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May 23, 1997

ORIGINAL
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HAND-DELIVERED

Blanca S. Bayo, Director
Division of Records and Reporting
Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870

Re: Docket No. 970046-EI

Dear Ms. Bayo:

Enclosed for filing and distribution are the original and fifteen copies of the Florida Industrial Power Users Group's Comments on Staff's Questions and an original and fifteen copies of the Florida Commercial Energy Group's Comments on Staff's Questions in the above docket.

Please acknowledge receipt of the above on the extra copies enclosed herein and return them to me. Thank you for your assistance.

Sincerely,

Vicki Gordon Kaufman

Vicki Gordon Kaufman

VGK/pw
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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Determination of Appropriateness of Allocating Electric Utility Sponsored Demand Side Program Costs to Rate Classes Eligible to Participate in Such Programs.

Docket No. 970046-EI

Filed: May 23, 1997

ORIGINAL FILE COPY

THE FLORIDA INDUSTRIAL POWER USERS GROUP'S
COMMENTS ON STAFF'S QUESTIONS

The Florida Industrial Power Users Group (FIPUG), pursuant to Staff's directions files its comments on the three questions raised by Staff at the May 7, 1997 workshop held in this docket.

INTRODUCTORY COMMENTS

General Observations Concerning Conservation Programs

FIPUG has viewed conservation programs with a jaundiced eye over the years. Since 1981, customers have paid nearly two billion dollars to fund the programs. The present rate of expenditure is about $300 million a year. The vast majority of the money has been directed to residential programs that do not use less electricity but shift the time of use. This demand shift is frequently coupled with increased off-peak consumption to reheat water heaters, re-cool dwellings, etc. The consumption backlash is reflected in the Commission's *Review of 1996 Ten Year Site Plans*. It shows at page 17 that in the ten-year period from 1986 to 1996, annual residential consumption increased from 11,200 kwh per year to 13,200 kwh per year, a 17.8% increase under conservation. Gas programs sell more gas to save electricity. By Commission rule, the programs are monitored, but the information derived at customer expense is not publically disseminated nor publically reviewed by the Commission.

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FPSC-RECORDS/REPORTING

When federal legislation encouraged cogeneration under PURPA and independent power production under EPAct92, in a few short years, the cost of generation declined dramatically and the heat rate of new generators improved significantly. Conservation was achieved through competition not additional surcharges to customers.

Perhaps it is time for a different approach to conservation.

Interruptible Customers

Non-firm industrial customers benefitted the utility system for a decade and half before the Florida Energy Efficiency Act was enacted. As high load factor customers, they provided an inexpensive proxy for reserve margin without an off-peak consumption backlash. The non-firm rates were justified by cost of service studies examining the utilities' <u>embedded costs</u>.

FP&L and FPC saw an opportunity when they designed their second generation conservation programs. Their action has caused the Public Service Commission staff (Staff) the consternation which provoked this docket. By reclassifying some large commercial and industrial non-firm rate schedules as conservation programs and basing the existing firm/non-firm price differential on future rather than actual costs, FPC & FP&L could impute a cost to these customers receiving an inferior quality service as though they were firm customers. The utilities provided these customers a "credit" to account for the risk of interruption. These utilities collect the credit amount through a conservation surcharge without having to go to the expense of building the plant necessary to supply firm service. As a side benefit, by imaginative avoided cost projections, the non-firm rates could be adjusted as necessary to compete with gas companies threatening to take away electric business.

Ironically, the competition that reduced generating plant cost has placed non-firm industrial customers in jeopardy. Although their rates have been proven to be at or above parity with other customers by cost studies based on actual embedded cost, (the statutory criteria for measuring rates), they may appear to no longer offer as great a benefit when measured on speculative future "avoided costs." Pursuing this theory to its logical conclusion for all customers would result in reducing all rates today and leaving the utility with "stranded investment."

The Staff workshop handouts seem to propose that if commercial and industrial customers continue to accept non-firm service, they may receive a credit but the credit will come out of their own pockets--they will pay for their own credit! This approach applied to a small class is unsupportable for both policy and legal reasons. Such an approach makes little sense and should be rejected out of hand.[1]

In the case of FPC, the Staff handout approach would violate FPC's last rate case order. Order No. PSC-92-1197-FOF-EI. In that case, FPC and several customer groups entered into a rate design stipulation accepted by the Commission and incorporated into its Final Order. Treatment of non-firm customers was an integral part of the stipulation and provided in essence that the rate differential established in

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[1] In discussions with Staff after the workshop, Staff noted that its workshop handouts constituted the "worst case" scenario--that is, the handouts showed all conservation programs allocated by class. It is counsel's understanding that Staff's current proposal is to make this allocation only for programs with a RIM value less than 1.2, which would not encompass non-firm programs. Nonetheless, FIPUG has grave concerns about attempting to include the interruptible and CILC rates in the type of analysis Staff is suggesting.

that case and the concomitant conservation docket would remain in place until the next general rate case when the non-firm customers could present their case explaining the fallacy of setting present rates on future values. The approach suggested in the Staff handouts would increase these rates by $22 million and would violate the Commission order cited above and the parties' settlement.

In sum, FIPUG's position is that, to the extent, Staff proposes, and the Commission accepts, any type of new conservation allocation, that interruptible, curtailable and any other customers whose rates are cost justified on embedded rates be excluded from it.

STAFF QUESTIONS

1. **Are the general body of ratepayers at greater risk in terms of realizing benefits from DSM programs as the RIM cost-effectiveness ratio approaches 1.0?**

FIPUG response: Yes. This is the basic defect in using speculative future avoided costs to gauge the cost effectiveness of conservation programs. The avoided cost determination must project technological advances, future fuel costs, the cost of money, forecasted energy sales, the weather and the economy. All of these costs and conditions are volatile. When rates are set using volatile future costs rather than historic costs, the rate will be volatile; a result that is discouraged by § 366.06, *Florida Statutes*, which promotes rates that are "acceptable" to customers.

Two examples of the trouble caused by setting rates based on future cost estimates were experienced by Florida Power in the recent past. The residential load management credit FPC sought to reduce when future cost projections showed it was no longer beneficial created great customer dissatisfaction. Second, customers are being charged millions more today to buy down 1989-1990 era cogeneration contracts based on then current avoided cost forecasts that appear to be imprudent based on today's avoided future cost projections. If current gas price projections turn out to be faulty, today's buy downs will turn out to be a waste of money.

Even current cost projections are apparently in doubt. FPC justifies the capacity buy downs on the proposition that natural gas prices will remain low. Tampa Electric Company justified its Polk Power Station on the forecast that natural gas prices will soar.

2. Recognizing the unavoidable competitive impact of DSM programs, should ratepayers continue to pay for DSM programs through the ECCR clause absent an analysis showing the benefit of such competition? Why or why not?

FIPUG response: No. A theoretical cost benefit analysis is not necessary. Competition is served by cost reduction. If the purpose of conservation programs is to promote efficiency, environmental improvement and cost savings, competition should be phased in to substitute for DSM rather than discouraged. It may do a better job at less cost to rate payers

To avoid predatory pricing, captive customers should not be required to cover the cost of competition. Let the utility shareholder[2] make a business judgment as to whether a competitive rate is economically feasible. In the next rate case, if the competitive rate is found not to be cost justified on embedded cost principles,

[2] The word "shareholder" is used to reflect the fact that most Florida investor owned utilities are no longer publically held but now owned by a single corporate shareholder engaged in numerous non-regulated activities.

revenues may be imputed to the utility shareholder to balance revenue with cost. This approach will encourage cost efficiency while discouraging imprudent competitive activities.

3. Staff expressed its concern regarding the marginal RIM cost-effectiveness of DSM programs, and the competitive nature of DSM programs. Assuming these are problems, what solutions should the Commission consider?

FIPUG response: See 2 above. There should be no restriction on the utility's ability to offer programs which in its business judgment will save costs or increase profits. If the utility funds the programs rather than placing a surcharge on captive customers the Commission can be assured that the programs are beneficial or at least not harmful to customers. The Commission should supervise conservation offerings to ensure that they are not discriminatory.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of **FIPUG's Comments on Staff's Questions** has been furnished by (*) hand delivery or U.S. Mail this **23rd** day of **May, 1997** to the following:

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