

RECOMMENDATION 81:
GHG Associated with the Transportation Sector

It is recommended that the Florida Energy Commission, as part of its statutory requirement to identify for the Legislature issues that are to be addressed in forthcoming years, approve for consideration during the upcoming year and inclusion in its 2008 report methods for achieving a reduction in GHG emissions caused by Florida's transportation sector.

BACKGROUND INFORMATION:

The Commission's statutory responsibilities include developing an overall state energy policy as well as being specifically charged with evaluating greenhouse gas emissions and making recommendations for the reduction of such emissions. As the Commission proceeded with its activates this first year, it mainly focused on the utility sector, including; conservation and efficiency activities, generation and transmission practices, climate change issues, and renewable energy issues. It was a function of time, rather than the significance of the issues or solutions that limited the Commission's agenda.

Even with such limited opportunity, several transportation sector recommendations were considered and adopted by the Commission. They include a driver education curriculum, the elimination of sales tax on energy saving, low rolling resistance tires, energy efficient government vehicle practices, and the use of renewable fuels. But these issues only touch the surface of what could, or should, be addressed. Depending on which report one reads, Florida's transportation section is responsible for between 40 to 45% of the State's GHG emissions.

The transportation sector is in many ways as complicated if not more so, than the utility sector. The types of fuels used, the types of vehicles driven, the number of miles driven per person as well as the State's growth management practices all hold answers on how best to lower GHG emissions flowing from the ever growing number of cars and trucks utilizing our highways and streets.

It is only appropriate that the Commission address these issues. This year, additional recommendations relating to sales tax incentives to encourage the purchase of high fuel-efficiency cars and trucks and other fuel efficiency measures are being considered. But more options must be researched and studied so that the Commission can proceed in a deliberate and informed manner. Only by deferring until next year's report the transportation issues that the Commission did not have the time to properly develop, including new issues which must be part of any overall successful solution, can the Commission adequately discharge its statutory responsibilities.

RECOMMENDATION 82:
Incentives and Regulatory Reform

It is recommended that the Florida Energy Commission, as part of its statutory requirement to identify for the Legislature issues that are to be addressed in forthcoming years, approve for consideration during the upcoming year and for inclusion in its 2008 report a review of rate regulation and utility practices in order to propose incentives or differing regulatory mechanisms which would encourage the adoption of energy efficient programs and practices by utilities.

BACKGROUND INFORMATION:

Traditional “rate of return” regulation requires the Florida Public Service Commission to set an investor owned utility’s revenue requirement based on expenses incurred during a typical “test year” plus the opportunity to earn a rate of return, or profit. Pursuant to Chapter 366, Florida Statutes, all rates for service provided by a utility shall be fair and reasonable. Likewise, the Florida Public Service Commission in setting rates is authorized to give consideration to a variety of utility activities including energy conservation and the efficient use of alternative energy resources provided; however, that no utility shall be denied a reasonable rate of return upon its rate base. A utility, obviously, covers its costs and earns a profit by selling power to residential and commercial customers. The more power sold the easier to cover costs and earn a profit.

Criticism of this method of regulation is that it provides no incentive to a utility to encourage its customers to adopt energy efficient practices that may result in lower sales. Lower sales reduces a utility’s net revenue and its ability to recover its fixed costs. The amount of profit will also be lower. This disincentive may also affect a utility’s corporate interest regarding other public policy incentives promoting energy efficiency, such as improved building codes or appliance standards.

As a result of this apparent basic conflict between a utility’s corporate interest in higher sales and the public interest in advancing energy efficiency, a number of states have implemented alternative regulatory mechanisms designed to change the economic effects of energy efficiency on a utility’s revenue requirement. One such popular mechanism is the concept of “decoupling” power sales levels from fixed cost recovery, including the rate of return. However, decoupling alone is not the answer. New investment in energy efficiency measures and other changes in regulatory practices are necessary to create a system that encourages cutting costs and saving energy. To that end, Florida’s entire regulatory structure for how revenues and rates are regulated should be reviewed by the Florida Energy Commission with the goal of determining how to encourage the adoption of energy efficient programs and practices by utilities.

RECOMMENDATION 83:
Dedicated Fund Source

It is recommended that the Florida Energy Commission, as part of its statutory requirement to identify for the Legislature issues that are to be addressed in forthcoming years, approve for consideration during the upcoming year for inclusion in its 2008 report a proposed dedicated funding source designed to provide a revenue stream for identified energy related incentives and programs, including a mechanism for the disbursement of monies collected.

BACKGROUND INFORMATION:

During the last regular legislative session \$62 million was appropriated for energy related programs. Unfortunately, a greater need was still unmet. To further complicate the situation, the \$62 million was not general revenue monies, but rather non-recurring revenue which meant a new funding source must be found with each new fiscal year if a similar amount is to be again appropriated. During a recent special legislative special session, over a billion dollars was trimmed from the State's budget as a result of lowering state revenues. With such budget cuts, it is unlikely that such a significant amount of money will again be available to fund new or even established energy related programs.

In order to overcome such fiscal pitfalls, a revenue source funded by assessments, fees, or some other permanent mechanism will be necessary. For example, the documentary stamp tax (the so-called "doc stamp") is collected on all recordable instruments as provided for in Chapter 201, Florida Statutes. The monies collected from the doc stamp are distributed in accordance with a statutory formula to a variety of programs: including among others, Preservation 2000 Bonds, Save Our Everglades Trust Fund, highway construction, and affordable housing, and the Classroom for Kids Program.

In addition to creating a particular funding mechanism, the programs and incentives on which such revenues are to be spent should be identified and evaluated. A process for allocating the collected monies among the energy related programs should also be specified. These responsibilities should be allocated to the appropriate state entity, or allocated under any new energy governance infrastructure that may be created during the upcoming Legislative Session.

RECOMMENDATION 84:
Evaluation of a Public Benefits Fund

It is recommended that the Legislature instruct the Florida Energy Commission and the Public Service Commission to evaluate the establishment of a public benefits fund (also known as a “system benefits charge”). The Florida Energy Commission should report its findings and recommendations to the Legislature by December 31, 2008.

BACKGROUND INFORMATION:

Public Benefit Funds (PBF) are typically created by levying a small charge on every customer’s electricity bill. These funds provide an annual revenue stream to fund energy efficiency programs. The charges range from 0.03 to 3 mills per kilowatt-hour (kWh) and are equivalent to about \$0.27 to \$2.50 on a residential customer’s monthly energy bill. Where there are comprehensive, statewide programs in place, funding levels range from about 1 to 3% of total utility revenues. The objectives of PBF programs for energy efficiency include:

- Saving energy and avoiding new generation through long-lasting improvements in energy efficiency.
- Lowering energy demand and reducing air pollutant and greenhouse gas emissions.
- Reducing customers’ energy costs.

Most of the 20 states that have established a PBF also use these revenues to support development of clean energy supplies, such as renewable energy and combined heat and power, provide assistance to low-income consumers, support consumer education, and support research and development of new clean energy technologies.

RECOMMENDATION 85:
Greenhouse Gases and Climate Change

It is recommended that the Florida Energy Commission, as part of its statutory requirement to identify for the Legislature issues that are to be addressed in forthcoming years, approve for consideration during the upcoming year and for inclusion in its 2008 report a review of the various options for reducing green house gases and other related climate change issues.

BACKGROUND INFORMATION:

The importance of climate change as part of an overall state energy policy can not be overstated. Florida, in particular, may be more vulnerable to the impacts of climate change than other states. Therefore, as Floridians, we must be responsive and join other states and nations in reducing greenhouse gases if we are to continue enjoying our way of life.

In 1988, the Intergovernmental Panel on Climate Change (IPCC) was formed to assess, among other things, information relevant to understanding the scientific basis of the risk of human induced climate change. Thousands of experts from over 130 countries are contributing to this ongoing assessment. The IPCC has already found that it is very likely that human activities, primarily fossil-fuel use, land use, and agricultural activities have caused an increase in the greenhouse gases that cause climate change.

Carbon (CO₂) makes up the overwhelming majority of greenhouse gases. The second most prominent GHG is methane (CH₄), which is emitted in far lower quantities, but is more potent than CO₂. The other commonly recognized GHGs are nitrous oxide (NO₂), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF₆). Florida currently ranks fifth nationally in the amount of energy consumed per capita and third in total energy consumption. As we grow with almost one thousand people moving to our state every day, the amount of greenhouse gas emission will also grow.

During the past year, the FEC's Climate Change Advisory Group has addressed this issue and recommendations creating GHG targets and a GHG registry, among others, have been adopted. It has become apparent that there is much to understand about how best to proceed; how best to proceed for our citizens and rate payers, and how best to proceed for our utilities, transportation sector, agricultural community, and manufacturing industries.

It has also become apparent that the FEC's Commissioners need more time to further discuss the pros and cons of the various options for going forward and the costs associated with those particular options. One must also understand the cost of not going forward with any of the options. The best way to resolve the situation is to continue the debate into next year before the full Commission and propose our recommendations to the Legislature in our 2008 report.