FLORIDA PUBLIC SERVICE COMMISSION
Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

**MEMORANDUM**

June 9, 1988

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF ELECTRIC & GAS (MAKIN, RENDELL)
DIVISION OF LEGAL SERVICES (SMITH) DES

JDJ

RE : DOCKET NO. [redacted] CITY GAS COMPANY OF FLORIDA, PETITION FOR APPROVAL OF CONSERVATION PROGRAMS.

AGENDA : JUNE 21, 1988 - CONTROVERSIAL - PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE

PANEL : FULL COMMISSION

CRITICAL DATES: NONE

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## ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Should the Commission approve City Gas of Florida's five proposed conservation programs and grant the cost recovery through the Conservation Cost Recovery Clause?

RECOMMENDATION 1: Staff recommends that the Commission approve Programs One through Four of City Gas of Florida's five proposed conservation programs and grant the cost recovery through the Conservation Cost Recovery Clause. Staff further recommends that the Commission deny approval of City Gas's proposed conservation Program Five, Gas Appliances in Schools.

ISSUE 2: Should the Commission require City Gas to file a separation of incentives paid to affiliated and non-affiliated appliance dealers under the Dealer Progam (Program 4)?

RECOMMENDATION 2: Yes. The Commission should require City Gas to file a separation of incentives paid to affiliated and non-affiliated appliance dealers under the Dealer Program (Program 4).

DISCUSSION

ISSUE 1: Should the Commission approve City Gas of Florida's five proposed conservation programs and grant the cost recovery through the Conservation Cost Recovery Clause?

RECOMMENDATION 1: Staff recommends that the Commission approve Programs One through Four of City Gas of Florida's five proposed conservation programs and grant the cost recovery through the Conservation Cost Recovery Clause. Staff further recommends that the Commission deny approval of City Gas's proposed conservation Program Five, Gas Appliances in Schools.

STAFF ANALYSIS: City Gas is a utility having annual sales of 74,000,000 therms per year, which is only 74% of the FEECA threshold for mandatory participation in conservation. As referred to in City Gas Company's petition dated February 16, 1988, the Commission determined that City Gas was not required to participate in the conservation program and therefore phased out its programs in 1983.

In March of 1987 the Commission issued Order No. 17257 in Docket No. 861595-GU dated March 6, 1986 approving the Company's request for the inclusion of leased gas appliances in its rate base.

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The Commission stated in Order 17257 the following:

> "To the extent that City Gas's lease program contributes to the goal of increased residential use of natural gas and decreased reliance on electric power, we find it to be a commendable program from the perspective of its conservation effects. We note, however, that the Company is not currently participating in the conservation cost recovery program authorized by Section 366.80 et seq., Florida Statutes. To the extent that the Company believes its appliance programs may be consistent with Commission conservation goals, we invite the Company to submit its proposals for participation in the conservation program. Any such proposals will be evaluated based on the Commission's standard criteria for approval of conservation programs: (1) the program must contribute to achieving conservation goals; (2) the program must be cost-effective and (3) the program must be one which can be monitored."

City Gas proposes five conservation programs which provide incentives to builders, homeowners, dealers, and schools to install and promote efficient gas appliances. The programs are targeted for the residential customers, which generally have lower load factor than electric utility systems' load factors. The level of incentives specified in Programs One through Four outlined by City Gas appear to be fairly calculated and reflective of the additional costs in City Gas's service area associated with providing the incentives of each of these programs. The level of costs in Programs One through Four predicted by City Gas appear reasonable compared to the costs of similar gas companies participating in the conservation program.

The company, in its petition dated February 16, 1988, stated:

> "Both the Commission and City Gas have recently determined that reinstitution of conservation programs by the Company could assist in stabilizing the company's natural gas revenues..."

It would appear that City Gas misunderstood the Commission's invitation to submit its proposals for participation in the conservation program. The purpose of the conservation program, as provided in Rule 25-17.004, is to promote the use of natural gas as a substitute for oil or oil derived energy where to do so is cost effective within Florida. The programs are not intended to stabilize natural gas revenues.

In Orders Nos. 11451, 13439, 13783, and 15301 the Commission approved the voluntary conservation plans of Central Florida Gas, Gainesville Gas, Gulf Natural (now West Florida), and St. Joe Natural Gas respectively. Implicit in these approvals was the authority to recover approved conservation program costs through the Conservation Cost Recovery Clause.

Only four of the five proposed conservation programs of City Gas meet the Commission's three approval criteria: (1) they show that they contribute to achieving conservation goals, (2) they can be monitored, and (3) they are cost effective. The cost effectiveness of these four programs have been calculated following the methodology employed previously by the Commission for gas utilities; and the assumptions used by City Gas appear reasonable.

Accordingly, staff recommends the Commission approve City Gas's proposed conservation Programs One through Four. If the Commission approves these four conservation programs submitted by City Gas, then Staff recommends that City Gas also be granted authority to recover associated approved conservation program costs through the Conservation Cost Recovery Clause.

City Gas Company's five Conservation programs are outlined as follows:

Program 1: Single Family Residential Home Builder Program

This program provides incentives to builders and developers in an effort to overcome the objections to the additional construction costs of installing gas appliances. The program pays incentives for installation of gas furnaces ($250), gas water heaters ($225), gas ranges ($100) and gas dryers ($100). Incentives are only paid to builders of new homes that have an EPI rating of 75 points or less. EPI is the Energy Performance Index calculated under the Florida Model Energy Efficiency Code for Building Construction. The program period is five years with net benefits of $15,170,959. This results in a cost effectiveness ratio of 10:1.

Program 2: Multi-Family Residential Home Builder Program

This program provides incentives to builders and developers in an effort to overcome the objections to the additional construction costs of installing gas appliances in multi-family projects. The program pays a maximum cash allowance of $300 per dwelling unit for the installation of gas appliances. Incentives are only paid to builders of new homes that have an EPI rating of 75 points or less. This program has a 5 year period with net benefits of $14,562,846. This results in a cost effectiveness ratio of 14:1.

Program 3: Electric Resistance Appliance Replacement Program

This program promotes the replacement of all electric appliances with energy efficient gas appliances where to do so is cost effective. The program offers homeowners incentives to help defray the additional costs in purchasing and installing energy efficient gas appliances. Cash incentives are paid for installation of gas furnaces ($550), gas water heaters ($400), gas ranges ($100) and gas dryers ($100). The program net benefit over a five year program period is $12,252,230 resulting in a cost effectiveness ratio of 3:1.

Program 4: Dealer Program

This program offers dealers and contractors incentives for promotion of the sale of natural gas appliances. The program is designed to promote the use of energy efficient gas appliances where to do so is cost effective. The incentives are paid to dealers and contractors for the sale of gas heating ($30), gas water heaters ($30), gas ranges ($15), and gas dryers ($15). This program has a period of seven years with net benefits over this period of $1,980,209. The cost effectiveness ratio of this program is 12:1.

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Program 5: Gas Appliances in Schools

This program promotes the complete replacement of all electric appliances in all schools in the company's service area and offers assistance from company employed economists to train students. Energy efficient gas appliances will be installed at no charge and students will be trained in the use, care, and safety of gas appliances. The program pays a maximum cash allowance of $600 per gas range installed. The company proposes to introduce other gas appliances as the program develops. This program has a period of five years with net benefits of ($524,130). This results in a cost effectiveness ratio of .02:1.

It should be pointed out, that in Order No. 9974, Docket No. 810050-PU, dated April 24, 1981, the Commission disallowed this program stating that this was more related to a nonjurisdictional marketing of appliances.

Staff recommends that the Commission deny approval of this program citing the following reasons:

1) The program does not prove to be cost effective in that the cost effectiveness ratio of .02:1 does not meet the economically justifiable criterion of a ratio greater than 1. In practice, a ratio of 3:1 or higher has generally been an approval criterion to ensure cost effectiveness given the subjectivity in estimating KW/KWH savings and projected eletric utility operating costs.

2) The company's assumption of complete replacement of all electric appliances in all schools in the company's service area does not appear to be reasonable.

3) Staff believes that the cash allowance of $600 per gas range appears excessive in reference to the comparable allowances paid through the company's other programs.

When the above stated reasons are taken collectively, Staff recommends the Commission not approve the Company's Gas Appliances in Schools (Program 5) under its conservation program. Staff emphasizes, however, that denial of this program should not in any way discourage City Gas in its further pursuit of this program on its own accord. If City Gas's management believes the long-term benefits of educating young people make the costs of such actions worthwhile, they should pursue the matter in the company's next rate case where the issue can be analyzed in detail However, there should be an equitable balance of appliances in the schools so the students are allowed to make an educated comparison between the uses of both gas and electric appliances.

ISSUE 2: Should the Commission require City Gas to file a separation of incentives paid to affiliated and non-affiliated appliance dealers under the Dealer Program (Program 4)?

RECOMMENDATION 2: Yes. The Commission should require City Gas to file a separation of incentives paid to affiliated and non-affiliated appliance dealers under the Dealer Program (Program 4).

STAFF ANA'YSIS: City Gas is one of several utilities engaged in the sale of appliances; consequently, incentives paid under the Dealer Program could be paid to City Gas or an unregulated affiliate. In order to provide a more accurate monitoring of this program, a seperation of incentives paid to affiliated and non-affiliated dealers is necessary. The reporting of this information in future filings should be reported on the company's CT-2 and CT-6 filings of the Conservation Cost Recovery Clause.

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