BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Gulf Power Company for approval of Rate Schedule Real Time Pricing Conservation Program (RTP).	DOCKET NO. 990315-EI ORDER NO. PSC-99-1768-FOF-EI ISSUED: September 9, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JULIA L. JOHNSON
E. LEON JACOBS, JR.

ORDER GRANTING APPROVAL OF GULF POWER COMPANY'S PETITION FOR APPROVAL OF REAL TIME PRICING RATE SCHEDULE (RTP)

BY THE COMMISSION:

CASE BACKGROUND

We approved Gulf Power Company's (Gulf) Real Time Pricing (RTP) Pilot Conservation Program effective February 7, 1995 in Docket No. 941102-EI (Order No. PSC-95-0256-FOF-EI). The program was scheduled to end on December 31, 1998, unless extended by order of this Commission.

On June 16, 1998, we approved an extension of the pilot RTP rate schedule until May 31, 1999, to allow Gulf the opportunity to review and examine the results of its experimental program, and to file for approval of a permanent RTP rate.

Gulf filed for approval of a permanent RTP rate schedule on March 11, 1999. At its May 4, 1999 Agenda Conference, we voted to suspend the proposed permanent RTP rate schedule tariffs to allow us time to review the final report on Gulf's pilot program, and to conduct any discovery necessary to evaluate the proposed permanent program. To avoid disrupting service to existing RTP customers, we also voted to allow existing RTP customers to continue service under the existing rate beyond May 31, 1999, until the Commission vote on the proposed new rate. This order addresses Gulf's proposed permanent RTP rate schedule.

The pilot RTP rate schedule was offered beginning in February 1995 as an optional rate available to a maximum of 12 customers whose monthly maximum demands exceeded 2,000 kilowatts (kW). At its February 4, 1997 agenda conference, we approved Gulf's request to expand the maximum number of customers to 24, in order to expand availability of the program to a broader base of customer types (Docket No. 961483-EI, Order No. PSC-97-0217-FOF-EI). Gulf filed for approval of a permanent RTP rate schedule on March 11, 1999.

PROPOSED PERMANENT RTP RATE SCHEDULE

The proposed permanent RTP rate schedule is identical in most respects to the rate offered under the pilot program. The principal differences between the two offerings are discussed below.

Gulf's proposed permanent RTP rate schedule differs from the pilot RTP program with respect to its eligibility criteria. The pilot program allowed new and existing LP, LPT, PX, PXT, and SBS customers whose monthly maximum demands exceed 2,000 kW to take service under the rate. The new offering only requires that customers' annual demands exceed 2,000 kW to take service under the rate. In addition, the new rate limits the availability of the RTP rate to existing SBS (Standby and Supplemental service) customers whose supplemental service requirements are at least 50% of their contracted standby service. Thus new SBS customers, and those existing SBS customers who take only standby service would not be eligible for the RTP rate. Gulf indicates that based on the criteria contained in the permanent offering, 31 customers qualified for the rate as of April 30, 1999.

The permanent RTP rate incorporates a Reactive Demand Charge provision identical to the provisions in Gulf's existing LP, LPT, PX, PXT and SBS rate schedules. It also requires new customers to take service for an initial term of five years, with an annual renewal by March 1 of each year thereafter. Gulf also intends to exempt those customers who participated in the pilot program from the five-year initial term requirement.

The method used to set the permanent hourly RTP prices is identical to the method used in the pilot RTP rate, with one exception. The pilot RTP rate indicates that the "M" multiplier will be modified annually, using updated year-ahead lambda forecasts. Under the permanent rate, the "M" multiplier would be "reviewed periodically and adjusted as needed."

When actual system lambdas are higher than the forecasted values used to develop the multipliers, the resulting RTP prices are higher than expected. Conversely, if the actual lambdas are lower than forecasted, the resulting RTP prices are lower than expected. In response to discovery, Gulf indicated that the "M" multiplier was modified several times during the pilot program, at intervals of less than one year. The initial multipliers were in effect for less than three months. During the remaining period of the program, the multipliers were in effect for periods ranging from one to 13 months. The need to adjust the multipliers more frequently than originally intended is due to the difficulty in forecasting the Southern Company system lambda for a year in advance, particularly for the peak period. The volatility of lambda resulted in peak period "M" multipliers that ranged from a high of 4.414 at the outset of the program to a low of 1.500 for the period June 23, 1998 through May 31, 1999.

CONCLUSION

We believe that Gulf's proposed RTP permanent rate schedule should be approved. The RTP rate is an innovative offering which sends customers price signals that attempt to reflect hourly variations in the cost of energy. Gulf's final report demonstrates that the RTP prices have resulted in peak demand reductions. While the program does result in a substantial decrease in base rate revenues when compared with Gulf's existing embedded cost rates, we recognize that the RTP was not designed to be revenue neutral with respect to existing rates. This means that customers under the RTP rate may pay less than they would under standard rates, even without any change in their patterns of energy usage. We also recognize that in the absence of a rate proceeding, Gulf's stockholders absorb the shortfall in revenues as compared to standard embedded cost rates.

As Gulf's final report analysis has shown, there were many customers who participated in the pilot program who currently cannot adjust their consumption patterns in response to the RTP price signals. It is Gulf's contention that over time, some of these customers may adopt measures that will increase their ability to shift their usage.

Although the RTP program analysis has demonstrated that it does result in peak demand reductions, it is not clear that such reductions are cost-effective for the general body of Gulf's ratepayers. The RIM analysis submitted for the current conservation goals docket shows RTP to be only marginally cost effective, and the analysis assumes the participation of only those customers with the greatest ability to shift their usage to lower-cost time periods. The addition of customers who lack the ability to shift their usage may make the program less cost-effective. By approving the permanent RTP rate schedule, we are not asserting that the rate has been demonstrated to be a cost-effective conservation program whose costs are appropriate for recovery through the Energy Conservation Cost Recovery Clause.

Due to the dynamic nature of the RTP rate schedule, and the extent to which the revenues collected under the rate are dependent on changes to the "M" multipliers, we believe that it is appropriate to require Gulf to provide certain information to this Commission on an ongoing basis.

On a quarterly basis, Gulf should file with us a report showing any changes made to the "M" multipliers made during the period, when the changes went into effect, and a brief explanation as to why the multipliers required updating. In addition, if Gulf makes changes to the methodology used to determine the RTP prices other than updating of the "M" multipliers to reflect new lambda forecasts, it should file for approval of such changes with us.

Since the RTP is a significant departure from embedded cost ratemaking, we also believe Gulf should include in the quarterly report the total revenues collected and total sales in kilowatt hours separately shown for the RTP, PXT, and LPT rate classes. This will allow us to monitor the extent to which RTP rates depart from standard embedded cost rates.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's petition for approval of Real Time Pricing Rate Schedule (RTP)is granted. It is further

ORDERED that the Real Time Pricing Rate Schedule (RTP) is effective as of September 1, 1999. It is further

ORDERED that Gulf Power Company file quarterly reports on the RTP Rate Schedule as described in the body of this order. It is further

ORDERED that if a protest is filed within 21 days of issuance of the Order, the tariff shall remain in effect with any charges held subject to refund pending resolution of the protest. It is further

ORDERED that if no timely protest is filed, this docket shall be closed upon the issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 9th day of September, 1999.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Our decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 30, 1999.

In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.