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Subject: <<< MORE PSC BIAS IN FLORIDA >>>

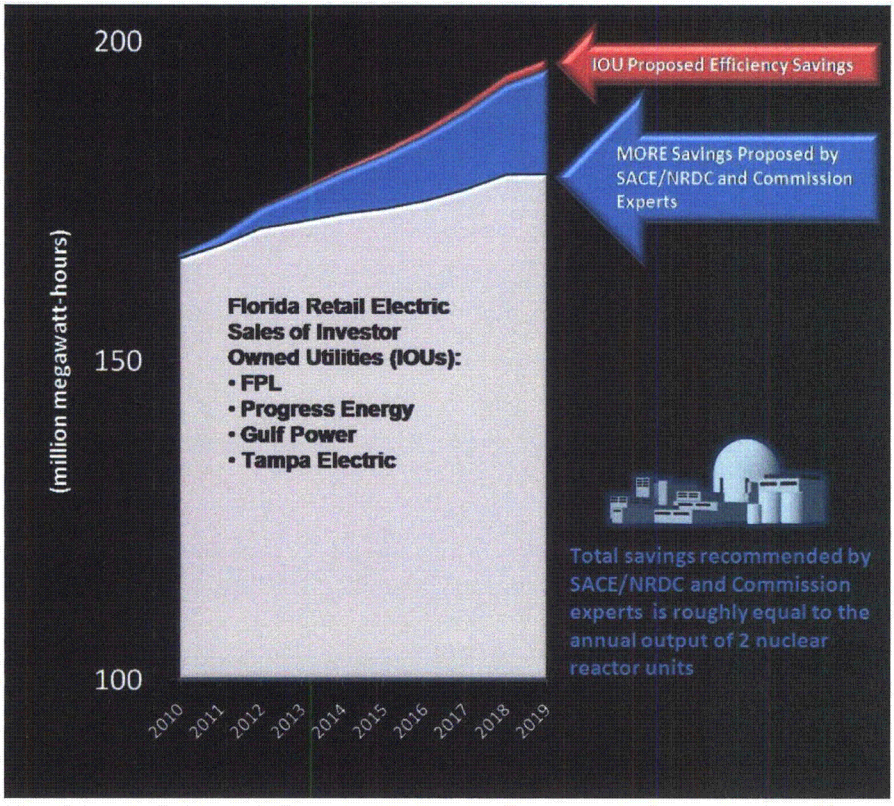
Energy efficiency, next up at the Florida Public Service Commission

October 8th, 2009 › Energy Efficiency, Green Economy › John D. Wilson ›

Will Florida have a smart, fair decision on energy efficiency? Or will base rates go up and nothing be done to help the consumer?

> And will someone please explain to me how a 1% reduction in customer energy use over ten years will provide any meaningful offset to a 31% increase in base rates?

While media coverage of the Florida Public Service Commission intrigue has mostly focused on electricity rates and nuclear power plant hearings, things were no less tense during the mid-August energy efficiency hearings in Tallahassee.



Increasing energy efficiency by a factor of ten would mean a major change in the way Florida utilities do business. That would be a good thing, right?

The choices couldn't have been sharper. An "extreme" $3.8 billion energy efficiency program proposed by wild-eyed environmentalists. (Their estimate, not ours.) Or, to deliver roughly the same amount of energy, a $16 to $18 billion nuclear power plant.

After a recent update to Florida's energy statutes put a new emphasis on cost-effective energy efficiency and reducing global warming pollution, Florida's investor owned utilities responded with . . . the more expensive option. The Commission answers both questions in October - on nuclear power (October 16th) and on energy efficiency (October 27th).

Energy efficiency saves customers money by lowering their bills. Utilities profit when they build large power plants. Those aren't opinions, those are economic realities. Customer interests and utility interests are pitted against each other by the very utility regulations that are designed to protect customers.

Even if the Public Service Commission was functioning smoothly and without what appears to be undue influence from utilities, a pro-consumer energy efficiency policy faces an uphill battle in Florida. This, in spite of the fact that Florida has been what passes for a bright spot in the Southeast on this issue.

In response to our case, we endured five days of misrepresentation, misdirection and even intimidation. We were heavily pressured to withdraw our witnesses from public testimony and to cease cross-examining the witnesses for the utilities. It was a tense, unpleasant hearing.

Our staff witness, John D. Wilson, took the stand after Chairman Carter, commission staff and utility attorneys pressured us to bypass his live testimony. When he testified, it was apparent to observers that something was wrong. At least one Commissioner, who had previously been attentive to all other witnesses, averted her eyes throughout his testimony. And there were no questions, in spite of prior testimony by one of the utility witnesses which demonstrated that the utilities had misrepresented the actions of Mr. Wilson. Were commissioners instructed to keep quiet?

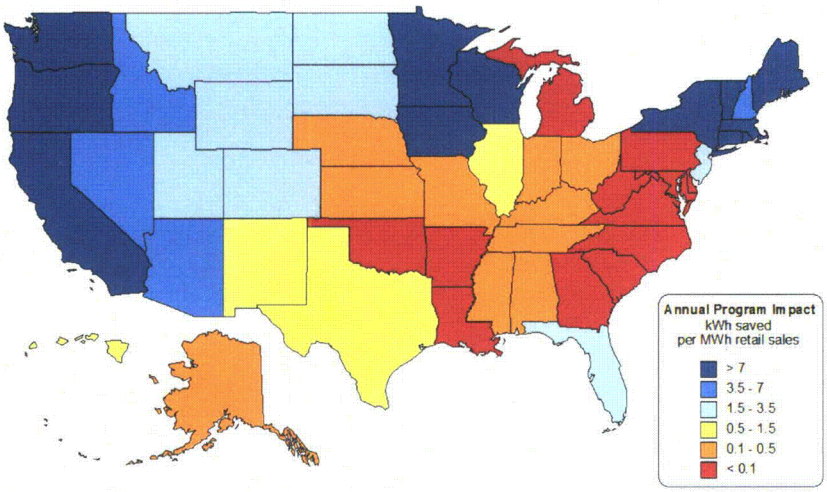
Basics of Energy Efficiency

All around the country, customers are saving money on their bills as utilities assist them with energy efficiency measures.

> In just the last few years, energy efficiency has evolved from being largely a token gesture or a "public benefits" set-aside, to being a top-priority utility system resource. Indeed, several states have established state policies which mandate that energy efficiency is "first" in the "loading order" of utility resources, and/or that their states should capture all cost-effective energy efficiency. - ACEEE

Florida's utilities, however, have largely escaped this evolution. FPL, Florida's largest utility, claims to be "the nation's leading utility in customer energy efficiency programs." NONSENSE. National data clearly demonstrates that Florida has only been achieving one-tenth of what leading utilities are achieving in states like Iowa, California, Arizona, and Connecticut.

2007 Energy Efficiency Program Impacts, by State



Energy efficiency programs in leading states throughout the U.S. are saving as much as 100 times more energy than most states in the Southeast. Energy efficiency programs have minimal impact in Southeast states, with the exception of Florida which has a mid-range impact. Utility-proposed goals for Florida would represent essentially the status quo, while other states are setting policies that are ten to twenty times more aggressive than Florida.

We asked the Florida Public Service Commission to bring some of those great results to the Sunshine State.

FPL's answer? They actually proposed *reducing* their energy efficiency goals. This should be seen for what it is - doubletalk. Floridians are being played by FPL like a cheap deck of cards.

Earlier this summer, the Sarasota Herald-Tribune laid out FPL's doubletalk in an editorial. FPL claimed that its 31% increase in "base rates will be 'more than offset' by reductions in fuel costs and gains in efficiency." FPL apparently had the audacity to claim that its base rate increase "enables it to enhance energy efficiency and protect the environment."

Once again, will someone please explain to me how a 1% reduction in customer energy use over ten years will provide any meaningful offset to a 31% increase in base rates?

Energy efficiency delivers three things better than any other energy resource: consumer savings, greenhouse gas reductions, and economic benefits. Leave it to McKinsey & Company to put it bluntly:

> The research shows that the U.S. economy has the potential to reduce annual non-transportation energy consumption by roughly 23 percent by 2020, eliminating more than $1.2 trillion in waste – well beyond the $520 billion upfront investment (not including program costs) that would be required. The reduction in energy use would also result in the abatement of 1.1 gigatons of greenhouse gas emissions annually – the equivalent of taking the entire U.S. fleet of passenger vehicles and light trucks off the roads.
>
> Such energy savings will be possible, however, only if the United States can overcome significant sets of barriers. These barriers are widespread and persistent, and will require an integrated set of solutions to overcome them – including information and education, incentives and financing, codes and standards, and deployment resources well beyond current levels.

A national investment of more than $520 billion is not a trivial step - it is a monumental step. But for utilities like FPL and Progress Energy to have the hubris to propose over $30 billion in spending on nuclear power and then trash talk energy efficiency as if it will drive Floridians to the poorhouse, well that just leaves me speechless.

Unfortunately, Florida's utilities have historically succeeded in convincing the Public Service Commission (PSC) to approve minimal efficiency goals. Florida's utilities therefore currently lag far behind the leading states on energy efficiency. As a result, Florida's electricity customers have been missing out on opportunities to reduce their bills while the

state as a whole misses on out the most cost-effective way to reduce greenhouse gases. Governor Crist's new leadership at the Florida Public Service Commission can help change this.

Energy Efficiency "On Trial"

The August proceedings before the Florida Public Service Commission will determine how much energy savings Florida utilities should achieve over the next ten years. Under the Florida Energy Efficiency and Conservation Act (FEECA) the Commission sets energy efficiency and renewable energy goals for each utility. The Commission staff will make a recommendation on October 15 and the Commission will make a final decision on October 27.

At the hearing, there were effectively three sets of goals proposed.

- The PSC staff hired an expert on energy efficiency programs, Richard Spellman of GDS Associates. Mr. Spellman advocated for energy efficiency goals of approximately **0.9% per year**.
- We (NRDC and SACE) proposed energy efficiency goals of **1% per year**.
- The utilities proposed levels ranging between **zero and 0.17% per year** (or 1.7% over ten years).

What will the "verdict" of the Commission be? The pro-consumer or pro-utility verdict?

Will Florida Invest in Energy Efficient Retrofits? (or stick with the status quo) - image from Center for American Progress AP/Paul Vernon

APPENDIX: How to Cook the Books Against Energy Efficiency in Two Easy Steps

The goals proposed by the utilities are far out of step with the amount of energy efficiency that is achieved elsewhere. Utilities in other states are routinely achieving at least 1 % reductions per year. Here in Florida, the city of Gainesville has achieved savings of close to one percent per year. In addition, fourteen states have set efficiency goals above 1.5% per year. In contrast to these efficiency achievements and goals, the goals proposed the Florida utilities are appallingly low.

The Florida utilities arrive at such low goals by applying two screens to eliminate from consideration numerous efficiency measures (such as installing compact fluorescent bulbs, maintaining air conditioners, or insulating water heaters). These screens are 1) use of the "rate impact measure" rather than the total resource cost test and 2) use of a "two-year payback" criteria that eliminates the most cost-effective efficiency measures.

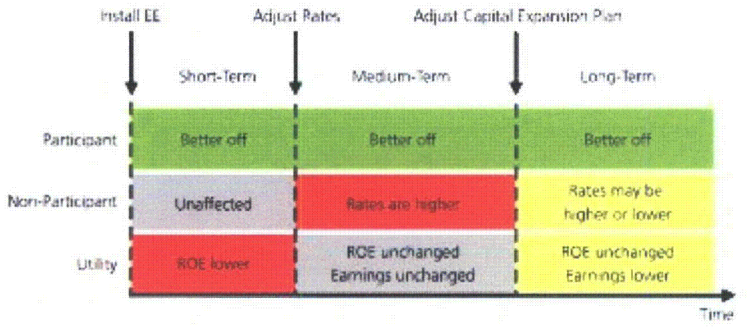
STEP ONE: The Total Resource Cost Test vs. Rate Impact Measure Test

Cost-effectiveness tests are widely used by utilities to help design energy efficiency programs. After all, it wouldn't be "efficient" if it wasn't "cost-effective." The most widely used test for determining whether measures or programs are cost-effective is the Total Resource Cost Test.

Fortunately, the Florida Legislature amended the FEECA statute and directed the Commission to use the Total Resource Cost Test. If the Commission accepts this direction from the Florida Legislature, it will replace the use of the Rate Impact Measure test.

The Rate Impact Measure test (RIM test) has been historically used in Florida because the utilities and the regulators felt that it was important to ensure that energy efficiency programs should not result in increased electric rates, even if that meant that the total costs to customers increased.

Figure 3-2. Timeline of Distributional Impacts When PCT > 1 and RIM < 1



The "Best Practices" report indicates that for energy efficiency programs that "fail" the RIM test, the long-term impacts even on people who ignore the opportunity to participate may be to their advantage.

The Rate Impact Measure test isn't even very good at pointing the way to lower rates. As pointed out in the recent report by the National Action Plan for Energy Efficiency, "it is important to recognize the RIM as examining the potential impacts on rates, but also recognizing that a negative RIM does not necessarily mean that rates will actually increase" (*Understanding Cost-Effectiveness of Energy Efficiency Programs: Best Practices, Technical Methods, and Emerging Issues for Policy-Makers*).

Despite the direction of the Florida Legislature and the testimony regarding best practices around the country, the utilities have argued that the PSC should limit energy efficiency programs to those that ensure that non-participants (primarily households and businesses that continue to waste energy) are protected from rate increases by using the RIM test. We are deeply concerned that the PSC may do exactly this.

The problem with the RIM test is that it narrowly focuses on the potential effects on electricity rates and ignores the energy savings that will occur as a result of energy efficiency investments. In other words, the RIM test will reject energy efficiency measures simply because they save too much energy. It does this by calling customer savings "lost utility revenue" and treats them as a "cost" rather than a benefit. This makes no sense at all because customer savings are good and when energy efficiency measures are implemented customer bills will still go down even if rates go up modestly.

It is critical to understand that the potential rate increases in the efficiency context are completely different from the rate increases cases now before the PSC. The reason that an energy efficiency program can cause rates can go up (very modestly) in the short term is that if enough customers save enough money, the utilities will have less revenue available to cover their fixed costs. From the customer's perspective, a rate increase caused by customer savings is completely different from the rate increases now being sought which are caused by a choice to build new power plants.

Importantly, the customer savings will always be bigger than the fixed costs the utilities may seek to recover so the total cost to the system remains lower. For example, efficiency results in lower fuel costs, transmission costs, avoids the need to build new plants etc. This means that even if rates rise modestly as a result of customers savings, total customer bills will still be lower than they would have been. And in the long run, energy efficiency also results in far lower electricity rates than the business as usual increases in electricity usage, which results in the need to build more expensive power plants. In other words, a decision not to set aggressive energy efficiency goals means not only missing out on lower customer bills now but also condemning Florida to future increases in rates when new power plants are needed.

It is also worth pointing out that any rate increase that energy efficiency programs might create would be very small. The Commission Staff witness, Dick Spellman, cited studies indicating that a program delivering 1% efficiency gains per year would only lead to a 1% increase in rates over twenty years. This increase pales in comparison to the rate increases that the utilities are asking for now.

STEP TWO: The two-year payback criteria

The second way the utilities frustrate energy efficiency goals is by screening out the most cost-effective energy efficiency measures by applying a "two-year payback criteria." Specifically, the utilities eliminated the most cost-effective measures, which provide customers a payback within two years. Such a screen is unheard of anywhere else in the country and makes no sense whatsoever. The only reason to employ this screen is if your objective it to reduce the utilities' energy efficiency goals.

The two-year payback screen eliminates an extraordinary amount – between 36 and 46 percent – of the potential energy efficiency savings identified. These are precisely the most cost-effective measures that generally form the bulk of the energy efficiency portfolios in other states. In other words, this reverse cost-effectiveness test ensures that Florida's energy efficiency programs miss the best opportunities and instead must go after efficiency measures that cost more and deliver smaller savings.

The alleged basis for this reverse cost-effectiveness test is that customers should adopt these measures without any incentive and that there will be too many "free riders" if the measures are included in an efficiency portfolio. But there is no evidence showing that this test is effective for these purposes. Even the utilities' own expert admitted that customers will not adopt these measures if they are not included in a utility energy efficiency program. Thus, applying the two-year payback means Florida's customers will miss out on the measures that deliver the greatest savings at the lowest cost.

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