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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: September 4, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Draper) *EJD*
Office of the General Counsel (Young) *YJ*

RE: Docket No. 080072-GU – Petition for approval of a residential standby generator rate schedule, by Florida Public Utilities Company. *YJ*

AGENDA: 09/16/08 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 09/30/08 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080072A.RCM.DOC

Case Background

On January 31, 2008, Florida Public Utilities Company (FPUC) filed a petition for approval of a residential standby generator rate schedule. The proposed rate schedule is available to residential customers who wish to install a natural gas-fired electric generator to provide service when electric service to the customer's premises is interrupted. Currently, customers with generators take service under the residential rate.

At the March 18, 2008, Agenda Conference the Commission suspended FPUC's proposed tariff.¹ The Commission ordered FPUC to provide customers notice of the proposed rate schedule and requested additional information from staff. On June 13, 2008, FPUC

¹ See Order No. PSC-08-0225-PCO-GU, issued April 3, 2008.

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responded to Staff's Data Request. On July 25, 2008, FPUC mailed a notice of the proposed rate schedule to its generator-only customers. On August 12, 2008, FPUC remailed the notice and included a comment form. The comment form was designed to give customers the opportunity to provide written comments and mail them to the Commission Clerk's Office. Customers were also informed that they can provide comments over the internet through the Commission's home page or call staff directly. Nineteen customers submitted written comments; eighteen were objections to the increase in their gas rates, one customer appears to support the proposal. Another customer called staff to ask questions regarding the proposal, but did not object to the increase. At the end of 2007, FPUC served 432 generator-only customers. All written correspondence has been placed in the docket file.

The Commission has approved two similar rate schedules for Peoples Gas System (Peoples).² Specifically, Peoples received approval for a residential and a commercial standby generator service rate schedule. Prior to receiving approval for the standby generator service rate schedules, Peoples had been providing gas service to generator-only customers under the otherwise applicable residential or commercial rate.

The Commission approved a similar rate design for Peoples' generator rate schedules as FPUC proposed in this docket. People's current residential customer charge is \$10. A residential generator-only customer pays a \$17.82 customer charge, and the variable per-therm charge for usage up to 20.8 therms is zero. Any usage above 20.8 therms is billed at the otherwise applicable residential rate. Peoples' used the same rate design to develop the commercial standby rate. Peoples' residential and commercial generator rate schedules went into effect on June 5, 2007, and the Commission has received no customer inquiries or complaints regarding Peoples' generator rate schedules. Peoples informed staff that it transferred over 1,500 standby customers from the otherwise applicable residential or commercial rate to the approved standby generator rate and that since it received approval for the generator rate schedules, 120 new generator-only customers have signed up for service.

The Commission has jurisdiction pursuant to Section 366.06, Florida Statutes.

² See Order No. PSC-07-0530-TRF-GU, issued on June 26, 2007, in Docket No. 070260-GU, in Re: Petition for approval of standby generator rate schedules RS-SG and CS-SG, by Peoples Gas System.

Discussion of Issues

Issue 1: Should the Commission approve FPUC's proposed residential standby generator rate schedule RS-GS?

Recommendation: The proposed standby generator rate schedule RS-GS should be approved for new customers only. In light of the customer comments received, current generator-only customers should remain on the residential rate until the resolution of FPUC's next rate case (Docket No. 080366-GU). Staff further recommends that FPUC be required to include a generator-only rate classification as part of its cost of service study in Docket No. 080366-GU. At that time the Commission can review whether all standby generator-only customers should be required to take service under the approved generator-only rate following the rate case. (Draper)

Staff Analysis:

FPUC's proposal. FPUC's proposed residential standby generator rate schedule is available to residential customers who wish to install a natural gas-fired electric generator to provide electricity to the premises during power outages and whose only gas appliance is the generator. Residential customers with a generator and other gas-appliance(s) will continue to take service under the residential rate schedule. FPUC states that virtually all of the generator-only installations FPUC serves are large generators capable of providing electricity to the whole house.

Under FPUC's proposal, all current generator-only customers will be transferred to the RS-GS rate. FPUC states that when the new rate schedule becomes effective, FPUC will give its current generator-only customers 30 days' notice that the premise will be transferred to the new rate. Customers will have the option to terminate gas service if they choose not to take service under the new rate.

FPUC's current generator-only customers take service under the residential rate, and pay a monthly \$8 customer charge and \$0.4834 per therm distribution charge. FPUC's proposed rate structure for standby generator-only customers reflects a higher customer charge (\$18.72) and an initial block of usage (0-22.17 therms) that includes no per-therm base rate charge. Usage above 22.17 therms is billed at the residential therm charge. In both cases, the cost of gas is recovered through a separate Purchased Gas Adjustment (PGA) factor. If the customer uses no gas during the billing period, he will not be charged for gas. The level of customer charge and the size of the initial block were derived to yield the same revenue for an average residential or generator customer based on the company's last rate case.

The table below illustrates the calculation.

| | Average Residential Customer | Average Generator-only Customer |
|-----------------------|--|--|
| Appliances | Water Heater, Stove | Generator (assumes no outage) |
| Average Monthly Usage | 22.17 therms | 2.4 therms |
| Customer Bill | Customer Charge: \$8 | Customer Charge: \$18.72 |
| | Distribution: 22.17 therms x \$0.4834= \$10.72 | Distribution: 2.4 therms x \$0 = \$ 0.00 |
| | Total Bill \$18.72 | Total Bill \$18.72 |

Fuel is provided at FPUC's purchased gas adjustment in effect at the time.

In support of its petition, FPUC states that after the 2004 hurricane season, FPUC began receiving numerous requests to provide natural gas service to customers whose only gas-consuming appliance would be the standby generators. The generators operate only during periods when electric service to the customer's premise is interrupted as a result of a hurricane or other forced outage. Therefore, except during electric outages, the generator does not run and there is no throughput of gas. At the end of 2007, FPUC had 432 residential customers whose only gas-consuming appliance is the standby generator. As of April 2008, FPUC served 52,217 gas customers (47,307 residential and 4,917 non-residential).

Discussion. Prior to providing gas service to a generator-only customer, FPUC must connect the customer's premises to FPUC's distribution system by installing service line facilities. The direct cost of those facilities is recovered through a non-refundable contribution-in-aid-of construction (CIAC). Customers requesting generator-only service are also required to execute a written agreement (Tariff Sheet No. 44) with FPUC. The agreement lists the facilities FPUC installs to provide gas service and the amount of the CIAC.

FPUC collects the CIAC pursuant to Rule 25-7.054(4), Florida Administrative Code, which provides that gas utilities may require customers to pay in full for the cost for extending service line facilities in accordance with the company's filed policies. FPUC's Original Tariff Sheet No. 12 states that applicants for space heating only service and stand-by only service shall be required to contribute the cost of providing facilities for such service.

In response to staff's data request, FPUC states that the gas facilities covered by a customer CIAC payment vary by the size of the generator installed. Generator installations up to 25 kilowatt (kW) require a main tap, service tee, excess flow valve, an average 60 foot, ¾ inch gas service line, meter, regulator, and various other equipment. The current cost for such an installation is approximately \$750. However, FPUC states that the majority of its home generator installations are for large homes in the Palm Beach Service area and frequently exceed 50 kW. At these higher rated capacities, FPUC's standard residential service line, meter, and regulator would be unable to deliver sufficient gas quantities to operate the generator. For these

larger installations FPUC upgrades its service lines and installs larger meters similar to commercial operations, increasing the amount of the CIAC.

The investment costs in the service line facilities that are recovered through the CIAC, however, are only a portion of the total non-fuel cost to provide gas service to a customer. The CIAC recovers only the direct upfront costs of construction, not on-going operating costs. A utility's total cost of service includes operations and maintenance (O&M) costs, depreciation expenses, taxes (income and other taxes), and a return on investment for FPUC's total distribution system utilized to deliver gas to a home, plus general overhead and company-wide costs which cannot be assigned to a specific customer or service. In a rate case, the company prepares a comprehensive cost of service study which allocates those costs to establish a revenue requirement by rate class. Base rates are then designed to recover the revenue requirement based on the projected number of customers and projected therm usage.

FPUC's last rate case was in 2004.³ The Commission approved a target revenue (net of other operating revenues) of \$9,987,893⁴ for the residential rate class and base rates were designed to meet that target revenue. The number of customers was projected at 44,499, resulting in an average annual cost recovery of \$224.5 per residential customer (\$9,987,893/44,499). The average residential customer uses 22.17 therms per month (or 266 therms per year), resulting in a \$18.72 monthly gas bill (excluding the cost of gas), or \$224 per year. In other words, FPUC's residential bases rates were set based on the projection that FPUC will receive on average \$224.5 per year, or \$18.72 per month, from a residential customer. Those costs are recovered through both the customer charge and the base rate therm charge.

Standby generator-only customers do not utilize natural gas as their primary fuel for any other end-use such as a stove or water heater. If they do, they pay the standard residential rate. Since generators only operate during outages, it is typical for these customers to have minimal monthly usage (for monthly maintenance of the generator) and may go several years without using any gas. FPUC states that the average consumption for generator only accounts was 29 therms in 2007, or 2.4 therms per month. To the extent that the generator-only customers do not consumer 266 therms per year on average, FPUC is not recovering the cost to provide service to these customers, even after the CIAC is paid. As a result, the utility must absorb the remainder of the costs between rate cases.

If standby generator-only customers are allowed to continue to pay the standard residential rate, therm rates will be higher for all residential customers at the conclusion of FPUC's next rate case. The average cost associated with generator-only customers will be included in the revenue requirement used to set the residential per therm charge. However, there will be fewer projected therms over which to recover the revenue requirement due to low average usage of generator-only customers. The costs to serve generator-only customers will be shifted to gas customers who have other gas appliances.

Impact on customer bills and FPUC revenues. FPUC provided in its petition an analysis showing the bill impact on existing generator-only customers if they transfer to the proposed rate

³ Docket No. 040216-GU, In Re: Application for Rate Increase by Florida Public Utilities Company.

⁴ See Order No. PSC-04-1110-PAA-GU, at p 62, issued November 8, 2004.

schedule. The monthly gas bill for residential generator-only customers will increase between \$0 and \$10.72, depending on usage.

| Monthly Impact | Number of Generator only customers |
|-----------------|------------------------------------|
| \$0 | 6 |
| \$1-\$5 | 12 |
| \$5-\$7.50 | 139 |
| \$7.50-\$10.72 | 275 |
| Total Customers | 432 |

In response to staff's data request, FPUC states if all existing generator-only customers transferred to the proposed RS-GS rate, monthly base rate revenues from generator-only customers would increase approximately by \$4,125 per month.

Currently, generator-only customers may avoid paying the monthly customer charge by disconnecting service, and requesting re-connection when a hurricane approaches. There is always the risk, however, that the utility may not be able to reconnect the customer quickly when the generator is needed. Customers choosing to take service under the proposed generator rate schedule will be required to take service for a minimum 12-month period.

Customer comments. At the March 18, 2008, Agenda Conference, the Commission ordered FPUC to give customers an opportunity to provide comments to the Commission on FPUC's proposed standby generator rate schedule. Nineteen customers submitted written comments; eighteen were objections to the increase in their gas rates, and one customer appears to support the proposal. Several of the customers who provided written comments also called staff to voice their concerns regarding the increase, and another customer called staff to ask questions regarding the proposal, but stated that he did not object to FPUC's request.

The majority of customers stated that the increase in the customer charge (from \$8 to \$18.72) was too drastic, given that they already paid a CIAC. Many customers also commented that FPUC's proposal to allow existing customers to discontinue gas service if they do not wish to be transferred to the proposed generator rate is unrealistic, because customers have already spent thousands of dollars on the generator. Other customers commented that FPUC actively pursued customers to use natural gas for a generator, and should have considered the appropriate rates before that.

Conclusion. Staff agrees with FPUC that the current residential rate does not provide an appropriate cost recovery of generator-only customers, and therefore recommends approval of FPUC's proposed rate for new customers. Generators are optional equipment and new customers will have a choice as to which fuel to use to run the generator. To determine the best choice of fuel, the customer can compare the up-front installation costs, monthly costs, and

reliability of fuel supply. FPUC states that natural gas typically provides lower up-front installation costs and lower overall operating costs, and is reliably delivered by pipeline. However, if FPUC must extend its distribution main to serve the customer, the propane tank installation charge may be lower than FPUC's CIAC amount. Some customers may also prefer an on-site fuel storage and may opt for propane or diesel generators. New customers will be able to make an informed decision whether to take service under FPUC's proposed RS-GS rate, or choose an alternative fuel for the generator.

The Commission has allowed existing customers to remain on a rate schedule for rate impact or rate continuity considerations, while new customers take service under a different rate schedule, which typically has higher rates. For example, Tampa Electric Company's (TECO) Industrial Interruptible Service (IS-1) rate was closed to new business in 1985 and the IS-3 rate was approved as a new rate schedule.⁵ The Commission made this decision as part of TECO's 1985 rate case (Docket No. 850050-EI) and the Commission based its decision to allow existing IS-1 customers to remain on the rate for purposes of rate continuity even though the rate was no longer cost effective. In 2000, the Commission approved a stipulation between TECO, the Florida Industrial Power Users Group, and Coronet Industries to close the IS-3 rate to new business on the basis that the IS-3 rates were no longer cost effective, and the GSLM-2 and GSLM-3 conservation programs were opened for interruptible customers.⁶ Existing IS-3 customers were allowed to remain on the rate.

In 1996, the Commission approved a stipulation to close Progress Energy Florida's interruptible and curtailable rate schedules to new customers since they were no longer cost effective.⁷ Existing customers were not affected.

Moreover, staff notes that customers commented that FPUC marketed the generator-only rate at the current RS rate levels. In light of the marketing and the customer comments received, staff believes it is appropriate in this instance to allow existing generator-only customers to remain on the residential rate.

FPUC has stated its intention to file the testimony and data for a full revenue requirements rate case on December 23, 2008 in Docket No. 080366-GU. As part of that rate case, staff recommends that FPUC develop a separate generator-only rate class, with costs based on serving generator-only customers while taking into consideration the impact on existing customers. In its response to staff's data request, FPUC states that the peak gas requirements for most of the generators installed exceed those of a typical residential customer. Therefore, the assignment of demand related costs in a cost of service study could be used to differentiate generator-only customers from standard residential customers. In a rate case all costs, rates, and

⁵ See Order No. 15451, issued December 13, 1985, in Docket No. 850246-EI, In re: Petition of Tampa Electric Company for closure of its existing interruptible rate schedules to new businesses and for approval of new interruptible rate schedules, IS-3 and IST-3.

⁶ See Order No. PSC-00-0374-S-EI, issued February 22, 2000, in Docket No. 990037-EI, In re: Petition of Tampa Electric Company to close Rate Schedules IS-3 and IST-3, and approve new Rate Schedules GSLM-2 and GSLM-3.

⁷ See Order No. PSC-96-0589-S-EI, issued May 6, 1996, in Docket No. 950645-EI, In re: Determination of cost-effective level of demand-side management credit for Interruptible and Curtailable rate classes of Florida Power Corporation.

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charges are subject to review and change, and customers are given the opportunity to address the Commission at customer meetings.

In summary, staff recommends that the proposed standby generator rate schedule RS-GS should be approved for new customers only. In light of the customer comments received, current generator-only customers should remain on the residential rate. Staff further recommends that FPUC be required to include a generator-only rate classification as part of its cost of service study in Docket No. 080366-GU. At that time the Commission can review whether all standby generator-only customers should be required to take service under the approved generator-only rate following the rate case.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on September 16, 2008. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Young)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on September 16, 2008. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.