

PROJECT NO. 2008-TX060-0001

PROCEEDING TO CONSIDER AND DETERMINE §
WHETHER TO IMPLEMENT THE FEDERAL §
RATEMAKING STANDARDS FOR INTEGRATED §
RESOURCE PLANNING, RATE DESIGN § LYNTEGAR ELECTRIC COOPERATIVE, INC.
MODIFICATIONS TO PROMOTE ENERGY §
EFFICIENCY INVESTMENTS, CONSIDERATION OF § LYNN COUNTY, TEXAS
SMART GRID INVESTMENTS, AND SMART GRID §
INFORMATION PURSUANT TO 16 U.S.C. §
§2621(D)(16), (17), (16) AND (17) AS AMENDED §
BY PUB. L. NO. 110-140, 121 STAT. 1492 (2007). §
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PROPOSAL FOR IMPLEMENTING PURPA RATEMAKING STANDARDS RELATING TO
INTEGRATED ENERGY EFFICIENCY RESOURCE PLANNING,
RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY INVESTMENTS,
SMART GRID INVESTMENTS, AND SMART GRID INFORMATION

Lyntegar Electric Cooperative, Inc. (Lyntegar or Cooperative) proposes four new policies to address: 1) integrating energy efficiency resources into resource planning and making cost-effective energy efficiency a priority resource; 2) modifying rate designs to promote energy efficiency investments; 3) assessing investments in smart grid technologies before investing in non-advanced technologies; and 4) making smart grid information available to members. These proposed policies implement modified versions of the four new ratemaking standards federal law requires the Cooperative to consider pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA), as amended by the Energy Independence and Security Act of 2007 (EISA), 16 U.S.C. § 2621(d)(16), (17), (16) and (17), Public Law No. 110-140, 121 Stat. 1492 (2007) (hereinafter, PURPA EISA).

1. FIRST PURPA STANDARD 16 - INTEGRATED RESOURCE PLANNING

Under First PURPA EISA Standard 16,¹ the Cooperative must decide whether to: 1) integrate energy efficiency resources into its integrated resource planning; and 2) adopt policies establishing cost-effective energy efficiency as a priority resource. The term “integrated resource planning” generally refers to a comprehensive planning process intended to systematically consider appropriate supply and

¹ 16 U.S.C. § 2621(d)(16), 121 Stat. 1665.

demand resources to meet current and future load requirements within the context of the Cooperative's policy goals and objectives.² The term "energy efficiency" refers to efforts that allow consumers to use less energy without changing their behavior or that replace existing energy-consuming devices with newer models that consume less energy.

The Lyntegar Board of Directors has adopted the following policy on energy conservation:

The Cooperative will make all efforts to assure the conservation of energy at all of its own facilities and in all activities of the Cooperative. The Cooperative will, through various methods available, educate and guide its consumers toward the conservation of energy.

The Cooperative will engage in training its employees, to assure they are aware of the need for and the best methods available to conserve energy.

The Cooperative will make efforts to coordinate its activities concerning energy conservation with those of other such power suppliers, statewide organizations, governmental bodies, building industry and other organizations that are concerned with the conservation of energy.

The Cooperative will develop and maintain programs and activities designed to promote energy conservation and to monitor such programs and activities so as to measure their results.

The Cooperative will consider the energy conservation program of the Cooperative in future contemplated rate changes.

The Cooperative will allocate resources to be used toward its commitment to energy conservation.

Lyntegar prepares an annual Energy Conservation Program and Work Plan report (last updated May 2008), outlining its energy conservation program, including the Cooperative's investment in the program.

² PURPA defines integrated resource planning as a planning and selection process for new energy resources that evaluates the full range of alternatives, including new generating capacity, power purchases, energy conservation and efficiency, cogeneration and district heating and cooling applications and renewable energy resources in order to provide adequate and reliable service to electric customers at the lowest system cost. PURPA requires that the process take into account necessary features for system operation, such as diversity, reliability, dispatchability, and other risk factors; consider the ability to verify energy savings achieved through energy conservation and efficiency and the projected durability of such savings measured over time; and treat demand and supply resources on a consistent and integrated basis.

The Cooperative does not conduct integrated resource planning directly because it neither owns nor operates any generation facilities. However, the Cooperative participates in the integrated resource planning conducted by its power supplier, Golden Spread Electric Cooperative, Inc. (Golden Spread). Golden Spread conducts a power requirements study or load forecast annually to determine current and future capacity and energy needs. Golden Spread's power requirements study already integrates energy efficiency resources into the resource planning process. Those activities include the following direct assistance and educational programs:

- a) home energy audits at no cost to all Cooperative members;
- b) the transitioning of the Cooperative's outdoor rental lighting to higher efficiency fixtures;
- c) rebates to members installing high efficient central air source and ground source heat pumps or dual fuel systems, as well as recommendations on how to weatherize to increase conservation;
- d) the installation of high efficiency lighting in the Cooperative's most recently constructed facility and a commitment to the installation of high efficiency lighting and HVAC equipment in its own facilities as they are constructed or replaced;
- e) the encouragement of renewable resource development, including a policy that offers net metering and purchases the output to allow the development of small renewable distributed generation resources;
- f) taking steps to reduce system losses (the difference between kilowatt hours (kWh) purchased by the Cooperative and kilowatt hours (kWh) sold by the Cooperative to end-use customers) which improves the Cooperative's energy efficiency by reducing the amount of purchased energy. Those steps include designing the Cooperative's distribution system to achieve a minimal level of losses, including sizing conductors on the distribution system to minimize line losses, evaluating transformers to minimize life cycle costs, and working with customers to encourage them to correct their power factor;
- g) actively monitoring and evaluating the wide variety of energy efficiency and demand response programs, information management and telecommunications, and renewable and distributed energy programs offered by National Rural Electric Cooperative Association (NRECA) and NRECA's research arm Cooperative Research Network (CRN);
- h) providing information on conservation and energy efficiency to all members remodeling or building new facilities and to others on request;
- i) providing information about appliance usage and energy savings; and
- j) providing energy efficiency information to members in various ways, including but not limited to the Cooperative's monthly publications; training, materials provided to local organizations and schools, new member information packets, and one-on-one information provided to members upon request.

The Cooperative measures the effectiveness of its energy efficiency programs through the pricing signal from its wholesale power supplier. The wholesale rate the Cooperative pays includes a capacity and energy charge. As the Cooperative improves its energy efficiency, average and total purchased power costs decline.

Although Lyntegar's current practices meet the federal standards for integrated resource planning, the Cooperative proposes adopting the following modified standard:

Policy No. 1 for Integrated Resource Planning

While acknowledging that it does not own or operate generation resources, and that it has an all power requirements contract with Golden Spread Electric Cooperative, Lyntegar Electric Cooperative, Inc. will collaborate with its power supplier to develop specific energy efficiency promotional programs, such as load control or management programs, which the Cooperative will incorporate into its menu of energy efficiency and conservation programs offered to members. Lyntegar will also continue to provide information to Golden Spread so that Golden Spread can include Lyntegar's energy efficiency programs as a priority resource in its resource planning and continue to consider cost-effective programs designed to increase energy efficiency.

This policy is necessary to reduce the future need for increased capacity and purchased power costs related to additional capacity and to reduce current power costs paid by Cooperative members.

Lyntegar's existing energy efficiency programs were included in the Cooperative's expenses at the time of its most recent rate design and cost of service evaluation. As a result, any program costs are being recovered from members under existing rates. But any decrease in the cost of purchased power or the average cost per kilowatt hour (kWh) of purchased power does not increase the Cooperative's margins. The cost of purchased power is passed directly to member-owners through Lyntegar's power cost recovery factor (PCRF). This means that any future energy efficiency programs adopted by the Cooperative will entail expenses that will not be offset by reduced costs until the next time the Cooperative revises its retail rate structure.

2. RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY INVESTMENTS

Under First PURPA EISA Standard 17,³ the Cooperative must decide whether the rates it charges will align utility incentives with the delivery of cost-effective energy efficiency and will promote energy efficiency investments. In making that decision, the Cooperative must consider six policy options, which are:

- 1) removing the throughput incentive and other regulatory and management disincentives to energy efficiency;
- 2) providing utility incentives for the successful management of energy efficiency programs;
- 3) including the impact on adoption of energy efficiency as one of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives;
- 4) adopting rate designs that encourage energy efficiency for each customer class;
- 5) allowing timely recovery of energy efficiency related costs; and
- 6) offering home energy audits, offering demand response programs, publicizing the financial and environmental benefits associated with making home energy efficiency improvements, and educating homeowners about all existing Federal and State incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable.

The Cooperative's existing tariffs for the large power class promote energy efficiency through an hours-use rate design that provides a price signal to improve load factor, which results in more efficient use of energy resources. However, the existing tariffs for the residential customer class do not align utility incentives with the delivery of cost-effective energy efficiency and do not promote energy efficiency investments because only part of the fixed distribution costs of providing service are recovered in the customer charge component of the residential rate. The costs that are not recovered in the customer charge are instead recovered in the energy component of the rate. As the amount of energy sold is reduced, the recovery of those costs is reduced as are the Cooperative's margins. This creates a disincentive for promoting and participating in energy efficiency or conservation programs, which are intended to reduce the amount of energy sold.

The Cooperative has considered the six policy options in First PURPA Standard 17 and proposes implementing them.

³ 16 U.S.C. § 2621(d)(17), 121 Stat. 1666.

Throughput incentives. Throughput incentives, such as declining block rates, provide incentives for consumers to use more energy which is contrary to the energy efficiency and conservation initiatives. Lyntegar has declining block rates for some rate classes. When Lyntegar performs its next cost of service study and rate design consideration, the Cooperative may consider a lost revenue adjustment mechanism, similar to the Cooperative's existing power cost recovery mechanism, which would be designed to recover from members any lost revenue from energy efficiency programs.

Incentives for the successful management of energy efficiency programs. This policy option is aimed at providing a financial incentive for managing energy efficiency programs and removing any disincentive a utility might have for investing in and managing programs, such as a negative effect on margins. To eliminate the disincentives to energy efficiency and conservation, the Cooperative proposes increasing over time the customer or demand charge components of the retail rate. As the customer or demand charges are increased, less of the distribution cost recovery is dependent on the sale of energy. As the fixed cost component becomes a larger component of the rate, energy efficiency and conservation efforts have a lesser impact on the Cooperative's margins. In addition, as discussed above, the Cooperative may also consider a lost revenue adjustment mechanism.

Including the impact of energy efficiency as a goal of retail rate design. Lyntegar's existing rates were designed to balance many considerations. Those considerations included: establishing fair and non-discriminatory rates, minimizing the impact of rates on member-consumers, providing a proper pricing signal through rates, and adopting understandable rates that encourage proper usage of electricity. "Proper usage" included the consideration of energy efficiency. When the Cooperative conducts its next cost of service and rate design, Lyntegar will review its rate structure in detail to ensure that promoting energy efficiency continues to be included in its rate design balance, with other factors.

Adopting rate designs that encourage energy efficiency for each customer class. As a part of the Cooperative's next cost of service study and rate design procedure, the cooperative will consider adopting standard rate designs or optional rate designs available for each of its customer rate classes that encourage efficiency. The Cooperative may adopt such rates based on the results of the consideration process.

Allowing timely recovery of energy efficiency related costs. Any costs incurred by a given rate class or customer for energy efficiency programs or investments should be recoverable from the same rate class or customer. The Cooperative will continue to carefully consider the costs of implementation and operation of energy efficiency programs in comparison to the benefits that are produced by such programs. During the next cost of service study and rate design process following the implementation of any new costs related to energy efficiency programs, the Cooperative will include the costs of any such investments and will design rates in such a way as to recover costs for the appropriate rate classes. As discussed, the Cooperative may also consider a lost revenue adjustment mechanism, which would make cost recovery more timely than if it is considered at the time of the next rate review.

Offering home energy audits, demand response and other programs. The Cooperative proposes continuing its current policy of offering these types of programs.

Policy No. 2 for Rate Design Modifications to Promote Energy Efficiency Investments

Lyntegar's retail rates will align utility incentives with the delivery of cost-effective energy efficiency and promote energy efficiency investments through:

- a) removing the throughput incentive and other regulatory and management disincentives to energy efficiency by phasing out rate designs that encourage non-efficient energy consumption;
- b) providing incentives for the successful management of energy efficiency programs by adopting rates over time that more closely align charges such as customer charges, demand charges and energy charges, with how the costs of providing those services are incurred;
- c) including the impact on adoption of energy efficiency as one of the goals of retail rate design by reviewing its rate structure in detail to ensure that promoting energy efficiency continues to be included in its rate design, but balanced with other factors; and considering whether to adopt a lost revenue adjustment mechanism;
- d) considering adopting rate designs that encourage energy efficiency for each customer class at the time of its next cost of service study and rate design procedure;

- e) allowing timely recovery of energy efficiency related costs by allocating those costs to each rate class and recovering those costs through rate designs and by considering adoption of a lost revenue adjustment mechanism or other similar mechanism; and
- f) continuing its existing programs offering home energy audits, demand response programs where appropriate, publicizing the financial and environmental benefits associated with making home energy efficiency improvements, and educating homeowners about existing Federal and State incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable.

3. CONSIDERATION OF SMART GRID INVESTMENTS

Under Second PURPA EISA Standard 16,⁴ each State must consider whether to require an electric utility to demonstrate that it has considered an investment in a qualified smart grid system before investing in non-advanced grid technologies. Although the Cooperative cannot direct state action or implement this standard for other utilities, the Cooperative can itself consider investing in a qualified smart grid system before making further investments in non-advanced grid technologies. Lyntegar's investment decision-making currently assesses investment in smart grid technologies before non-advanced grid technologies. For example, Lyntegar is in the process of installing Automatic Metering Infrastructure (AMI) metering. The Cooperative conducted careful and exhaustive analysis to determine what technology best met the needs of its members. Lyntegar is committed to conducting similar analysis as it adds or improves technology, and therefore proposes adopting a modified version of this standard to ensure that it considers total costs, cost effectiveness, improved reliability, security, system performance, and societal benefits in all of these decisions.

Applications of smart grid technology beyond meter reading now being considered across the electric utility industry include remote connection and disconnection of service; remote monitoring of power quality; prepaid billing and metering, automatic outage reporting; ability to implement energy efficiency; time of use, real time pricing and load management rate data collection for all rate classes;

⁴ 16 U.S.C. § 2621(d)(17), 121 Stat. 1791.

preventative maintenance on cooperative equipment; greatly improved load forecasting; and enhanced security and safety. Other possible functions include communicating with customer appliances and equipment. Lyntegar will consider the advantages and costs of these and other technologies over time.

Rate recovery. Like any other plant investment made by the Cooperative, smart grid equipment must be considered as a part of the cost of service and rate design procedure. Plant investment is allocated to each rate class along with associated expenses, included operations, maintenance, depreciation and interest expense. Once those costs have been allocated to each rate class, recovery of those costs will be included in each rate class's individual rate designs. Between the time of any investment in smart grid technology and the cooperative's next rate design process, recovery of such costs would not be included in rate designs.

Obsolete equipment. Should Lyntegar replace existing technology, such as meter reading equipment, with new smart grid equipment, the Cooperative will make appropriate adjustments to its financial statements and include these adjustments in its next cost of service study, to recover any stranded costs through its rate designs. The most common example would be an adjustment to the Cooperative's depreciation expense to account for equipment rendered obsolete by new smart grid technology.

Policy No. 3 for Smart Grid Investments

Before undertaking investments in non-advanced grid technologies, Lyntegar will consider an investment in a qualified smart grid system based on:

- a) total costs;
- b) cost-effectiveness;
- c) improved reliability;
- d) security;
- e) system performance; and
- f) societal benefit.

Lyntegar will also consider recovering from members any capital, operating expenditure, or other costs to the Cooperative relating to the deployment of a qualified smart grid system, including a reasonable rate of return on the capital

expenditures for the deployment of the qualified smart grid system. Lyntegar will consider deploying a qualified smart grid system to recover in a timely manner the remaining book-value costs of any equipment rendered obsolete by the deployment of the qualified smart grid system, based on the remaining depreciable life of the obsolete equipment.

4. CONSIDERATION OF SMART GRID INFORMATION

Under Second PURPA EISA Standard 17,⁵ the Cooperative must decide whether to provide its members with direct access, in written or electronic machine-readable form as appropriate, to information from the Cooperative that includes:

- a) time-based electricity prices in the wholesale electricity market and time-based electricity retail prices or rates that are available to the purchasers;
- b) the number of electricity units, expressed in kWh, purchased by them (Usage);
- c) updates of information on prices and usage offered on not less than a daily basis, including hourly price and use information, where available, and a day-ahead projection of such price information to the extent available (Intervals and Projections);
- d) written information annually to both members and interested persons on the sources of the power provided by the utility, to the extent it can be determined, by type of generation, including greenhouse gas emissions associated with each type of generation, for intervals during which such information is available on a cost effective basis (Sources);
- e) access to a member's own information at any time through the Internet and on other means of communication elected by the Cooperative for Smart Grid applications;
- f) access by other interested persons to information not specific to any purchaser through the Internet. Information specific to any purchaser shall be provided solely to that purchaser.

The Cooperative proposes implementing a modified version of the smart grid information standard for the following reasons:

Time-based electricity prices at wholesale and retail prices. As a distribution cooperative, Lyntegar's cost of power supply capacity and energy is determined, not by cost of service, but by the wholesale rate structure. Since Lyntegar's wholesale rate is not time-based, and it does not operate generation resources, the Cooperative's ability to provide such information to members is limited. Should

⁵ 16 U.S.C. § 2621(d)(17), 121 Stat. 1792.

Lyntegar's wholesale rate change in the future to provide time- based pricing, Lyntegar will provide additional information to members.

Usage. Lyntegar is in the process of updating its billing system to provide members with an online bill payment option. Lyntegar expects that this resource will be available to all members by 2010. Monthly kWh usage information is currently included on the monthly electric bill.

Intervals and Projections. This information is not provided to the member. Because Golden Spread's wholesale rates do not include such information and Lyntegar's power cost is the monthly billing from Golden Spread, this information would not send pricing information to end-use customers that would encourage energy efficiency. Should Golden Spread revise its wholesale rates to include power cost intervals and projections, Lyntegar will consider modifying its retail rates to allow end-use customers to take advantages of such intervals and projections, and will provide such information to members.

Sources. Lyntegar provides information showing the blend of generation resources from its power supplier at least annually through its newsletter. The Cooperative does not own generation resources. Should Lyntegar's power supplier provide information about the greenhouse gas emissions associated with each type of generation for the purpose of dissemination to the public, the Cooperative may provide this information to its members.

Internet or Smart Grid Access to Member's Own Information and Aggregate Information. As contemplated in the standards, the Cooperative must continue to weigh the potential costs and advantages of installing technology to provide such information against the potential costs for the customer. The Cooperative continues to review the advantages of installing such technology, but is not able at the current time to identify a specific method or technology or to identify a date at which this material will be made available.

Policy No. 4 for Smart Grid Information

Lyntegar will to the extent practicable provide its members with direct access, in written or electronic machine-readable form as appropriate, to information that will include:

- a) Pricing Information: Should Golden Spread's wholesale rate structure and Lyntegar's retail rate structure permit customers to take advantage of time-based electricity prices in the wholesale electricity market, such information will be available to the purchasers.
- b) Usage Information: The number of electricity units, expressed in kWh, purchased by them will be provided to members through the monthly bill, in 2010, an online payment option will be made available to members.
- c) Intervals and Projections: Should Golden Spread's wholesale rate structure and Lyntegar's retail rate structure permit customers to take advantage of updates of information on prices and usage, on not less than a daily basis and including hourly price and use information, where available, and day-ahead projections of such price information to the extent available, shall be offered, to the extent practicable and applicable to the member.
- d) Sources: Should Golden Spread provide Lyntegar with written information on the sources of the power provided by Golden Spread to Lyntegar, to the extent it can be determined, by type of generation, including greenhouse gas emissions associated with each type of generation, for intervals during which such information is available on a cost effective basis, members and other interested persons will be provided, to the extent practicable and applicable, with such information on at least an annual basis, through the Cooperative newsletter.
- e) Access: Should Lyntegar determine that it is cost effective to do so, members will be able to access, to the extent practicable and applicable to the member, their own information at any time through the Internet and on other means of communication elected by that utility for Smart Grid applications. Other interested persons will be granted access to information not specific to any purchaser through the Internet. Information specific to any purchaser shall be provided solely to that purchaser.

Cooperative Staff will conduct a public hearing on this proposal on March 27, 2009, at 12:00 p.m. at the Cooperative Headquarters located at 1807 Main Street, Tahoka, Texas. Written comments

on the proposal should be sent to Greg Henley at P.O. Box 970, Tahoka, TX, 79373-0970 no later than March 24, 2009.

These policies are proposed pursuant to Section 2621(d) of the Public Utility Regulatory Policies Act of 1978 and Sections 41.055 and 41.061 of the Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 41.055 and 41.061 (Vernon 1998 & Supp. 2005), which gives the Cooperative exclusive jurisdiction and authority to consider the PURPA EISA standards and implement any policies or tariffs appropriate for the Cooperative members.

ISSUED IN TAHOKA, TEXAS ON THE ____ DAY OF _____ 2009
BY LYNTEGAR ELECTRIC COOPERATIVE
BILLY WEAVER
SECRETARY-TREASURER