FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

January 26, 1995

TO : DIRECTOR, DIVISION OF RECORDS & REPORTING

WBB DPW MAH

FROM: DIVISION OF ELECTRIC & GAS (BERG, WHEELER, HAFF)
DIVISION OF LEGAL SERVICES (PALECKI) MP JDJ

RE : DOCKET NO. 941102-EI - PETITION OF GULF POWER FOR APPROVAL OF EXPERIMENTAL REAL TIME PRICING RATE, RATE SCHEDULE RTP.

AGENDA: FEBRUARY 7, 1995 - REGULAR AGENDA TARIFF FILING/INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: JUNE 8, 1995 - EIGHT MONTH CLOCK EXPIRES

SPECIAL INSTRUCTIONS: I:\PSC\EAG\WP\941102.RCM

CASE BACKGROUND

On October 13, 1994 Gulf Power Company petitioned the Commission for approval of its proposed Real Time Pricing (RTP) Pilot Conservation Program and the associated RTP tariff rate schedule. The program provides large industrial/commercial customers with hourly energy prices that attempt to approximate the real time price of electricity. The pilot study is proposed to last for four years and will measure customer response to this type of pricing arrangement. Within 120 days of the completion of the pilot program, the company will submit a final report to the Commission describing the results. The company has not requested to recover any of the costs associated with the pilot program at this time. On November 8, 1994 the Commission voted to suspend Gulf's RTP tariffs to allow staff time to conduct discovery on the specifics of Gulf's pilot program. Staff has concluded its discovery and submits this recommendation for the Commission's consideration.

DISCUSSION OF ISSUES

ISSUE 1: Should Gulf Power's proposed experimental real time pricing tariff, rate schedule RTP, be approved?

STAFF RECOMMENDATION: Yes, provided that the company furnishes the Commission with the following:

1) The pre-test load profiles of participating customers as customers begin taking service under the rate schedule.

2) A letter filed each quarter that details the total costs the company has incurred to provide service under the rate schedule. The letter should also provide the impact of the total costs on the company's earnings in terms of basis points as reflected in the monthly surveillance report filed with this Commission.

STAFF ANALYSIS

The Real Time Pricing Rate

Gulf's RTP pilot program provides large industrial/commercial customers with hourly kilowatt-hour energy prices. To be eligible for this rate schedule, customers must have a maximum monthly demand of at least 2,000 kilowatts. Participation is voluntary and will be limited to a maximum of 12 customers during the study period. Service under the experimental rate schedule shall terminate on December 31, 1998, unless extended by order of the Commission. Unless a permanent RTP rate schedule is approved by the Commission, customers will be returned to the otherwise applicable rate schedule at the end of the experiment. Customers, however, have the option to terminate service at any time during the pilot study by providing the company with written notice. After such voluntary termination, the customer is not allowed to select this rate schedule again for the duration of the experimental period.

Real time pricing is a refinement of time-of-use (TOU) pricing that has been in existence for many years. The purpose of TOU pricing is to encourage customers to shift usage from high cost on-peak hours to lower costs off-peak hours by setting prices that better reflect system costs during those periods. Under the RTP proposal, Gulf will transmit to customers by 4:00 p.m. a set of hourly prices that will be in effect for the following 24 hour period beginning at midnight. Once the prices have been transmitted, RTP customers have an opportunity to adjust their electric usage to take advantage of low priced hours and avoid the higher priced hours. The company believes that customers will respond to the high hourly energy prices by shifting their loads out of the system peak periods, and that the resulting system peak load reductions will be sufficient to qualify RTP as a cost-effective conservation program.

The RTP program proposed by Gulf is straightforward. The monthly electric bill for participating RTP customers will consist of an energy charge and a customer charge. The customer charge is a fixed charge of $1000 per month. The monthly energy charge is the sum of the kilowatt-hours consumed in a given hour multiplied by the stated price of electricity for that same hour for all hours in the billing month.

Using historical data, Gulf estimates that the hourly energy prices will range from a high hourly price of 23.9 cents per kWh to a low price of 3.0 cents per kWh. The average price for all hours in 1994 was estimated to be 3.65 cents per kWh. The hourly energy charge will always include, at a minimum, the currently effective Energy Conservation, Purchased Power Capacity, Fuel, and Environmental cost recovery adjustment factors and a component to reflect marginal costs and a small factor that contributes to fixed costs. The methodology the company will use to determine the hourly energy price is described in the RTP tariffs. Staff believes the methodology proposed by Gulf to calculate the hourly energy prices is reasonable.

Gulf's RTP program is not designed to be revenue neutral. Revenue neutrality means that if customers use the same amounts of energy at the same times as they have historically, their bills will not differ from what they would pay under existing embedded cost rates. Because Gulf's RTP is not revenue neutral, participating customers might see an increase or a decrease in their monthly electric bills simply by being billed under the RTP rate schedule. Staff believes that customers who will participate in this program are sophisticated enough to consider both the potential risks and potential benefits of the RTP rate schedule before opting for service.

Research Program

The company's stated purpose of the study is, in large part, to measure customer response to hourly price signals. If the Commission approves the pilot study, the company will collect data and conduct research in the following three areas. First, price and billing data will be collected so that the customers' average achieved cost per kWh can be compared with the average RTP offered price. This information will also be used to determine the amount of revenue shortfall/gain the utility experiences by providing service under this rate schedule. Second the pre-test customer load profiles will be compared to the load profiles obtained during the pilot to determine if there is any load shifting or load expansion, and to determine if there is any peak demand reduction.

Staff recommends that the company be required to file all pre-test load files with the Commission as customers begin taking service on the RTP rate schedule. Staff believes that the pre-test load profiles should be submitted to the Commission so that staff can verify any conclusions reached by the company at the end of the program. Finally, the company will be able to conduct customer research to determine the reaction and acceptance of the RTP program.

Staff believes that the information gathered from this experiment will be useful to the Commission as the electric industry becomes more competitive. This information will be compiled in the final report that the company will file with the Commission upon completion of the study.

Cost Recovery of the Pilot Program Costs

As discussed at length in the Florida Power and Light RTP staff recommendation, Docket No. 940423-EG, staff remains skeptical that RTP is a conservation program. Staff views the proposed RTP rate as a method for the utilities to reposition themselves for what they perceive as an increasingly competitive environment. Consequently, staff contends that there should be no cost recovery through the Energy Conservation Cost Recovery (ECCR) clause. To expedite the treatment of this petition, the company has not requested recovery of any the costs associated with the pilot program at this time. Gulf recognizes that approval of this petition does not imply that the Commission agrees with the company's characterization of RTP as a conservation program. Further, Commission approval of this petition does not result in automatic recovery of the costs associated with the program through the ECCR clause, should the company seek recovery of such costs at a later date.

Staff recommends that the company be required to submit a letter each quarter to the Commission's Division of Electric and Gas that details the amount of total costs the company has incurred for the current quarter to provide service under this rate schedule. The report should divide the total costs into two categories: 1) The revenue shortfall/gain the utility experiences. This is defined as the difference between what the customer would have paid on the otherwise applicable rate schedule and what the customer actually paid on the RTP rate schedule.; and 2) All other RTP program costs. In addition, the letter should provide the impact of the total costs on earnings in terms of basis points as reflected in the monthly surveillance report filed with the Commission. This requirement would be consistent with the treatment the Commission has accorded Florida Power and Light, who also offers a RTP rate schedule.

ISSUE 2: What is the appropriate effective date of the RTP tariff?

STAFF RECOMMENDATION: February 7, 1995.

STAFF ANALYSIS: If the Commission votes to approve the proposed tariff, the staff recommends that it become effective February 7, 1995, as requested by the company.

ISSUE 3: Should this docket be closed?

STAFF RECOMMENDATION: Yes.

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed.