LCEC Public Determination Regarding

Updated Standards To the

Public Utility Regulatory Policies Act of 1978

On August 8, 2005, Congress issued the Energy Policy Act of 2005 (EPAct 2005), which includes updates to the Public Utility Regulatory Policies Act of 1978 (PURPA). Included in those updates is the requirement that each State regulatory authority and each non-regulated electric utility with retail sales greater than 500 million kilowatt hours shall consider five new ratemaking standards proposed in the EPAct 2005 in a public process and within certain defined time lines.

Lee County Electric Cooperative, Inc. (LCEC) is considered a non-regulated utility under the EPAct 2005. In accordance with this directive and following a prescribed public process, the LCEC Board of Trustees is providing a determination regarding each of the standards. The five new standards of EPAct 2005 are as follows:

1. Net Metering (Section 1251)
2. Fuel Sources (Section 1251)
3. Fossil Fuel Generation Efficiency (Section 1251)
4. Time-Based Metering and Communications (Section 1252)
5. Interconnection (Section 1254)

EPAct 2005 does not require that the electric utilities implement these standards. PURPA does state that “ each regulatory authority (with respect to each electric utility for which it has ratemaking authority) and each nonregulated electric utility shall consider each standard” and then “make a determination concerning whether or not it is appropriate to implement such standard" (PURPA Section 111 (a)). PURPA further states that "nothing in this subsection prohibits any state regulatory authority or nonregulated electric utility from making any determination that it is not appropriate to implement any such standard." Therefore, it is LCEC's responsibility to make an independent determination, specific to its own situation, as whether or not to implement each of the new PURPA standards. This determination follows consideration of the standards and evidence presented through public comments and during the course of the public hearing held on March 2nd, 2007.

For further information regarding Lee County Electric Cooperative's participation in the consideration of the five new PURPA standards, please visit www.lcec.net to view the public notice, public comments and the public hearing transcript.

Net Metering Standard

Net metering produces a one to one credit value at the retail rate, therefore allowing a customer with net metering to effectively reduce the appearance of kilowatts consumed and avoid paying LCEC for the use of the distribution system to deliver the original kilowatts consumed. This would be unfair to other customers served by LCEC that eventually would have to make up that difference through the retail rates they pay at a higher ratio of distribution costs than the customer with net metering. Net metering would provide inherent rate inequities for both the energy producing and non-energy producing customers served by LCEC.

In addition, net metering would put LCEC in the position of directly purchasing energy from the customer which is not consistent with the all- requirements contract from

LCEC's power supplier, Seminole. Under the terms of that contract, LCEC is required to purchase all energy delivered through the distribution system to retail customers from Seminole.

However, LCEC may implement a net billing program as enabled by Seminole's Interconnection Agreement for Small Photovoltaic Systems of 10 kilowatts or less. Mainly, the net billing approach differs from net metering, in that the distribution costs included in the retail rate are not absorbed by LCEC.

LCEC believes the net billing approach serves to both enable and encourage customers capable of producing excess capacity, while protecting against cross subsidization by customers that only consume electric energy. Net billing also allows LCEC to continue purchasing all the energy required by the customer from Seminole, which is consistent with the Seminole all-requirement contract and the costs incurred by both LCEC and Seminole.

LCEC Determination:

LCEC is unable to implement the net metering standard in EPAct 2005 due to conditions of the all-requirements contract with Seminole. However, LCEC will implement a net billing program to encourage customers who can produce excess capacity to be exported and sold to a utility other than LCEC.

Fuel Sources Standard

LCEC is a distribution electric utility that purchases power under an all-requirements contract with Seminole, and therefore LCEC is obligated to the terms of that contract through the year 2020. Under the terms of that contract, LCEC cannot produce and sell energy to the end-use customer. Since LCEC is not a generation utility, it has no direct control in implementing the Fuel Sources Standard as proposed in EPAct 2005. However, LCEC recognizes that having diverse fuel sources is important to maintain stable rates for consumers during times where costs for certain fuels used for generation are high. In that regard, LCEC is committed to encouraging Seminole to be diligent in their planning process, for both generation and purchases of wholesale energy, to reflect activities which are consistent with the implementation of this standard.

LCEC Determination:

LCEC is unable implement the fuel sources standard in EPAct 2005 because it is not a generating utility, but will encourage the examination and use of diverse fuel sources by Seminole.

Fossil Fuel Generation Efficiency Standard

LCEC recognizes the importance of the standard and its economic and environmental impact. LCEC will continue to encourage and support Seminole's efforts to promote efficiencies in the production of electric energy for LCEC's customers.

LCEC's distinction as an electric distribution company obligated to an all-requirements contract with Seminole precludes LCEC from having a direct impact on the implementation of the Fossil Fuel Generation Efficiency Standard in EPAct 2005.

LCEC Determination:

LCEC is unable implement the fossil fuel generation standard in EPAct 2005 because it is not a generating utility, but will encourage Seminole to employ efficient practices in the production of electric power.

Time-Based Metering and Communications Standard

Currently, there are no inherent time-based price signals contained in the wholesale rate SECI-7h, that Seminole offers LCEC. That rate is comprised of 5 separate components. The first is the Production Demand Charge which is expressed on a dollar per kW per month basis and applied to the Cooperative's metered kW at the time of Seminole's monthly system peak during eight peak months of the year (January through March, June through September and December). The second is the Production Fixed Energy Charge which is a fixed dollar per month charge. The third is a Transmission Demand Charge that is expressed on a dollar per kW per month basis and applied to Cooperative's metered kW at the time of Seminole's monthly system peak for each month during the year. The fourth is the Non-fuel Energy Charge, a non-time differentiated rate expressed on a dollar per kWh basis. And the final component is the Fuel Rate, a non-time differentiated rate expressed on a dollar per kWh basis and trued-up for actual fuel costs every six months.

Seminole’s current Rate Schedule SECI-7h, which went into effect January 1, 2007, limits LCEC’s ability to implement time-based energy rates, as there are no inherent time-based price signals contained in this wholesale rate. Seminole has, however, expressed intent to examine the feasibility of offering a time-of-use energy rate option in the wholesale rates. Seminole has included the effort as part of its 2006-07 tactical plan initiatives.

LCEC Determination:

Based on the potential shift in wholesale rate structure that may result from Seminole’s efforts to study time based elements in their wholesale rate, it is sensible at this time for LCEC to decline to implement any new time-based rates in the absence of current time-based energy price signals from the supplier.

Interconnection Standard

LCEC has had guidelines for interconnection services required by PURPA 1978 for more than twenty years. Seminole and its members, including LCEC, had developed interconnection guidelines for allowing Qualifying Facilities to interconnect with the LCEC system in accordance with the rules adopted by the Federal Energy Regulatory Commission implementing Sections 201 and 210 of PURPA 1978. The Interconnection guideline: (1) permits any Qualifying Facility (QF) to interconnect with Seminole's transmission system or the distribution or transmission system of LCEC; (2) permits any QF to sell energy and capacity to Seminole; (3) permits any QF to purchase supplementary, back-up, maintenance, and interruptible power from LCEC at rates that are nondiscriminatory, just and reasonable, and in the public interest; and (4) permits any QF so requesting to wheel its energy and capacity over the distribution or transmission system of LCEC and/or the transmission system of Seminole, to the extent transmission or distribution system capacity is available, to any electric utility purchasing such power.

LCEC’s use of the IEEE Standard 1547 for implementing the EPAct 2005 interconnection standard is also consistent with the recent “Stipulation Regarding the Interconnection of Distributed Resources to the Electric Power System” recently submitted to the Florida Public Service Commission (FPSC) by the investor-owned utilities in Florida, which was subsequently approved by the FPSC on August 18, 2006.

LCEC Determination:

Current LCEC practices and guidelines are consistent and in compliance with the standard. In addition, LCEC will continue to review the standards offered for interconnection. This allows for adoption of emerging technologies that may simplify interconnection further and strengthen the interconnection for safe, reliable access to LCEC's distribution and transmission system.