

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Approval of) DOCKET NO. 941232-EG
Modifications to the Residential) ORDER NO. PSC-95-1587-FOF-EG
Load Management Rate Schedule by) ISSUED: December 26, 1995
Florida Power Corporation.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

APPEARANCES:

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Appearing on behalf of Florida Power Corporation.

Benjamin Ochshorn, Esquire, 2121 Delta Boulevard,
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Appearing on behalf of Florida Client's Council.

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Tallahassee, Florida 32399-0870.
Appearing on behalf of Florida Public Service Commission
Staff.

Prentice P. Pruitt, Esquire, 2540 Shumard Oak Boulevard,
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Counsel to the Commissioners.

**FINAL ORDER APPROVING MODIFICATIONS TO
RESIDENTIAL LOAD MANAGEMENT RATE SCHEDULE**

BY THE COMMISSION:

I. Case Background

On November 22, 1994, Florida Power Corporation (FPC) filed a petition requesting approval of modifications to its residential load management tariff, RSL-1 (RSL-1). In its petition, FPC sought approval of five primary changes: 1) reduction of each incentive level listed in the RSL-1 tariff by \$1.00; 2) restriction of program participation for new customers to those whose energy usage averages at least 600 kilowatt-hours (kWh) per month over the

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previous twelve month period; 3) payment of monthly incentives only to program participants who use at least 600 kWh of energy during that month; 4) requirement that new program participants who select the swimming pool pump option also select at least one other appliance to be controlled; and 5) elimination of the thermal storage option for new program participants.

By Order No. PSC-95-0434-FOF-EI, issued in this docket on March 31, 1995, we approved all of FPC's requested modifications to rate schedule RSL-1. Several parties protested the our decision and requested a hearing: Martha J. Kaiser (on April 12); Legal Environmental Assistance Foundation, Inc. (LEAF) (on April 21); Vistana Management (on June 6); and Florida Client's Council (on July 5). Martha J. Kaiser and Vistana Management later withdrew as parties to these proceedings. Florida Power Corporation and LEAF filed a Joint Motion to Approve Stipulation in this docket and in Docket No. 941171-EG on July 7, 1995. Because the stipulation could effect the positions of the parties in Docket No. 941171-EG, the prehearing officer deferred consideration of the motion to approve the stipulation to that docket by Order No. PSC-95-0917-PHO-EG. We approved the stipulation by Order No. PSC-95-1344-S-EG. Since the filing of the Joint Motion to Approve Stipulation, LEAF has ceased to participate in this docket. Florida Client's Council (FCC) has continued to participate as an intervenor throughout the proceedings in this docket.

In response to the protests, we held a service hearing in St. Petersburg, Florida, on July 13, 1995, to receive public testimony from 21 witnesses. The Prehearing Order was issued on July 28, 1995 (Order No. PSC-95-0917-PHO-EG). On September 18, 1995, we held a hearing in Tallahassee to allow FPC to present testimony and exhibits in support of its Petition; to allow the remaining intervenors to present testimony and exhibits concerning this matter; and for such other appropriate purposes. Briefs and Posthearing Statements were filed on October 23, 1995. We decided the issues at an agenda conference held on December 5, 1995.

II. Cost-Effectiveness

Of the five modifications made to FPC's RSL-1 tariff, the modification having the greatest impact on cost-effectiveness is the elimination of credits to customers during the months that they use less than 600 kWh. Not surprisingly, this change has been the most controversial.

After thorough review of the changes made to the RSL-1 tariff, we have determined that the program's rate impact measure (RIM) benefit-cost ratio would have increased from 0.82 to only 0.93 if

FPC merely reduced the load management credits for each appliance by \$1.00. Adding the 600 kWh minimum use threshold, however, further increases the RIM benefit-cost ratio from 0.93 to 1.25. These ratios are based on an avoided unit cost of \$250/kWh. Given the significant participation in the load management program, we find that 1.25 is an appropriate margin.

FPC's program was not cost-effective. To remedy the situation, FPC had two choices: 1) eliminate the program, losing over 500,000 participants and 900 MW of winter peak demand reduction; or 2) modify the program in a cost-effective manner.

FPC evaluated its load management program with the DSView planning model that FPC used in the Conservation Goals Docket (930549-EG). FCC, therefore, asserts that FPC did not provide the analyses, forms and information required by Rule 25-17.008, Florida Administrative Code. By Rule 25-17.008(3), Florida Administrative Code, we have adopted the publication "Florida Public Service Commission Cost Effectiveness Manual for Demand Side Programs and Self-Service Wheeling Proposals." Nevertheless, Rule 25-17.008(4), Florida Administrative Code, states, "Nothing in this rule shall be construed as prohibiting any party from providing additional data proposing additional formats for reporting cost effectiveness data."

DSView is a state-of-the-art planning tool that evaluates the impacts of demand-side management (DSM) programs on a utility's stream of future avoided units. Although DSView analysis does not lend itself to fixed inputs like those included in our Cost-Effectiveness Manual, FPC provided the annual and cumulative present value of all program benefits and costs for a 30-year period using all three Commission-approved tests. FPC's analysis identified the components which comprise the benefits and costs of the program. Although FPC's data did not comply with the format of the Cost-Effectiveness Manual, the required data was provided. We find that FPC has adequately complied with Rule 25-17.008, Florida Administrative Code.

FCC also asserts that FPC made inappropriate estimations of costs. FCC has offered no evidence to support its position, and we found nothing to rebut FPC's data and analysis.

Finally, FCC argues that FPC's load management program modifications have eliminated the pricing of rate credits based on contributions to peak demand savings. FCC seems to say that low-usage customers will see a higher percentage increase in their electric bills. While this is true, we must also consider that low-usage customers do not contribute a significant amount towards

FPC's system peak demand and, consequently, towards the demand reduction of the load management program.

Based on the substantial evidence in the record, we believe the modifications made by FPC to its load management rate schedule RSL-1 are cost-effective.

III. Alternatives Examined

We examined three possible alternatives to FPC's 600 kWh minimum usage threshold. Our determination of the appropriateness of each alternative is outlined below:

Alternative

- 1. Allow existing program participants to receive credits under the previous RSL-1 tariff, but subject new participants to the modified tariff.**

This option would allow FPC to "grandfather" in existing program participants under the provisions of the old tariff, which paid credits to all participants regardless of monthly energy usage. We note that over 500,000 customers (over 50% of FPC's residential customer base) participate in FPC's load management program. It would take considerably more than 500,000 new program participants, receiving monthly credits under the revised tariff, to make the whole program cost-effective. If existing participants are allowed to continue receiving monthly credits, the load management program will never be cost-effective at FPC's current avoided generation cost of \$250/kW.

Furthermore, given the magnitude of FPC's load management program it would be very difficult to administer different tariffs for different groups of participants. The RSL-1 tariff, like any other tariff, is subject to change. FPC would need to have separate program requirements, literature, and marketing brochures each time a new tariff is added.

Finally, it is likely that new program participants would feel that the program was not fair. This perception would arise mainly because new participants would defer the same generation and experience the same inconveniences as existing customers, and, yet, receive a lower credit.

Based on the above, we will not require FPC to grandfather existing customers under the previous RSL-1 tariff.

Alternative

2. **Pay credits to existing program participants based on the avoided generating unit's cost at the time of sign-up.**

The cost of FPC's avoided generating unit has decreased substantially since the inception of the load management program. Avoided costs have dropped from \$800/kW in the early 1980's, to \$375 in the early 1990's, to \$250/kW at the present time.

This option would "vintage" past avoided units, effectively linking a participant's credit to the avoided cost in force at the time of sign-up. This approach has two shortcomings:

- (a) Program participants are not committed to the load management program for the entire life of the avoided unit, and can leave the program by giving FPC 45 days notice. Customers, therefore, cannot be expected to avoid generation but, rather, they defer generation. As with "grandfathering," it is likely that new program participants would perceive the program to be unfair because new participants would defer the same generation and experience the same inconveniences as existing customers, but receive a lower credit. We note, however, that we do vintage, or link, avoided costs to qualifying facility (QF) contracts because most QF's commit to provide capacity and energy for the life of the unit that is being deferred.
- (b) Given the magnitude of FPC's load management program, it would be very difficult to administer different tariffs for different groups of participants.

Based on these reasons, we will not require FPC to vintage past avoided units.

Alternative

3. **Phase-in the minimum usage threshold over a period of time, rather than all at once.**

This alternative would set the minimum usage threshold at 200 kWh for one year, raise the threshold to 400 kWh for the second year, and maintain the 600 kWh level for the remaining life of the load management program.

This approach is problematic because the minimum usage threshold has already been set at 600 kWh since April 1, 1995. It

is likely that program participants would respond positively to the initial lowering of the threshold to 200 kWh. Subsequent threshold increases, however, would likely provoke a negative response. This approach will likely cause confusion because just as customers become accustomed to the credits received under one threshold, the credits will decrease with the implementation of the next threshold.

Although FPC received some adverse responses to the 600 kWh threshold, the program modifications were implemented all at once. Subsequent to implementing the threshold on April 1, 1995, a number of dissatisfied participants dropped off the program in May and June of 1995. Each month since July, however, the number of new participants signing up for the program has exceeded the number of existing participants who left the program. This indicates that FPC's load management program participants have adjusted to the new tariff.

Based on the above, we will not require FPC to phase-in a minimum usage threshold.

As previously noted, if FPC had reduced the load management credits for each appliance by \$1.00, but still paid a monthly credit to all participants, the program's RIM benefit-cost ratio would still be only 0.93. The addition of the 600 kWh minimum use threshold resulted in a RIM benefit-cost ratio of 1.25. Thus, the 600 kWh threshold restores the cost-effectiveness of the load management program.

Our extensive review of these three options leads us to believe that none are viable. If FPC continues to pay credits to program participants who use less than 600 kWh per month, the load management program cannot cost-effectively avoid the need for future power plants.

IV. Conservation

The purpose of load management is to reduce peak demand, not energy usage. Credits, therefore, are paid to participants for their contribution to peak demand reduction. The minimum usage threshold simply recognizes that high-usage customers substantially contribute to peak demand while low-usage customers do not.

FPC asserts that low-usage participants have been subsidized under the previous RLM program since its inception. During off-peak months (fall and spring), low energy users are likely to use less than 600 kWh per month, but would still have received a credit under the previous RSL-1 tariff. The minimum usage threshold will

result in credits being paid on a more seasonal basis (summer and winter peak periods), thereby correlating with the times that FPC uses load management. Thus, low energy users will still be eligible for a monthly credit during months in which they are actually interrupted, as long as they use 600 kWh.

It is important to note that all participants are affected by the 600 kWh threshold. For purposes of calculating the monthly credit, 600 kWh is subtracted from the monthly usage of all participants. Thus, if a customer uses 1000 kWh in a month, the load management credit is based on usage of 400 kWh.

The modifications to FPC's load management program impact not only the program participants, but the overall body of FPC's ratepayers as well. All RLM program expenses, including customer incentives, are collected directly through the our Energy Conservation Cost Recovery (ECCR) Clause. A reduction in customer credits will mean a dollar-for-dollar reduction in expenses collected through ECCR, a savings which will be passed on to FPC's customers. Furthermore, all customers benefit from the proposed tariff changes, regardless of participation, because the changes insure that the program passes the RIM test.

FCC states that pricing load management credits based on contribution to demand savings is eliminated under FPC's program modifications. The above analysis illustrates that FCC's assertion is incorrect. FCC further notes that the threshold raises the electric rates of low-usage and low-income program participants by 23% to 28%, thereby discouraging energy conservation. As previously noted, the purpose of load management is to reduce peak demand, not energy usage. Thus, the load management program modifications cannot be seen as a detriment to energy conservation.

By paying credits to participants only when they use at least 600 kWh a month, FPC ensures that those customers who contribute the most to peak demand and, therefore, contribute more demand savings through load management receive incentives proportional to those contributions. The 600 kWh threshold does not, therefore, improperly reward high-usage customers or penalize low-usage customers.

V. Policy Objectives

When we review conservation programs, we consider three criteria:

1. Whether the program advances the policy objectives of Rule 25-17.001, Florida Administrative Code, and Sections 366.80-.85, Florida Statutes, also known as the "Florida Energy Efficiency and Conservation Act" (FEECA);
2. Whether the program is directly monitorable and yields measurable results; and
3. Whether the program is cost-effective.

FPC's RLM program continues to meet the policy objectives of Rule 25-17.001, Florida Administrative Code, and FEECA; it has shown itself to be monitorable; it has yielded measurable results; and it is cost-effective under the RIM, TRC, and Participant tests.

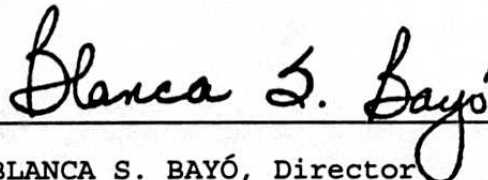
Based on the record of this case, we approve FPC's modifications to its residential load management rate schedule.

Based on the foregoing, it is therefore

ORDERED that Florida Power Corporation's proposed modifications to its Residential Load Management rate schedule, tariff RSL-1, are approved, effective April 1, 1995. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 26th day of December, 1995.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)
BC

DISSENT

Commissioners Garcia and Johnson dissent from the decision in this Order.

COMMISSIONER GARCIA

In making this decision, I feel that we have neglected our primary charge as the Florida Public Service Commission, that being to ensure that all utility customers receive equitable rates.

Although I recognize that the Commission is legally obliged to see that the regulated utilities are given the opportunity to earn a reasonable return on their investments, I simply cannot agree that conservation-minded and low-income consumers should bear the burden when a utility seeks to restore the cost-effectiveness of a conservation program. In approving these modifications, we ignore the needs of a segment of consumers who are making a concerted effort to reduce their energy consumption.

As a result of this decision, many consumers will have difficulty adjusting to the added financial burden created by the credit reduction. Consumers on fixed incomes have come to rely on Florida Power Corporation's RLM credit. These revisions have already broadcast a confusing message concerning our conservation objectives. We must not appear to prefer some types of conservation over others, particularly where the preference prejudices the sector of the public most vulnerable to unexpected economic burdens, as is the case with low-usage consumers living on fixed incomes.

Although it is true that the ultimate goal of any load management program is the reduction of peak energy demand and that the cost-effectiveness of such a program is an essential factor in maintaining conservation efforts in a competitive environment, we must balance the consumers' needs with our obligation to encourage competition and conservation. At the very least, what has been given to low-level electric consumers currently subscribing to the load management program should not be taken away in one dramatic maneuver. Implementation of these modifications over an extended period of time would have insured the cost-effectiveness of the program while allowing customers to adjust to the changes more easily. In the future, we should take care to avoid "rate shock" such as that which occurred following these modifications, especially when low-usage customers are the customers most conspicuously affected by our action.

For the above reasons, I dissent from the decision in this case.

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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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/or wastewater 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.