ORIGINAL

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

MEMORANDUM

February 23, 1989

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF ELECTRIC & GAS (MAKIN, RENDELL) AR MW RLT
DIVISION OF LEGAL SERVICES (FRIER) RF

RE : DOCKET NO. 881411-GU - SOUTHERN GAS COMPANY, PETITION FOR APPROVAL OF CONSERVATION PROGRAMS.

AGENDA: MARCH 7, 1989 - CONTROVERSIAL - PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE

PANEL: FULL COMMISSION

CRITICAL DATES: NONE

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Should the Commission approve Southern Gas Company's six proposed conservation programs and grant cost recovery through the Conservation Cost Recovery Clause?

RECOMMENDATION: Staff recommends that the Commission approve Programs One through Five of Southern Gas Company's six proposed conservation programs and grant cost recovery through the Conservation Cost Recovery Clause. Staff further recommends that the Commission deny approval of Southern Gas' proposed Conservation Program Six, Short Main and Service Line Extension.

DISCUSSION

ISSUE 1: Should the Commission approve Southern Gas Company's six proposed conservation programs and grant cost recovery through the Conservation Cost Recovery Clause?

RECOMMENDATION: Staff recommends that the Commission approve Programs One through Five of Southern Gas Company's six proposed conservation programs and grant cost recovery through the Conservation Cost Recovery Clause. Staff further recommends that the Commission deny approval of Southern Gas' proposed Conservation Program Six, Short Main and Service Line Extension.

STAFF ANALYSIS: Southern Gas Company is a utility having annual sales of 40,000,000 therms a year, which is only 40% of the FEECA threshhold for mandatory participation in conservation.

Southern Gas Company proposes six conservation programs which provide incentives to builders, homeowners, and dealers to install and promote efficient gas appliances. The level of incentives specified in Programs One through Five outlined by Southern Gas appear to be fairly calculated and reflective of the additional costs in Southern Gas' service area associated with providing the incentives of each of these programs. The level of costs in Programs One through Five predicted by Southern Gas appear reasonable compared to the costs of similar gas companies participating in the conservation program.

In Orders Nos. 11451, 13439, 13783, 15301, and 19653, the Commission approved the voluntary conservation plans of Central Florida Gas Company, Gainesville Gas Company, Gulf Natural Gas Company (now West Florida Natural Gas Company), St. Joe Natural Gas Company, and City Gas Company of Florida, respectively. Implicit in these approvals was the authority to recover approved conservation programs costs through the Conservation Cost Recovery Clause.

Southern Gas Company's proposed conservation programs 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. Staff calculated the cost effectiveness of Southern's programs following the methodology employed by the Commission for gas utilities. The Company erroneously calculated its cost effective ratios by dividing by the wrong numbers; however, the assumptions used by Southern Gas appear reasonable.

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

Southern Gas Company's six conservation programs are outlined as follows:

Program 1: Single and Multi-Family Residential Home Builder Program

This program provides incentives to home builders and developers in an effort to overcome the objections to the additional construction costs involved with the installation of gas appliances. The programs pays incentives for the installation of gas furnaces ($100), gas water heater ($150), gas ranges ($25), and gas dryers ($25). 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 Efficiency Code for Building Construction. The program period is five years with net benefits of $4,297,308. This results in a cost effectiveness ratio of 19.26:1.

Program 2: Electric Resistance Appliance Replacement Program

This program promotes the replacement of all types of electric appliances with energy efficient gas appliances. The program offers homeowners cash incentives to help defray the additional costs involved with the purchase, piping, installation, and venting of gas furnaces ($450), gas water heaters ($400), gas ranges ($75), gas dryers ($75), and gas space heaters ($65). This program has a period of five years with net benefits of $939,703. The cost effectiveness ratio of this program is 3.17:1.

Program 3: Dealer/Contractor Appliance Program

This program offers dealers and contractors incentives for promotion of the sale of natural gas appliances. It is designed to help overcome the predisposition of appliance dealers to sell electric appliances as opposed to energy efficient natural gas appliances. The incentives are paid to dealers and contractors for the sale of gas furnaces ($30), gas water heaters ($25), gas ranges ($15), gas dryers ($15), and gas space heaters ($15). The program's net benefit over a five-year program period is $1,097,409, resulting in a cost effectiveness ratio of 63.11.1.

Program 4: Modern Appliance Replacement Program

This program is designed to encourage customers to replace existing natural gas appliances with new, modern, energy efficient natural gas appliances. The program offers allowances to customers to assist in defraying the additional cost of more expensive energy efficient appliances. Cash incentives are paid for the replacement of gas furnaces ($50), gas water heaters ($50), gas ranges ($50), gas dryers ($50), and gas space heaters ($50). This program has a period of five years with net benefits of $526,742. The cost effectiveness ratio of this program is 29.22:1.

Program 5: Replacement of Electric Strip and Oil Heating Program

This program is designed to encourage customers to convert their existing electric or oil heating system to energy efficient natural gas heating systems. The program pays cash incentives to customers for the installation of gas furnaces ($300), and the conversion of oil burners ($300). The program's net benefit over a five-year period is $388,487, resulting in a cost effectiveness ratio of 15.99:1.

Program 6: Short Main and Service Line Extension Program

This program is intended to promote the use of high priority gas through the installation of short main extensions and service lines at no charge to prospective customers in areas where the Company has gas lines installed close by. The program proposes recovery through conservation cost recovery of the non-feasible amount of construction costs, or CIAC, as calculated under Rule 25-7.054(3)(a)(b). Prospective customers will receive free installation of short mains and service lines only if a gas water heater and one other appliance is used or contracted to be used. Other appliances such as pool heaters, gas ranges, and dryers must equal or exceed the gas heating usage on an annual basis to qualify as the second appliance. The program's net benefit over a five-year period is $4,258,895. This results in a cost effectiveness ratio of 19.56:1.

Although this program meets the Commission's three approval criteria, the recovery of the non-feasible construction costs or contributions-in-aid-of-construction (CIAC) from all customers appears to be in conflict with Rule 25-7.054(3)(a)(b), Extension of Facilities:

> (a) .... The maximum capital investment to be made by the utility for main and service facilities without cost to the customer shall be defined as the maximum allowable construction cost. The maximum allowable construction cost shall equal four times the estimated annual gas revenue to be derived from the facilities less the cost of gas.
> (b) .... When the cost of the extension required to provide service is greater than the free limit specified in (a) above, the utility may require a non-interest bearing advance in aid of construction of the cost in excess of such free limit ....

The obligation of any utility to serve is predicated upon the customer's ability to pay. If the customer is unwilling to pay the non-feasible portion of the construction costs (CIAC), under this or any other program, the general body of ratepayers should not be put in the position of having to absorb such costs.

Contributions-in-aid-of-construction are special one-time charges levied on new customers upon initial connection to a utility system. The purpose of such fees is to make new customers pay for the additional plant that is needed to serve them. CIAC helps ensure that <u>existing</u> customers do not bear the cost of new utility plant necessitated by new customers. Accordingly, existing customers should not have to pay cost increases due to new plant for which existing customers receive no additional benefits.