

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Tampa Electric)	DOCKET NO. 881416-EG
Company for modification of its conser-)	ORDER NO. 20825
vation cost recovery methodology.)	ISSUED: 3-1-89
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 JOHN T. HERNDON

ORDER APPROVING MODIFICATION OF
 CONSERVATION COST RECOVERY METHODOLOGY

BY THE COMMISSION:

On October 28, 1988, Tampa Electric Company (TECO) filed a petition requesting modification of its conservation cost recovery methodology. TECO wishes to exclude its interruptible customers from the application of its energy conservation cost recovery factor (ECCR).

TECO currently has eleven conservation programs with the objective of reducing the growth rates of peak demand and energy usage in TECO's service territory. Estimated annual conservation program expenditures for calendar year 1989 are \$14,653,807. These conservation expenses are divided by the projected KWH usage to arrive at an ECCR factor of .118 cents per KWH or \$1.18 per 1000 KWH's. The exclusion of interruptible sales will increase this factor to .138 cents per KWH, and remaining firm customers are projected to pay an additional \$0.20 per 1000 KWH or \$2,129,198 per year.

The fundamental issue in this petition is the quantification and allocation of benefits and costs arising from conservation programs. In theory, conservation programs could impact utilities load profiles in both peak and off-peak periods. Due to customer rebound effects such as increased purchases of comfort (heating and cooling) and due to the fact that most programs tend to have low capacity factors, the primary benefits of conservation are demand savings generally during peak periods. These demand savings generally result in the avoidance of the construction of peaking or intermediate capacity and the burning of higher priced fuels to run these units. The petition at hand alleges that neither capacity deferral benefits nor fuel savings accrue to interruptible customers from conservation.

Interruptible customers, by the nature of their service, allow TECO to immediately interrupt their service whenever any portion of the energy provided to them is needed by the company for the requirements of firm customers. This option is normally exercised at time of system peaks or system emergencies. System peak demands are a primary driver for the need to construct new generation capacity. TECO determines the timing and amount of new capacity required through reliability analysis. These analyses determine the timing and amount of capacity needed to meet the growth in peak load and maintain system

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system reliability. The indices used to evaluate system reliability include isolated and assisted loss of load probability and reserve margin. Each of these indices is calculated on the basis of firm peak load.

Because the interruptible customer can be interrupted during periods of peak demand, TECO excludes the demands of interruptible classes when determining the timing and amount of new capacity for its system. The interruptible customer, however, does influence TECO's decision when determining the type (base load, intermediate, peaking) of capacity to be added to the system. Once a reliability index indicates new capacity must be added, the energy requirements of the interruptible class are added back to the expansion plan for purposes of identifying the most cost-effective type of plant to build.

In TECO's last rate case we adopted the equivalent peaker cost of service methodology. Under this cost-of-service methodology, no demand-related production plant costs are allocated to or collected from interruptible customers because the utility does not plan to serve the interruptible peak demands. Therefore, interruptible customers do not receive a demand related production plant avoidance/deferral benefit from conservation programs.

The other benefit of conservation is potential fuel savings due to not burning oil or gas in the peaking capacity. TECO's current generation expansion plan shows the addition of a 1993 75 MW combustion turbine (CT) as the next generation addition. Without conservation and load management programs, TECO's next generation addition would have been a 1990 75 MW CT. Therefore, TECO's conservation programs have deferred this 1990 unit and avoided the associated higher fuel costs of dispatching the CT unit. From a planning perspective, since higher priced gas and oil would be burned in this unit, the avoidance of this unit does benefit the interruptible customer by keeping the average fuel charge below what it would have been if the 1990 CT is built. The value of this benefit needs to be identified and credited as a conservation benefit which accrues to the interruptible customer.

In an attempt to quantify the fuel savings associated with not dispatching the avoided CT, TECO remodeled the fuel cost impact with the production costing model PROMOD. TECO estimated that its conservation programs have saved 193 GWH since 1981, and these savings were included in the "what if" PROMOD run. The model indicates that these avoided GWH's have actually increased the average fuel costs for the years 1988-1989 due to a decrease in the percentage of lower priced marginal coal fuel which would have been burned. Fuel savings are projected to occur in 1990, the in-service date of the 75 MW CT that TECO would have been required to build absent conservation. These fuel savings are due to the production model dispatching the 75 MW CT in 1990 and including the corresponding fuel (oil) in calculating the system average fuel cost.

In sum, interruptible customers are projected to experience higher fuel costs in 1988-1989 due to conservation because TECO's near-term marginal fuel is spot coal which is currently

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less than system average fuel costs. Interruptible customers will, however, experience positive fuel savings in 1990 and beyond due to the avoidance of the CT and its higher fuel costs. In 1990, the interruptible customer class is projected to realize \$117,000 in fuel savings while paying approximately \$2,150,000 in ECCR charges. By 1995, their avoided fuel savings are projected at \$536,400 with the ECCR charges remaining relatively constant.

TECO states in its petition that the proposed change in ECCR for the interruptible and standby interruptible classes is consistent with the intent of the Florida Energy Efficiency Conservation Act (FEECA), Sections 366.80-.85, Florida Statutes. The first FEECA goal, reducing the growth rate of weather sensitive peak demand, is the primary focus of TECO's conservation programs and have the corresponding effect of avoiding the cost of peaking capacity. Interruptible customers, by their nature of service, contribute to the overall reduction in peak demand.

TECO argues that the second FEECA goal, reducing the growth rate of electric consumption, is directed at lowering the difference between marginal fuel costs and average fuel cost. This does not currently apply to TECO's system because their marginal fuel costs are lower than the system average fuel cost, due to the purchases and use of less expensive spot coal. Reducing overall energy usage decreases the percentage of spot coal generation, thereby increases the average cost of fuel borne by TECO's customers. TECO projects marginal fuel costs to be lower than average for the next five to six years. We do not agree with TECO's interpretation of the second FEECA goal. We believe a strict reading of this goal requires TECO to reduce the nominal quantities of fuels burned, not the price differential. However, whatever the interpretation of FEECA, this issue has no relevance to the relief requested here.

Finally, TECO states that the third FEECA goal is to conserve expensive resources, such as petroleum fuel and, because its oil consumption is a small percentage of its overall fuel requirements, (less than one percent of net generation) this goal does not detract from the overall desirability of the proposed modification. Based on the above rationales, TECO argues that its petition should be granted.

Our Staff has recommended approval of TECO's petition requesting the elimination of the ECCR clause for interruptible customers because these customers receive no benefit from avoided demand or capacity-related production plant and no avoided CT fuel benefit until 1990. In addition, in the unlikely event these customers request a commercial/industrial audit from TECO, they should be required to pay the full non-subsidized costs for the audit and any other associated conservation related program costs. In Staff's view, interruptible customers should pay the actual full cost of all conservation-related services provided to them by TECO because a reduction in peak demands by interruptible customers provides no avoided demand or capacity related production plant costs to the firm (non-interruptible) customers.

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Staff has also recommended that the billing change be effective on April 1, 1989, and remain effective through March 31, 1990, or for one year. This effective date would eliminate the need to collect the shortfalls from remaining firm customers in a mid-course true-up of the six-month (October, 1988 - March, 1989) recovery period.

Staff is recommending implementation of the reduction in ECCR for only one year because avoided CT fuel benefits will accrue to the interruptible customers starting in 1990. Additionally, when marginal fuel costs exceed system average fuel cost, the effect of incremental spot coal generation relative to total generation will increase the average cost of fuel borne by TECO's customers. At that time, all customer classes would benefit from the reduction in KWH associated with conservation programs. This would be true because conservation would decrease the percentage of higher priced coal (marginal fuel) generation to lower the difference between marginal fuel and average fuel and thereby reduce the unit cost of fuel borne by TECO's customers.

If the interruptible rate classes stand to benefit from the effects conservation programs have on average fuel costs, they should pay the corresponding ECCR costs associated with these programs at that time. For that reason, Staff has recommended that this issue be addressed prior to March, 1990, when the avoided CT fuel benefits will be realized and appropriately action taken.

After a thorough review of the record, we agree with our Staff and approve the removal of TECO's interruptible customers from the conservation cost recovery clause for the period April 1, 1989 to March 31, 1990.

Therefore, it is,

ORDERED by the Florida Public Service Commission that the October 28, 1988 petition of Tampa Electric Company for approval of Modifications to Rate Schedules IS-1, IST-1, IS-3, IST-3, SB-1 and SB-3 excluding the application of the energy conservation cost recovery factor from those schedules be and is hereby granted. It is further

ORDERED that these tariff modifications will be effective for the period April 1, 1989 to March 31, 1990.

By ORDER of the Florida Public Service Commission this 1st day of March, 1989.


STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.