

State of Florida



Public Service Commission

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COMMISSION
CLERK

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DATE: May 12, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (A. Roberts, Draper)
Office of the General Counsel (Young)
Division of Regulatory Analysis (Garl)

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[Handwritten initials and signatures]

RE: Docket No. 110031-EG – Petition for approval of residential service dynamic price response pilot rate by Florida Power & Light Company.

AGENDA: 05/24/11 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 09/14/11 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110031.RCM.DOC

Case Background

On January 14, 2011, Florida Power & Light Company (FPL or Company) petitioned the Commission for approval of its proposed Residential Service Dynamic Price Response Pilot Rate (Pilot Rate) program and associated Tariff Sheets Nos. 8.220 and 8.030.2. Under the proposed rate, a usage sensitive price signal would be sent to program participants through changes to the Energy Conservation Cost Recovery (ECCR) Factor.

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On March 8, 2011, the Commission suspended the proposed tariff sheet Nos. 8.220 and 8.030.2, to allow staff sufficient time to review and gather all pertinent information in order to present the Commission with an informed recommendation.¹

On March 10, 2011, FPL responded to Staff's First Data Request No. 1, and on April 1, 2011, FPL responded to Staff's Second Data Request No. 2. The purposes of both data requests were to seek additional information needed in understanding the specific details regarding the calculations and administration of charges and the technical aspects of the Pilot Rate.

On March 22, 2011, staff held an informal conference call with FPL to discuss the proposed Pilot Rate. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

¹ See Order No. PSC-11-0176-PCO-EG, issued March 28, 2011, Docket No. 110031-EG, In re: Petition for approval of residential service dynamic price response pilot rate by Florida Power & Light Company.

Discussion of Issues

Issue 1: Should the Commission approve FPL's petition for its proposed Residential Service Dynamic Price Response Pilot Rate program and associated tariff sheet Nos. 8.220 and 8.030.2?

Recommendation: Yes. Staff has reviewed the petition and all supporting information provided by FPL detailing the Project and the proposed Pilot Rate, and staff believes the program and its proposed charges are appropriate and recommends the Commission approve FPL's request to implement the Pilot Rate and its associated tariffs. (A. Roberts, Draper)

Staff Analysis: On January 14, 2011, FPL petitioned the Commission for approval to implement its proposed Residential Service Dynamic Price Response Pilot Rate (Pilot Rate) and its associated tariff sheets, and seeks authorization to administer the proposed Pilot Rate through the Energy Conservation Cost Recovery (ECCR) clause. FPL was awarded by the Department of Energy (DOE) a \$200 million grant from the American Recovery and Reinvestment Act (ARRA) stimulus funds for its Energy Smart Florida (ESF) In-Home Technology Project (the Project). The Project will fulfill FPL's commitment to the DOE to pursue the Project as proposed in FPL's ESF grant application.

The Project is expected to run approximately 27 months, beginning with marketing and enrollment of non-Pilot Rate participants starting in January of 2011, and the enrollment of the Pilot Rate participants beginning in the summer of 2011. FPL is proposing to enroll 500 randomly selected customers from "technically eligible homes in its ESF Project". For the purpose of the Project, technically eligible homes have to meet five criteria:

- be a customer-occupied detached residential dwelling;
- be located in Broward County;
- be equipped with a home automation-capable smart meter on or before March 1, 2010;
- be associated with an active account on FPL's RS-1 rate schedule, whose residents intend to remain in their home for at least one year after equipment installation; and
- not currently be enrolled in FPL's load management program (On-Call) or Budget Billing program.

The Project

Participants of the Project will be broken up into four different categories reflecting different combinations of real-time information, electric rates, and demand response capabilities.

Group 1 will consist of 250 participants who will be provided by FPL with in-home displays (IHD's) that will provide real-time energy use information. The participants in this group will remain on the standard RS-1 residential rate.

Group 2 will consist of 120 participants who will be provided by FPL with Home Energy Controllers (HEC's) that will allow customers to monitor their home's energy usage and cost, as

well as monitor the energy use of selected appliances or schedule their operation. The participants in this group will remain on the standard RS-1 rate schedule.

Group 3 will consist of 120 participants who will be provided by FPL with HEC's that will notify the customer of dynamic price events and enable selected appliances to respond in a programmatic manner to dynamic price signals. The participants in this group will take service under the proposed Pilot rate.

Group 4 will consist of 10 participants who will be provided by FPL with HEC's as well as Smart Appliances which will allow the participant to conserve energy and reduce load in innovative ways. The participants in this group will take service under the proposed Pilot Rate. Customers participating in this group will be allowed to retain ownership of the Smart Appliances if they participate for a minimum of one year in the Project.

Participation in the Project is voluntary, and a customer may terminate their participation by calling the Project's toll-free phone number and indicating they wish to drop out of the Project. If a participant chooses to drop out of the Project, participants will be asked for their reason(s) for discontinuing participation, and an appointment will be made to have FPL retrieve the FPL-provided equipment. The process is the same for all participants regardless of which group they participate in.

Description of the Dynamic Price Response Pilot Rate (RSDPR)

FPL explained that the proposed Pilot Rate is referred to as a dynamic rate known as Critical Peak Pricing (CPP). Under the proposed Pilot Rate, the peak prices are known, but the days on which those prices will occur are not known until the day before or the day of consumption. The Pilot Rate as proposed is a two-tiered dynamic rate that consists of an "all-hours" energy charge and a higher CPP charge that will be applicable during times of peak demand that FPL designates as critical peak hours. FPL may designate a critical peak period up to 88 hours a year. In response to staff's data request, FPL explained that it selected 1 percent of the hours in a year, or 88 hours, to be critical peak hours, which FPL found to be comparable to similar programs in the industry. FPL further stated that at the conclusion of the pilot, FPL will analyze the maximum 88 hour limit.

FPL's current residential tariff (RS-1) provides for a \$5.90 customer charge and inverted non-fuel energy charges, plus the applicable cost recovery clauses.² FPL's customers taking service under the proposed RSDPR-1 rate schedule will pay a customer charge of \$4.75, with a levelized non-fuel base energy charge of 4.023 cents per kilowatt hour (¢/kWh), plus the otherwise applicable charges for fuel, capacity, storm and environmental costs. The purpose of the slightly lower customer charge is to avoid penalizing customers whose average consumption is less than 1,000 kWh, since the Program's proposed levelized non-fuel energy rate is slightly higher than the inverted charge for customers using less than 1,000 kWh per month.

² The current non-fuel energy charge for the first 1,000 kWh is 3.713 cents per kWh, and 4.713 cents per kWh for consumption above 1,000 kWh.

The ECCR factor for participants will vary by two pricing periods with on-peak period being defined as the dynamic critical peak period, while off-peak being all other hours. Participants taking service under the proposed RSDPR-1 rate will receive a credit of 0.201 ¢/kWh to the otherwise applicable ECCR factor during the all hours period and pay an additional ECCR factor of 21.821 ¢/kWh during the critical peak periods.

FPL has limited the Pilot Rate to 130 participants. If customers respond to the pricing signals and reduce usage during CPP, then customers could see a reduction in their bills as a result of their conservation efforts. If as a result of customer responses, the total credit exceeds the total amount of charges associated with the Pilot Rate, FPL will not seek recovery of any shortfall from its general body of rate payers. Due to the small size of the Pilot FPL expects this amount to be negligible.

The proposed RSDPR-1 rate has been designed to be revenue neutral, i.e., if a customer does not change his or her consumption behavior that customer will pay the same as he or she would have paid under the standard residential rate. If the customer reduces usage during the critical peak periods, the customer will see a reduction in their bill. This practice is consistent with the Commission's policy on time-of-use rates.

Conclusion

The Project as proposed, will allow FPL the opportunity to collect data to better understand the technical feasibility, economic merit, and customers' acceptance of emerging smart-grid technologies and dynamic pricing. FPL will provide an annual report to staff detailing information such as: customer's response, attrition, energy usage, cost savings, and conservation results. At the conclusion of the Project, FPL will interview the participants regarding the Project experience and provide a summary in their final report to the Commission.

Staff has reviewed the petition and all supporting information provided by FPL detailing the Project and the proposed Pilot Rate, and staff believes the program and its proposed charges are appropriate and recommends the Commission approve FPL's request to implement the Pilot Rate and its associated tariffs.

Issue 2: Should the Commission approve FPL's proposal to administer the Pilot Rate through the Energy Conservation Cost Recovery (ECCR) clause?

Recommendation: Yes. The Commission should approve FPL administering the Pilot Rate through changes to the ECCR factor. However, FPL should not be permitted to recover any costs of the program via the ECCR clause. (Garl)

Staff Analysis: In its petition, FPL requested that the Commission authorize FPL to administer the crediting (for the all hours rate) and charging (for the critical peak pricing period) of participating customers through the ECCR factor.

In response to a staff data request, FPL explained that it expects the difference between the credits paid for the "all hours" rate and the charges collected for the CPP periods from the 130 participating customers during the pilot term to be negligible. FPL further stated it will not seek to recover the difference.

The Commission previously approved cost recovery of a similar multi-tiered rate structure via the ECCR clause.³ The previous rate approval, however, was associated with a program that was part of Tampa Electric Company's (TECO's) DSM Plan. The proposed FPL Dynamic Price Response Pilot Rate is not part of FPL's DSM Plan, nor did the petition characterize it as a conservation program.

FPL is not proposing to recover any costs through the ECCR factor for either the Project or the Pilot Rate. The Company is seeking only to use the ECCR clause as the mechanism for administration of the Pilot Rate to credit (for the "all hours" energy rate) and charge (for the Critical Peak Pricing rate) participating customers. This is the same process the Commission approved for use by TECO.⁴ FPL needed to choose a mechanism for handling the credits and charges associated with the pilot rate that would require the minimum amount of billing system changes and administrative burden. FPL chose the ECCR clause in light of the TECO precedent referenced above. In addition, the ECCR docket provides a convenient forum for annual review of the pilot rate, as well as the annual opportunity to seek approval of any changes to the pilot rate. Administering the Pilot Rate through base rates, the Company claims, would entail a modification to its billing system that would delay the project six to eight months and impose additional costs. Such a delay would jeopardize the DOE grant.

Commission Rule 25-17.015, Florida Administrative Code (F.A.C), in establishing procedures for ECCR, provides for cost recovery for "energy conservation programs." While the Rule does not specifically state that such energy conservation programs must be part of a utility's DSM Plan, the requirement is clear that only approved energy conservation programs will be considered for cost recovery via the ECCR proceeding. The rule, however, contains no restrictions on using the ECCR clause as a mechanism for administration of rates when no cost recovery will be requested. The majority of the expenses to conduct the proposed Pilot Rate will

³ See Order No. PSC-07-0740-TRF-EG, issued September 17, 2007, in Docket No. 070056-EG, In re: Petition for approval of extension and permanent status of price responsive load management pilot program, by Tampa Electric Company.

⁴ Id.

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be funded by the \$200 million DOE grant from the ARRA. Since FPL has stated that it will not seek cost recovery from the ECCR clause for any costs associated with the Pilot, but only use the clause as the vehicle by which participating customers will be charged the pilot rate, it will have no effect on non-participating customers.

Staff, therefore, recommends that the Commission approve FPL administering the Pilot Rate through the ECCR clause. However, FPL should not be permitted to recover any costs of the program via the ECCR clause.

Issue 3: What is the appropriate effective date for the proposed Pilot Rate and its associated tariffs?

Recommendation: The appropriate effective date for the proposed Pilot Rate and its associated tariffs is May 24, 2011. (A. Roberts, Draper)

Staff Analysis: If the Commission approves the proposed Pilot Rate and its associated tariffs, the tariffs shall become effective on May 24, 2011.

Issue 4: Should this docket be closed?

Recommendation: Yes. If Issues 1 through 3 are approved, the docket should be closed if no person whose interests are substantially affected by the Commission's decision files a protest within the 21-day protest period. If a protest is filed the tariffs should remain in effect pending resolution of the protest, with revenues held subject to refund. If no timely protest is filed, this docket should be closed upon issuance of the consummating order. (Young)

Staff Analysis: If Issues 1 through 3 are approved, the docket should be closed if no person whose interests are substantially affected by the Commission's decision files a protest within the 21-day protest period. If a protest is filed the tariffs should remain in effect pending resolution of the protest, with revenues held subject to refund. If no timely protest is filed, this docket should be closed upon issuance of the consummating order.