

**LCEC Public Determination Regarding
Updated PURPA Standards of the
Energy Independence and Security Act of 2007**

On December 19, 2007 Congress issued the Energy Independence and Security Act of 2007, or EISA 2007, which includes updates to the Public Utility Regulatory Policies Act of 1978, or PURPA. Included in those updates is a requirement that each State regulatory authority and each non-regulated electric utility with retail sales greater than 500 million kilowatt hours shall consider four new standards proposed in the EISA 2007 in a public process and within certain defined time lines.

Lee County Electric Cooperative, Inc. (LCEC) is considered a non-regulated utility under EISA 2007. In accordance with this directive and following the prescribed public process where public comments were welcomed and encouraged, the LCEC Board of Trustees is providing a determination regarding each of the standards. The four new EISA 2007 standards are as follows:

1. Integrated Resource Planning (Section 532(a))
2. Rate Design Modifications to Promote Energy Efficiency Investments (Section 532(a))
3. Consideration of Smart Grid Investments (Section 1307(a))
4. Smart Grid Information (Section 1307(a))

The LCEC Board of Trustees considered each of the standards in the context of the stated purpose of PURPA, which was to encourage conservation of energy supplied by electric utilities; optimal efficiency of electric utility facilities and resources; and equitable rates for electric consumers. Also the LCEC Board considered, specific to its own situation, whether or not to implement each of the new PURPA standards. This determination follows these considerations

and evidence presented through public comments and during the course of the public hearing held on July 1, 2009.

Integrated Resource Planning Standard

The term Integrated Resource Planning generally refers to a comprehensive planning process intended to systematically consider appropriate supply-side (i.e., power plants) and demand-side (i.e., demand management, energy efficiency/energy conservation) resource options to meet current and future system electric demand and energy requirements within the context of an electric utility's policy goals and objectives.

As an electric distribution utility that purchases its power under wholesale power contracts, LCEC has limited ability to make an independent determination regarding the complete implementation of this standard. However, LCEC can address the adoption of this standard from a demand-side perspective. LCEC's demand-side programs and activities all combine to provide more than 35 MW of demand reductions and 6,672 MWH of energy reductions in the past year. These demand-side programs optimize operations that lower the need for supply side resources. Through on-going interactions with its Power Supplier, LCEC encourages the integration of demand-side resources in its Power Supplier's planning activities consistent with the implementation of this standard.

LCEC Determination:

LCEC, to the extent it is able to adopt this standard as an electric distribution utility, has already integrated energy-efficiency resources into the demand-side integrated resource planning, and has adopted policies establishing cost-effective energy efficiency as a priority resource.

Rate Design Modifications to Promote Energy Efficiency Investments Standard

LCEC's residential service rate is structured with a three tier inverted block rate that encourages energy conservation and energy efficiency by charging step-wise higher amounts as energy consumption increases. This current structure of LCEC's retail rates, and specifically the inverted block rate, provide some degree of encouragement for energy efficiency in that the consumer's marginal energy cost increases with increased usage, and conversely decreases with decreased usage, with a readily apparent price signal. Also included in this standard is the policy to offer home energy audits, demand response programs, publicize the financial and environmental benefits associated with making home energy-efficiency improvements, and educate homeowners about all existing Federal and State incentives, including the availability of low-cost loans that make energy-efficiency improvements more affordable. LCEC has many demand-side programs that directly promote energy efficiency to its members. These include:

- On site residential and commercial energy audits;
- On-line residential and commercial energy surveys;
- Good Cents Home certification program for building new energy efficient homes;

- Customer education on energy efficiency on website, newsletters, and outreach opportunities;
- Residential load management;
- Interruptible rate load management;
- Distributed generation for critical peak reduction.

In summary, the process of electric utility rate design is a dynamic, ongoing process that strives to achieve the major goal of meeting the utility's total revenue requirements while sending proper price signals and balancing multiple objectives. Though energy efficiency has always been one of the acknowledged principle objectives of ratemaking, there is no doubt that it will have an increasing influence on that process.

LCEC Determination:

LCEC has already taken steps to adopt this standard by charging retail rates that reasonably align utility incentives with the delivery of cost-effective energy efficiency and promote energy efficiency investments pursuant to the stated policy options.

Consideration of Smart Grid Investments Standard

Although this standard is not specifically directed to non-regulated utilities and LCEC cannot direct State action or implement this standard for other utilities, LCEC is including this standard in its EISA 2007 PURPA consideration process because the factors in the standard are prudent and applicable to its business, with the caveat that LCEC's ability to implement this

standard is limited to its own electric distribution system grid. Furthermore, LCEC's consideration of this standard is restricted to Section (16)(A), Cost effectiveness, improved reliability, security and societal benefit, since Sections (16)(B), rate recovery, and (16)(C), obsolete equipment, are not relevant due to the organizational structure of LCEC.

LCEC has already made extensive investments in smart grid technologies. LCEC has invested in a Supervisory Control and Data Acquisition system, Automated Metering Infrastructure (AMI), GIS mapping, Outage Management System, and other advanced communication capabilities system. LCEC's last substation project included conversion of existing relays to "smart relays" that provide advanced line protection capabilities, which better enable LCEC to address the growing complexity of its distribution system, including the interconnection of consumer-owned renewable distributed generation. LCEC has deployed a power line carrier two-way automatic communications AMI system (TWACS) in its service territory, investing over \$28 million in the deployment of the TWACS AMI system over the four year period from 2002 through 2006. Additional investments to expand system capabilities will be considered as that functionality becomes available and as supported by any accompanying business case.

LCEC Determination:

LCEC has implemented and will continue to evaluate smart grid options based on appropriate factors, and adopt this Standard by deploying such investments when LCEC determines that the member-consumers will receive sufficient value from such investments.

Smart Grid Information Standard

This standard attempts to empower consumers with more detailed and timely information regarding the cost and the amount of their electric energy usage. As worded, however, the information set forth in the standard is simply not currently available.

At present, a real-time wholesale electricity market does not exist within the FRCC region where LCEC's system resides. This means that there is not a real-time clearinghouse price for electricity which would be meaningful or reliable for handoff to retail consumers as an adjunct to real-time energy pricing programs.

The information regarding pricing and usage “on not less than a daily basis” is not currently available via LCEC's existing systems.

In regards to providing consumers and other interested persons with information on the sources of generation and the associated greenhouse emissions, this information could only be provided by LCEC if it were made available through LCEC’s wholesale power supplier.

LCEC Determination:

At some future date, LCEC may have access to the type of detailed and timely energy usage and pricing information set forth in this standard, and further may possess the necessary communications technology to provide such information to its consumers. For the present time, however, LCEC has neither the information nor the technology necessary to do so. Therefore, the only portion of this standard that LCEC is currently able to adopt is Section (17)(B)(iv) through links to websites of LCEC’s wholesale power supplier(s).