

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 22, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Regulatory Analysis (Garl) *RET*
Office of the General Counsel (M. Brown) *MCBFT*

RE: Docket No. 100186-EG – Petition for approval of natural gas residential energy conservation programs, by Associated Gas Distributors of Florida.

AGENDA: 08/03/10 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\RAD\WP\100186.RCM.DOC

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Case Background

Section 366.81, Florida Statutes (F.S.), the Florida Energy Efficiency and Conservation Act (FEECA), gives the Commission authority to oversee electric and natural gas conservation programs. On March 20, 1996, the Commission adopted Rule 25-17.009, Florida Administrative Code (F.A.C.), which sets forth the cost effectiveness methodology for natural gas conservation programs.

Associated Gas Distributors of Florida (AGDF) is a trade association representing the following investor-owned natural gas utilities which are subject to the jurisdiction of the Commission under FEECA: Florida City Gas (City Gas), Florida Division of Chesapeake Utilities Company (Chesapeake), Florida Public Utilities Company (FPUC), Indiantown Gas

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Company (Indiantown), Peoples Gas System (Peoples Gas), Sebring Gas System (Sebring) and St. Joe Natural Gas Company (St. Joe). These Local Distribution Companies (LDCs), through AGDF, seek to make the conservation programs and associated rebates of each company similar to facilitate conservation related advertising.

On April 16, 2010, AGDF petitioned for approval of modifications to the existing natural gas residential energy conservation programs on behalf of its seven member LDCs. AGDF is seeking Commission approval for its members to change cash allowance amounts for certain member programs. This is the second petition filed by AGDF for its member companies. In the first petition, the Commission approved a Conservation Demonstration and Development Program for member companies.¹

Jurisdiction over this matter is vested in the Commission by Sections 366.81 and 366.82, F.S.

¹ See Order No. PSC-10-0013-PAA-EG, issued February 25, 2010, Docket No. 090122-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Associated Gas Distributors of Florida.

Discussion of Issues

Issue 1: Should the Commission approve changes to cash allowances offered by the AGDF member companies' residential gas conservation programs?

Recommendation: Yes, in part. The existing programs remain cost-effective with the proposed incentive changes, may increase participation, and will not create an undue impact on residential rates. However, the addition of the Gas Service Reactivation allowance should not be approved because it is a marketing, rather than a conservation measure. (Garl)

Staff Analysis: As stated in Rule 25-17.009, F.A.C., each gas utility that seeks to recover costs for an existing, new, or modified demand side management program shall file the cost-effectiveness test results of the Participants Test and the Gas Rate Impact Measure (G-RIM) Test in the format set forth in Form PSC/RAD 14-G (4/96), entitled the *Florida Public Service Commission Cost Effectiveness Manual for Natural Gas Utility Demand Side Management Programs*. The programs offered are cost-effective when they pass the Participants and G-RIM Tests with a score of one (1.00) or greater.

Program Analyses

On April 16, 2010, Associated Gas Distributors of Florida (AGDF) submitted a petition on behalf of its seven member Local Distribution Companies (LDC) requesting approval of changes to three of their common demand-side management (DSM) programs: Residential Appliance Replacement Program, Residential Appliance Retention Program, and Residential New Construction Program. Each of these programs, with the current allowances, was previously approved by the Commission for each LDC.² The proposed changes include adjustments to the current cash allowances and one additional allowance offered by each LDC to participants. The proposed incentive changes are summarized below.

1. Residential Appliance Replacement Program

This program is designed to target the replacement of existing residential electric appliances with natural gas appliances. Allowances are paid to homeowners for the installation of the applicable appliances. The allowances help homeowners cover the conversion costs associated with piping, venting, and purchasing natural gas appliances.

² See Order No. PSC-06-0749-PAA-GU, issued September 5, 2006, in Docket No. 060415-GU, In re: Petition for modification of energy conservation plan of Florida Public Utilities Company, Inc., regarding full house residential new construction program, residential appliance replacement program and residential appliance retention program, Order No. PSC-06-0816-PAA-EG, issued October 10, 2006, in Docket No. 060478-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Peoples Gas System, Order No. PSC-07-0122-PAA-EG, issued February 12, 2007, in Docket No. 060746-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Florida City Gas, Order No. PSC-07-0197-PAA-EG, issued March 5, 2007, in Docket No. 060772-EG, In re: Petition for approval of modifications to approved energy conservation programs by Florida Division of Chesapeake Utilities Corporation, Order No. PSC-07-0495-PAA-EG issued, June 11, 2007, in Docket No. 070237-EG, In re: Petition for modifications to approved energy conservation programs and adoption of new energy conservation programs, by St. Joe Natural Gas Company, Inc., Order No. PSC-07-0531-TRF-EG, issued July 20, 2007, in Docket No. 070246-EG, In re: Petition for approval of energy conservation programs, by Indiantown Gas Company, and Order No. PSC-07-0693-TRF-EG, issued August 24, 2007, in Docket No. 070399-EG, In re: Petition for approval of energy conservation programs, by Sebring Gas System, Inc.

| Residential Appliance Replacement Program Cash Allowances | | | |
|---|---------|----------|---------|
| | Current | Proposed | Change |
| Gas Storage Tank Water Heating | \$525 | \$500 | - \$ 25 |
| Gas High Efficiency Stg. Tank Water Heater | \$525 | \$550 | + \$ 25 |
| Gas Tankless Water Heating | \$525 | \$675 | + \$150 |
| Gas Heating | \$625 | \$725 | + \$100 |
| Gas Cooking | \$100 | \$200 | + \$100 |
| Gas Clothes Drying | \$100 | \$150 | + \$ 50 |
| Gas Service Reactivation (new allowance) | | \$350 | + \$350 |

2. Residential Appliance Retention Program:

This program is designed to encourage homeowners with existing natural gas appliances to retain natural gas when the existing appliances fail, or are otherwise replaced. AGDF states that the retention allowances help the LDCs avoid the cost of meter removal and, ultimately, the cost of cutting and capping service lines, as required by Commission rule.

| Residential Appliance Retention Program Cash Allowances | | | |
|---|---------|----------|---------|
| | Current | Proposed | Change |
| Gas Storage Tank Water Heating | \$350 | \$350 | \$ 0 |
| Gas High Efficiency Stg. Tank Water Heater | \$350 | \$400 | + \$ 50 |
| Gas Tankless Water Heating | \$450 | \$550 | + \$100 |
| Gas Heating | \$350 | \$500 | + \$150 |
| Gas Cooking | \$100 | \$100 | \$ 0 |
| Gas Clothes Drying | \$100 | \$100 | \$ 0 |

3. Residential New Construction Program

This program provides cash allowances to developers, builders or consumers constructing single, manufactured or multifamily residences that include certain natural gas appliances. Allowances are paid upon service activation for the installation of the applicable appliances. The program allowances are designed to assist in defraying the cost of interior gas piping, venting, appliance installation, and other costs associated with residential gas service.

| Residential New Construction Program Cash Allowances | | | |
|--|---------|----------|---------|
| | Current | Proposed | Change |
| Gas Storage Tank Water Heating | \$350 | \$350 | \$ 0 |
| Gas High Efficiency Stg. Tank Water Heater | \$350 | \$400 | + \$ 50 |
| Gas Tankless Water Heating | \$450 | \$550 | + \$100 |
| Gas Heating | \$350 | \$500 | + \$150 |
| Gas Cooking | \$100 | \$150 | + \$ 50 |
| Gas Clothes Drying | \$100 | \$100 | \$ 0 |

Allowance changes

AGDF explains in its petition that the current allowances for each of the existing measures were based on cost information collected in the late 2005 to early 2006 timeframe to support the LDCs’ petitions for Commission approval of their conservation programs. Since that time, manufacturing costs have escalated due to increasing costs of labor, materials, and energy. Installation costs have also increased in the same period. The proposed allowance increases are intended to mitigate the cost increases and help keep gas appliance installations competitive with alternative fuel options.

AGDF does not propose across-the-board or equivalent allowance increases among various appliances. AGDF explains that allowances provide a means of persuading customers to choose more efficient appliances. In addition, the varying changes to the allowances reflect that manufacturing and installation costs also varied between different appliances. Further, the allowances vary among the three programs discussed here. The program variance primarily is due to difference in installation costs. For example, conversion from an electric appliance to its gas equivalent is more costly than installing gas service during initial construction or replacing a gas appliance with another gas appliance. The proposed allowance for a gas clothes dryer illustrates this difference. The Appliance Replacement Program is the only one of the three programs that has a proposed allowance increase. No increase is proposed for the other two, since the LDCs, through AGDF, see the other two programs as less costly to install a gas clothes dryer.

The allowance variance due to efficiency is best illustrated by the proposed allowances for three types of water heaters. AGDF elaborates that this is one case where its member LDCs wish to encourage customers to select any gas water heater, but to offer a greater incentive for choosing a higher efficiency water heater. The standard storage tank water heaters, the least efficient of the three, is proposed to have the allowance reduced in the Appliance Replacement Program and remain unchanged in the other two programs. A higher allowance is proposed for the high efficiency storage tank water heater, and the highest allowance is proposed for the tankless water heater, the most efficient unit.

Gas Service Reactivation Allowance

Staff has reservations about the addition of the Gas Service Reactivation Allowance in the Residential Appliance Replacement Program. The proposed allowance for gas service reactivation adds an incentive to the program to further encourage customers to replace electric appliances with gas appliances. The \$350 allowance is the low end of the \$350 to \$500 cost to remove the gas meter and cut and cap the line when gas service is abandoned. The turnover of

occupants at a residence often results in a potential customer not being aware that gas service is available until the LDC arrives to cut and cap the buried service line. This situation is more frequent with rental homes where occupants may have turned over several times since gas service was discontinued. The new or returning gas customer is normally charged the fee for reconnection. The proposed allowance for all LDCs requires that the reconnected customer install a gas water heater or other appliance of equal consumption.

Approval of the proposed allowance would permit the LDCs to recover a natural gas marketing cost via the Energy Conservation Cost Recovery process, and thereby pass the cost to all ratepayers. Staff believes that it is the cost of cutting and capping that AGDF is trying to avoid. Rule 25-12.045, F.A.C., establishes a 6-year timeframe for cutting and capping abandoned gas lines. LDCs are only required to cut and cap a gas line after six years of inactivity. The Commission granted LDCs a two-year waiver to the rule in 2007 and again in 2010.³ Currently LDCs will not incur costs for cutting and capping unused gas lines until at least 2013. Staff believes that a more appropriate means of reducing a customer's cost of resuming gas service is for the LDCs to consider waiving their reactivation fee, rather than requesting recovery as an allowance under a conservation program. If the reactivation fee is recovered through the conservation cost recovery clause, all ratepayers will pay for what is essentially a marketing expense aimed at converting electrical appliances to natural gas, not a conservation program.

Cost-effectiveness

With its petition, AGDF provided analysis of the proposed program modifications by each member LDC. The analysis included cost-effectiveness tests for each of the three programs conducted by each LDC. The LDCs' proposed program modifications were evaluated using the Participants Test and the Gas Ratepayer Impact Measure Test (G-RIM) as required by Rule 25-17.009, F.A.C. The analysis included the proposed rebate changes.

Staff reviewed the analysis of cost-effectiveness conducted by each LDC and found the sources of the data were reasonable and the tests were conducted as instructed by the *Cost Effectiveness Manual*. In addition, each program for each LDC passed the Participant Test and the G-RIM with scores above 1.0. Cost-effectiveness test results are shown in Attachment 1 to this recommendation.

Impact to Ratepayers

In response to a staff data request, AGDF provided rate impact information. The proposed incentive changes amount to an 18 percent increase in overall incentives. This translated to an impact on LDC's residential customers' monthly bill ranging from \$0.04 to \$0.49. The chart below shows the monthly bill impact for residential customers of each LDC.

³ See Order No. PSC-10-0158-PAA-GU, issued March 22, 2010, in Docket No. 090522-GU, In re: Petition for extension of waiver of service line abandonment provisions of Rule 25-12.045, F.A.C. by Florida Natural Gas Association.

Residential Bill Impact

| Company | Monthly Impact per Consumer Bill |
|--|--|
| Florida Division of Chesapeake Utilities Corp. | \$ 0.09 |
| Florida City Gas | \$ 0.08 |
| Florida Public Utilities Company | \$ 0.08 |
| Indiantown Gas Company | \$ 0.03 |
| Peoples Gas System | \$ 0.09 |
| St. Joe Natural Gas Company | \$ 0.49 |
| Sebring Gas System | \$ 0.04 |

The chart above does not reflect bill impact with the Gas Service Reactivation Allowance removed; however, removing the cost of that allowance would clearly reduce the impact, but very slightly. Staff believes the impacts shown above would not constitute an undue rate impact from implementing the proposed DSM program incentive changes.

Conclusion

The changes to cash allowances proposed by AGDF on behalf of its member LDCs has been shown to remain cost-effective and does not impose an undue impact to customers' monthly bills, with one exception. The Gas Service Reactivation Allowance of the Residential Appliance Replacement Program is more of a marketing method than a conservation measure. Staff recommends approval of AGDF's proposed changes to the DSM programs, with the exception of the reactivation allowance. The Commission should not approve the Gas Service Reactivation Allowance under the Residential Appliance Replacement Program.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a Consummating Order. (M. Brown)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a Consummating Order.

| Cost-effectiveness Test Results | | | | | | | | | | | | | | |
|--|------------|-------|--------------|-------|-------|-------|------------|-------|---------|-------|---------|-------|---------|-------|
| | Chesapeake | | Florida City | | FPUC | | Indiantown | | Peoples | | St. Joe | | Sebring | |
| | Part. | G-RIM | Part. | G-RIM | Part. | G-RIM | Part. | G-RIM | Part. | G-RIM | Part. | G-RIM | Part. | G-RIM |
| Residential Appliance Replacement Program | | | | | | | | | | | | | | |
| Gas Storage Tank Water Heating | 1.52 | 1.43 | 1.73 | 1.36 | 1.88 | 1.34 | 1.78 | 1.20 | 1.45 | 1.30 | 1.49 | 1.80 | 1.75 | 1.35 |
| Gas High Efficiency Stg. Tank Water Heater | 1.62 | 1.30 | 1.85 | 1.19 | 2.01 | 1.15 | 1.90 | 1.08 | 1.54 | 1.18 | 1.59 | 1.54 | 1.87 | 1.18 |
| Gas Tankless Water Heating | 1.27 | 1.30 | 1.42 | 1.21 | 1.51 | 1.18 | 1.45 | 1.08 | 1.23 | 1.20 | 1.26 | 1.47 | 1.43 | 1.20 |
| Gas Heating | 1.10 | 1.29 | 1.20 | 1.21 | 1.27 | 1.18 | 1.23 | 1.08 | 1.07 | 1.19 | 1.09 | 1.60 | 1.21 | 1.20 |
| Gas Cooking | 1.17 | 1.35 | 1.28 | 1.28 | 1.35 | 1.25 | 1.30 | 1.14 | 1.11 | 1.24 | 1.13 | 1.61 | 1.27 | 1.27 |
| Gas Clothes Drying | 1.20 | 1.45 | 1.32 | 1.38 | 1.40 | 1.37 | 1.35 | 1.22 | 1.14 | 1.32 | 1.16 | 1.84 | 1.31 | 1.37 |
| Gas Service Reactivation | 1.57 | 1.35 | 1.79 | 1.36 | 1.95 | 1.31 | 1.85 | 1.19 | 1.50 | 1.30 | 1.54 | 1.69 | 1.82 | 1.37 |
| Residential Appliance Retention Program | | | | | | | | | | | | | | |
| Gas Storage Tank Water Heating | 1.57 | 1.75 | 1.75 | 1.77 | 1.89 | 1.91 | 1.79 | 1.49 | 1.57 | 1.46 | 1.49 | 2.33 | 1.72 | 1.85 |
| Gas High Efficiency Stg. Tank Water Heater | 1.68 | 1.43 | 1.88 | 1.44 | 2.03 | 1.52 | 1.92 | 1.27 | 1.69 | 1.31 | 1.59 | 1.86 | 1.85 | 1.48 |
| Gas Tankless Water Heating | 1.31 | 1.57 | 1.43 | 1.55 | 1.51 | 1.63 | 1.45 | 1.34 | 1.31 | 1.34 | 1.26 | 2.05 | 1.42 | 1.62 |
| Gas Heating | 1.15 | 1.60 | 1.24 | 1.60 | 1.31 | 1.69 | 1.26 | 1.37 | 1.16 | 1.36 | 1.11 | 2.10 | 1.23 | 1.67 |
| Gas Cooking | 1.43 | 1.77 | 1.57 | 1.79 | 1.67 | 1.95 | 1.60 | 1.51 | 1.43 | 1.48 | 1.37 | 2.37 | 1.55 | 1.88 |
| Gas Clothes Drying | 1.39 | 1.79 | 1.55 | 1.79 | 1.65 | 1.98 | 1.58 | 1.53 | 1.42 | 1.49 | 1.35 | 2.40 | 1.53 | 1.91 |
| Residential New Construction Program | | | | | | | | | | | | | | |
| Gas Storage Tank Water Heating | 1.61 | 1.46 | 1.73 | 1.43 | 1.89 | 1.42 | 1.79 | 1.25 | 1.47 | 1.31 | 1.49 | 1.90 | 1.76 | 1.41 |
| Gas High Efficiency Stg. Tank Water Heater | 1.69 | 1.26 | 1.87 | 1.20 | 2.03 | 1.14 | 1.92 | 1.06 | 1.58 | 1.18 | 1.59 | 1.53 | 2.01 | 1.12 |
| Gas Tankless Water Heating | 1.31 | 1.32 | 1.42 | 1.27 | 1.51 | 1.24 | 1.45 | 1.12 | 1.24 | 1.21 | 1.26 | 1.68 | 1.50 | 1.25 |
| Gas Heating | 1.19 | 1.36 | 1.24 | 1.32 | 1.31 | 1.30 | 1.26 | 1.16 | 1.58 | 1.24 | 1.11 | 1.74 | 1.25 | 1.30 |
| Gas Cooking | 1.36 | 1.38 | 1.52 | 1.35 | 1.62 | 1.33 | 1.55 | 1.19 | 1.33 | 1.26 | 1.34 | 1.79 | 1.53 | 1.33 |
| Gas Clothes Drying | 1.33 | 1.49 | 1.48 | 1.46 | 1.59 | 1.45 | 1.52 | 1.28 | 1.29 | 1.34 | 1.30 | 1.95 | 1.50 | 1.44 |