

7/20/05
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#040841

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The management team of New Energy Capital has a total of more than 50 years of experience in founding and managing renewable energy companies, evaluating energy markets and projects, consulting in all sectors of the energy marketplace, developing domestic and international power generation facilities, financing energy projects, investing in renewable energy and distributed generation technologies, and creating and managing the public policies that currently shape the landscape for the renewable energy and distributed generation marketplace.

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#04084/

7/20/05

Submitted by Josh Dickinson



Southern Alliance for Clean Energy

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Utility Funded Energy Efficiency Programs

Currently, none of the electric utilities in the Southeast have invested a significant amount in energy efficiency programs. The primary reason is that the utilities make money based on how much electricity they sell. Energy efficiency programs reduce electricity sales and thus the revenues of the utilities. Tying a utility's revenues to the quantity of electricity it sells makes little sense. Such a structure makes the sale of electricity the primary incentive to a utility. A utility is therefore encouraged to sell as much electricity as possible up to the capacity of its power supply system. As a utility increases its electricity sales, it has to expand the capacity of its system, which is expensive, but utilities can pass these costs along to their customers through rate increases.

An excellent example of the dysfunction caused by connecting revenues to electricity sales is that a utility makes significantly more money when there are extreme temperatures and customers use a greater amount of electricity for heating or cooling. A utility should not be in the business of just selling electricity, but rather providing energy services to its customers. The method for determining how much revenue utilities in the Southeast collect should be changed so that sales are not linked to revenues. The utilities would then be more likely to operate a more energy efficient system.

Electric utilities in the Southeast also should be required to develop and implement energy efficiency programs. Florida, Georgia and North Carolina already have state laws requiring certain electric utilities to include cost-effective demand-reducing measures such as energy efficiency programs in their resource mix for meeting the utilities' customers electricity needs. The public service commissions of these states are charged with implementing these laws.

Four Southeast utilities launched energy efficiency programs in the early 1990s as a result of the laws requiring demand-side measures. These utilities are Georgia Power Company, Savannah Electric and Power Company, Duke Power and Carolina Power and Light Company. These utilities, however, canceled their energy efficiency programs in the mid-1990s when their commissions adopted the Rate Impact Measure (RIM) cost-effectiveness test to determine which energy efficiency programs the utilities had to implement. No traditional energy efficiency programs can pass the RIM test, and this test is not used in any state where there are significant energy efficiency programs. The RIM test flunks any program that increases rates.

Energy efficiency programs typically increase rates because they decrease sales, and thus the revenues of a utility. A utility still has the same fixed costs, which have to be spread over fewer units of electricity sold, and thus rates increase. Customers, however, don't pay a rate, but a bill. Energy efficiency programs give ratepayers the opportunity to reduce consumption, and thus decrease their bills even if their rates go up slightly as a result of the programs.

Prior to adopting the RIM test, the commissions regulating the Southeast utilities that had energy efficiency programs used the Total Resource Cost (TRC) test to evaluate the cost-effectiveness of the programs. Under the TRC all energy efficiency programs that can be included in a utility's resource mix to achieve the lowest total cost of meeting the energy needs of a utility's customers would pass the test. In other words, the TRC requires a combination of supply and demand side resources that would result in the lowest total cost for the utility meeting the needs of its customers. A substantial number of energy efficiency programs pass the TRC test.

All electric utilities in the Southeast should be required to develop and implement significant energy efficiency programs. The commissions that regulate investor-owned utilities in the Southeast should require these utilities to implement energy efficiency programs that pass the TRC test. Utilities not regulated by these commissions should be required by state law, or federal law if appropriate, to also implement energy efficiency programs that pass the TRC or similar test.

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 **DRAFT**

FIRMS TO RECEIVE RFP & ADVERTISING/NOTIFICATION METHODS

FIRMS

Accion Group, Inc.	Concord, NH
E/Pro Engineering & Environmental Consulting	Augusta, ME
KEMA	Raleigh, NC
Think Engineering Consultants	Atlanta, GA
Stanley Consultants	West Palm Beach, FL
Robert S. Kripowicz	Frederick, MD

ADVERTISING

GRU Web Site (this gets searched by several firms who provide RFP/Bid notifications to clients)

RFP Depot web based notification service

DemandStar web-based notification service

Wall Street Journal - Note: industry magazines have 30 day cycles from deadline for submission to publication which would lengthen the RFP process

Additionally we will try to post notice on several industry web sites such as: Power Engineering, American Public Power Association and Energy Central