605 #				
890319-EI	23727	11-07-90	10-01-90	1988 Tax Savings		6,716,875 #				
900038-EI	23996	01-16-91	01-16-91	Earnings Review					12.80%	11.80 - 13.80%
900478-EI	24644	06-10-91	09-01-91	1989 Tax Savings		2,835,466 #				
930612-EI	93-1024	07-16-93	07-13-93	ROE Review					12.00%	11.00 - 13.00%
990067-EI	99-0519	03-17-99	04-15-99	Ƀ Earnings Review		350,000,000			11.00%	10.00 - 12.00%
				Year 1 Sharing		22,774,000 #				
				Year 2 Sharing		108,827,000 #				
				Year 3 Sharing		86,184,000 #				
001148-EI	02-0501	04-11-02	04-15-02	Ƀ Earnings Review		250,000,000				
				2002 Sharing		11,156,000 #				
				2003 Sharing		3,071,000 #				
				2004 Sharing		0				
				2005 Sharing		0				
050045-EI	05-0902	09-14-05	01-01-06	Ƀ Company Request 2006	430,198,000			0	11.75%	N/A
				Company Request 2007	122,757,000			120,100,000		
060001-EI	06-1057	12-22-06	05-01-07	⌘ Turkey Point Unit 5	126,800,000			126,800,000		
080001-EI				⌘ Turkey Point Unit 5	(5,490,000)	5,490,000				
				⌘ West County Energy Center						
			06-09	Unit 1	138,520,000			138,520,000		
			11-09	Unit 2	127,100,000			127,100,000		

\# One-time Refund
@ Rate Base Reduction
⌘ Generation Base Rate Adjustment (GBRA)

Ƀ Stipulation
✣ St. Lucie No. 2 Increase

Docket No.	Order No.	Date of Order	Effective Date	Nature of Case	$ Amount Requested	$ Reduction		$ Increase	Allowable Return on Equity Set	Allowable Return on Equity Range
FLORIDA PUBLIC UTILITIES COMPANY										
8567-EU	4506	01-14-69	06-19-69	Commission Required Marianna Division		34,500				
69443-EU	4776	10-20-69	11-01-69	Company Request Fernandina Division		48,000				
750289-EU	7001	11-17-75	12-17-75	Company Request Marianna Division	463,747			306,671	14.50%	14.25 - 14.75%
770652-EU	8502	10-04-78	11-03-78	Company Request Marianna Division	456,200			397,840	13.25%	12.75 - 13.75%
780921-PU	9456-A	10-03-80	11-01-80	Commission Required Fernandina Division		31,257 #				
800609-EU	9613	10-27-80	11-01-80	Commission Required Marianna Division		55,227 #				
790637-EU	10261	09-03-81	10-03-81	Commission Required Fernandina Division		26,000 #				
810342-EU	10526	01-19-82	02-04-82	Company Request Fernandina Division	(269,311)	243,311				
810271-EU	10605	02-17-82	03-19-82	Commission Required Fernandina Division		94,440 #				
	10832	06-02-82	07-02-82	Commission Required Fernandina Division		16,008 #				
840100-EI	13672	09-13-84	09-13-84	Commission Required Fernandina Division		13,152 #				
880558-EI	20472	12-20-88	12-29-88	Company Request	690,888		(Interim)	473,603		
	21532	07-12-89	06-24-89	Marianna Division			(Final)	539,720	13.55%	12.35 - 14.35%
881056-EI	21211	05-09-89	05-18-89	Company Request	908,662		(Interim)	456,195		
	22224	11-27-89	11-15-89	Fernandina Division			(Final)	579,872	12.85%	11.85 - 13.85%
930400-EI	93-1640	11-08-93	10-19-93	Company Request	857,520		(Interim)	137,172		
	94-0170	02-10-94	02-17-94	Marianna Division			(Final)	515,108	10.85%	9.85 - 11.85%
930720-EI	94-0983	08-12-94	09-03-94	MMFR-Fernandina					11.60%	10.60 - 12.60%
961542-EI	97-0135	02-10-97	01-01-96	1995 Overearnings - Fernandina		63,506 →				
971227-EI	97-1505	11-25-97	01-01-97	1996 Overearnings - Fernandina		136,019 →				
971228-EI	97-1487	11-24-97	01-01-97	1996 Overearnings - Marianna		37,148 →				
981678-EI	99-0022	01-04-99	01-01-98	1997 Overearnings - Fernandina		248,145 →				
991109-EI	99-2119	10-25-99	01-01-99	1998 Overearnings - Fernandina		139,228 →				
001146-EI	00-1685	09-20-00	01-01-00	1999 Overearnings - Marianna		8,561 →				
001147-EI	00-1883	10-16-00	01-01-00	1999 Overearnings - Fernandina		204,670 →				
030438-EI	04-0369	04-06-04	04-15-04	Company Request Marianna & Fernandina Combined	4,117,121			1,820,373	11.50%	10.50 - 12.50%
070304-EI	07-0897	11-05-07	11-22-07	Company Request	790,784		(Interim)	790,784		
	08-0327	05-19-08	05-22-08		5,249,895		(Final)	3,856,897	11.00%	10.00 - 12.00%

\# One-time Refund
→ Applied to Storm Damage Reserve

Docket No.	Order No.	Date of Order	Effective Date	Nature of Case	$ Amount Requested	$ Reduction		$ Increase	Allowable Return on Equity Set	Allowable Return on Equity Range
GULF POWER COMPANY										
U-398		12-21-64	01-01-65	Company Request		424,548				
7739-PU	3849	08-04-65	10-01-65	Commission Required		677,974				
71342-PU	5471	06-30-72	07-19-72	Company Request	6,726,000		(Final)	3,722,866		
			01-08-73				(Reconsideration)	2,833,425	14.13%	13.50 - 14.75%
73695-EU	6116	04-22-74		Company Request	9,606,000					
74437-EU	6420	12-20-74	01-08-75	Company Request	18,798,000		(Interim)	17,220,182		
	6650	05-07-75	05-07-75				(Final)	17,306,001	14.25%	14.00 - 14.50%
760858-EU	7727	03-31-77	04-10-77	Company Request	31,800,000		(Final)	11,307,335		
	7978	09-27-77	10-08-77				(Reconsideration)	10,145,953	14.25%	14.00 - 14.50%
770872-EU	8305	05-15-78	05-16-78	Company Request	12,563,049		(Interim)	6,697,331		
	5424	08-07-78	09-07-78				(Final)	10,856,437	13.50%	13.25 - 13.75%
800001-EU	9311	04-02-80	05-02-80	Company Request	46,376,576		(Interim)	6,257,000		
	9628	11-10-80	11-10-80				(Final)	34,366,065		
	9852	03-05-81	04-01-81				(Reconsideration)	33,769,065	14.75%	13.75 - 15.75%
						2,405,000 #				
810136-EU	10557	02-01-82	02-12-82	Company Request	38,663,000		(Final)	5,543,620		
	10963	07-07-82	06-17-82				(Reconsideration)	6,917,897	15.85%	14.75 - 16.75%
820150-EU	11498	01-11-83	01-21-83	Company Request	36,944,000			3,366,000	15.85%	14.85 - 16.85%
840086-EI	14030	01-21-85	12-17-84	Company Request	28,447,000			4,659,000	15.60%	14.60 - 16.60%
880360-EI	19185	04-19-88	06-01-88	1987 Tax Savings		1,143,211 #			13.60%	
	20969	03-31-89	05-01-89	1987 Tax Savings		416,328 #			13.60%	
890324-EI	23536	09-27-90	10-01-90	1988 Tax Savings		3,618,332 #				
891345-EI	22681	03-13-90	03-10-90	Company Request	26,295,000		(Interim)	5,751,000		
	23573	10-03-90	09-13-90				(Final)	11,838,000 †	12.05%	11.55 - 13.55%
			09-13-92					14,131,000	12.55%	11.55 - 13.55%
930139-EI	93-0771	05-20-93	06-11-93	‡ ROE Review					12.00%	11.00 - 13.00%
990947-EI	99-2131	10-28-99	11-04-99	‡ Earnings Review		10,000,000				
				2000 Sharing		7,203,024 #				
				2001 Sharing		1,529,875 #				
010949-EI	02-0787	06-10-02	06-07-02	Company Request	69,867,000			53,240,000	12.00%	10.75 - 12.75%

One-time Refund
‡ Stipulation
† Reduced by 2 Year Annual Penalty of $2,293,000

Docket No.	Order No.	Date of Order	Effective Date	Nature of Case	$ Amount Requested	$ Reduction		$ Increase	Allowable Return on Equity Set	Allowable Return on Equity Range
TAMPA ELECTRIC COMPANY										
6240-EU	3078	12-29-60	01-01-61	Company Request				1,585,000		
7739-PU	3782	03-25-65	04-01-65	Commission Required		1,331,000				
8935-EU	4200	05-29-67	08-01-67	Commission Required		2,608,992				
9776-EU	4490	01-06-69	02-01-69	Company Request	2,286,000			2,286,000	13.75%	
70532-EU	5278	11-30-71	01-01-72	Company Request	13,900,000			11,495,559	15.50%	
73604-EU	6133	05-02-74	06-01-74	Company Request	11,200,000			10,024,366	15.50%	
74597-EU	6539	02-28-75	03-15-75	Company Request	43,000,000		(Interim)	20,179,000		
	6681	05-21-75	06-20-75				(Final)	37,116,177	14.75%	
760846-EU	7987	10-04-77	10-05-77	Company Request	39,900,000			19,309,135	13.75%	13.50 - 14.00%
800011-EU	9288	03-18-80	04-17-80	Company Request	50,704,000		(Interim)	20,429,000		
	9599	10-17-80	10-18-80				(Final)	31,030,000	14.50%	13.50 - 15.50%
	9810	02-23-81	03-01-81	Commission Required		1,078,000 #				
820007-EU	11307	11-10-82	11-20-82	Company Request	124,894,000			61,971,000	15.75%	14.75 - 16.57%
830012-EU	11964	05-24-83	06-16-83	Company Request	80,189,000		(Interim)	3,391,000		
	12663	11-07-83	11-16-83				(Final)	23,539,000	15.50%	14.50 - 16.50%
850050-EI	14538	07-08-85	06-28-85	Company Request	136,518,000		(Interim)	21,446,000		
	15451	12-13-85	12-04-85				(Final)	45,683,000	14.50%	13.50 - 15.50%
			01-31-87					10,406,000 ✱		
			01-31-88					7,688,000 ✱		
880356-EI	19185	04-19-88	06-01-88	1987 Tax Savings		4,822,613 #			13.60%	
890325-EI	21136	04-27-89	05-02-89	1988 Tax Savings		21,850,882 #			13.60%	
891140-EI	22217	11-21-89	01-01-90	Commission Required		22,017,000				
900153-EI	22719	03-22-90	04-13-90	1989 Tax Savings		20,426,922 #			13.60%	
	23883	12-14-90	01-08-91	1989 Tax Savings		68,586 #			13.60%	
920062-EI	92-0022	03-10-92	04-01-92	ROE					12.50%	11.50 - 12.50%
920324-EI	93-0165	02-02-93	02-04-93	Company Request '93	42,331,000			1,163,000	12.00%	11.00 - 13.00%
			01-01-94	Company Request '94	30,736,000			17,412,000 ✱		
930987-EI	94-0337	03-25-94	02-03-94	ROE		4,000,000 (2)			11.35%	10.35 - 12.35%
950379-EI	95-0580	05-10-95	01-01-95	1995 Overearnings					11.75%	10.75 - 12.75%
			01-01-96			12,000,000				
	96-0670	05-20-96	10-01-96	‡ 1995 Overearnings		10,000,000 #				
				‡ 1996 Overearnings		15,000,000 #				
960409-EI	96-1300	10-24-96	10-01-97	‡		25,000,000 #				
950379-EI	00-1441	08-08-00	09-01-00	‡ 1997 & 1998 Overearnings		13,000,000 #				
	01-2515	12-24-01	01-01-02	1999 Overearnings		6,307,427 #				
080317-EI				Company Request	228,167,000		(Final)			

\# One-time Refund
✱ Step Increase

‡ Stipulation
(2) Storm damage accrual

Appendix D. Letter Supporting Lost Revenue Recovery

Resolution on Joint Statement of the Edison Electric Institute and the Natural Resources Defense Council in Support of the Vital Importance of Pursuing all Cost-Effective Energy Efficiency Opportunities

WHEREAS, On August 2, 2006, the National Association of Regulatory Utility Commissioners (NARUC) adopted a resolution: *Resolution Supporting the National Action Plan on Energy Efficiency* sponsored by the Executive Committee and the Committees on Consumer Affairs, Electricity, Energy Resources and the Environment, and Gas; *and*

WHEREAS, The National Action Plan on Energy Efficiency included the following five recommendations: "(1) Recognize energy efficiency as a high priority energy resource; (2) Make strong, long-term commitments to cost-effective energy efficiency as a resource; (3) Broadly communicate the benefits of and opportunities for energy efficiency; (4) Promote sufficient, timely, and stable program funding to deliver energy efficiency where cost-effective; and (5) Modify policies to align utility incentives with delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments;" *and*

WHEREAS, On November 18, 2008, EEI and NRDC signed a joint statement that highlights their commitment to the National Action Plan on Energy Efficiency and to support the vital importance of pursuing all cost-effective energy efficiency opportunities by engaging in public education and outreach, strengthening the nation's energy efficiency delivery infrastructure, expanding efficiency-related manpower training and technology development, and improving both federal and State building and equipment efficiency standards; *and*

WHEREAS, The EEI and NRDC joint statement also calls for establishing a durable business case for energy efficiency, encourages the integration of energy efficiency into utility resource planning, urges utility regulators to support enhanced utility investment in "smart meters" and a "smart grid" that focus on delivering new energy management tools to customers, and stresses the need for increased research, development and deployment of energy-efficiency technology; *now, therefore, be it*

RESOLVED, That the National Association of Regulatory Utility Commissioners, convened at its 2008 Annual Convention in New Orleans, Louisiana, encourages commissions to consider the recommendations set out in the Joint Statement of the Edison Electric Institute and the Natural Resources Defense Council to work towards a mutual goal of helping energy users pursue all cost-effective energy efficiency opportunities.

Sponsored by the Committees on Energy Resources and the Environment and Electricity
Recommended by the NARUC Board of Directors, November 18, 2008
Adopted by the Committee of the Whole, November 19, 2008

EDISON ELECTRIC INSTITUTE 75 YEARS
Bringing the Electric Industry Together Since 1933

NRDC
THE EARTH'S BEST DEFENSE

November 18, 2008

Dear NARUC Commissioners,

We have represented the Edison Electric Institute and the Natural Resources Defense Council, respectively, for a total of more than five decades. Our constituencies are different, but as many of you know, we have found much common ground on utilities' resource planning and investment role generally and the vital importance of cost-effective energy efficiency in particular. Five years ago, following a lively debate at your Annual Meeting, we presented specific joint recommendations for your consideration on these issues. We return now, on behalf of our institutions, to reaffirm and expand upon those recommendations.

1. **We begin with the increasingly urgent mutual goal of helping energy users exploit all cost-effective energy efficiency opportunities, through an integrated combination of financial incentives to customers and minimum standards governing the performance of buildings and equipment.** We encourage utility regulators and others to join us in a nationwide energy efficiency campaign with the following key elements:

   - Continued cooperation on and participation in all elements of the National Action Plan for Energy Efficiency;
   - A jointly designed public education and outreach campaign;
   - Strengthening the nation's energy efficiency delivery infrastructure dedicated to helping utilities promote energy efficiency in all sectors of the economy, starting with the Edison Foundation's Institute for Electric Efficiency, the Consortium for Energy Efficiency, and regional efficiency alliances such as the Northwest Energy Efficiency Alliance, the Midwest Energy Efficiency Alliance, the Northeast Energy Efficiency Partnerships, and the Southeast Energy Efficiency Alliance
   - Aggressively expanding efficiency-related manpower training and technology development at the nation's colleges, universities and community colleges, building on worthy precedents established recently by the University of California at Davis's Energy Efficiency Center and Stanford University's Precourt Institute for Energy Efficiency (the nation's first two university centers dedicated specifically to energy efficiency).

- Working together at both federal and state levels to secure improved building and equipment efficiency standards and durable tax incentives that reward builders and equipment installers who substantially exceed existing standards.

2. **For most if not all utilities the goal of "all cost-effective energy efficiency" will mean significantly higher investment and savings targets over extended periods, which cannot be sustained without regulatory action to ensure (1) cost recovery for prudent investment, (2) an earnings opportunity tied to verified success in delivering cost-effective saving; and (3) being kept whole for authorized fixed costs as power sales volumes decline (relative to what they otherwise would have been).** In establishing these objectives, we acknowledge the need to allow initially approved fixed-cost revenue requirements to adjust upward between rate cases in ways that reasonably reflect utilities' prudently incurred cost increases, while reaffirming our mutual support for true-up mechanisms that ensure recovery of such appropriately adjusted, PUC-authorized fixed-cost revenue requirements, regardless of retail sales fluctuations. A durable business case for utility involvement in end-use energy efficiency rests on three interrelated elements: cost recovery, a performance-based earnings opportunity tied to verification of results, and being kept whole for authorized fixed costs as power sales volumes decline (relative to what they otherwise would have been) . This package is an urgent item of unfinished business in most states. Mere removal of disincentives is not enough to ensure the level of committed action needed; exemplary performance should be capable of yielding exemplary rewards. Idaho's approach to these issues (per the IPUC's approval of Idaho Power's proposals in March 2007) is an example of a promising approach. These supportive regulatory structures and funding approvals must be sustained for extended periods and cannot be abandoned once utilities have made the necessary staffing changes and investment. These regulatory responsibilities also clearly suggest a need for investments in additional staff training at public utility commissions.

3. **We urge utility regulators to support significantly enhanced utility investment in "smart meters" and a "smart grid" that focuses on delivering new energy management tools to customers, enabling increased energy efficiency, supporting efficient new technology such as plug-in hybrid electric vehicles (PHEVs), and reducing the cost of integrating renewable energy generation with variable output into resource portfolios.** The full value of these investments cannot be realized without changing rate structures to signal the actual cost of electricity to customers. And given the urgent need to encourage utilities to make the significant capital commitments required for grid enhancement, these costs should be recognized and recovered in rates as soon as possible once regulators have approved deployment (as opposed to deferring cost recovery until deployment is finished). As we noted in our 2003 statement, "uncertainty of cost recovery discourages investment in new infrastructure needed for security, reliability and environmentally sustainable service for all customers."

4. **Research, development and deployment (RD&D) investment is critical to securing the reliable and affordable energy services that will be needed to meet twenty- first century economic and environmental objectives.** We support the National Commission on Energy Policy's call for, within five years, "doubling annual direct federal expenditures on energy-technology research, development and demonstration, corrected for inflation." We will work to ensure significantly increased funding for such initiatives in future federal budgets, tax code reform, and legislation addressing energy and climate policy. In addition, we urge utility regulators to support substantially higher levels of utility investment in joint RD&D initiatives like the Electric Power Research Institute.

We look forward to working together with you on these issues in forums across the nation, as the nation confronts urgent energy and environmental challenges that will require the very best that all of us can give.

Yours sincerely,

David K. Owens

Ralph Cavanagh

David K. Owens
Executive Vice President
Edison Electric Institute

Ralph Cavanagh
Energy Program Co-Director
Natural Resources Defense Council