FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building

101 East Gaines Street

Tallahassee, Florida 32399-0850

M E M O R A N D U M

April 8, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF ELECTRIC AND GAS [BASS, BULECZA-BANKS, BRADY]

DIVISION OF LEGAL SERVICES [ELIAS]

RE : DOCKET NO. 930002-PU - CONSERVATION COST RECOVERY CLAUSE

AGENDA: 4/20/93 - CONTROVERSIAL AGENDA - PROPOSED AGENCY ACTION -PARTIES MAY PARTICIPATE

PANEL:FULL COMMISSION

CRITICAL DATES:NONE

SPECIAL INSTRUCTIONS:I:\PSC\EAG\WP\930002.RCM

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CASE BACKGROUND

On October 2, 1992, Staff conducted a workshop to consider and hear comments from investor-owned utilities regarding the feasibility of holding conservation cost recovery hearings annually instead of semi-annually. The workshop was attended by representatives from Florida Power Corporation, Florida Power & Light Company, Tampa Electric Company, Gulf Power Company, Florida Public Utilities Company, Peoples Gas System, Inc., West Florida Natural Gas Company, Florida Division of Chesapeake Utilities Corporation, St. Joe Natural Gas Company, City Gas Company of Florida and Florida Industrial Power Users Group. The utilities were asked to provide written comments to issues addressed during the workshop. These comments have been incorporated into this recommendation whenever practicable.

DISCUSSION OF ISSUE

ISSUE: Should the Commission approve a change in the frequency of energy conservation cost recovery hearings from semi-annually to annually?

RECOMMENDATION: Yes. The Commission should approve the change to annual hearings and initiate rule change proceedings to reflect its decision.

STAFF ANALYSIS: Staff is proposing to change the frequency of the energy conservation cost recovery (ECCR) hearings from semi-annually to annually. The goal of the proposed change is to reduce the time and dollars spent during the preparation for and attendance at cost recovery proceedings, thereby producing savings which will benefit utility ratepayers. Under Staff's proposal, the Commission would consider the recovery of conservation expenditures during a one-day hearing in February of each year. A time-line depicting the cost recovery periods, including the transition period, is attached as Exhibit 1.

Staff believes there are substantial benefits to be derived from a change to annual hearings. A reduction in the number of days scheduled for hearings will not only free up Commissioners' time, but Staff and company employees' time as well. As stated by Gulf Power Company, affected company employees could become better utilized in other company interests, and the ratepayers would save the incremental costs (airfare, hotel, meals, etc.) related to an additional hearing. There also would be lower administrative and legal expenses associated with preparing and filing projections annually versus semi-annually. All such savings would directly benefit ratepayers.

Utilities, which submitted written comments subsequent to the workshop, are generally in agreement to the change to annual hearings. However, two concerns were expressed. The first concern is the possibility that a longer forecast horizon will increase the likelihood of a company's actual costs differing from its forecast and therefore, an increased potential for over- or underrecoveries. This concern could be mitigated if a mid-course correction procedure is established. Staff proposes that the Commission establish a mid-course correction procedure similar to the procedure used in the fuel cost recovery clause. The current mid-course correction procedure used in fuel cost recovery proceedings requires that when a utility becomes aware that its projected fuel revenues will result in an over- or underrecovery in excess of 10% of its projected fuel costs, the utility must request a hearing to revise the fuel adjustment factor if in its judgment such revision would not be impractical. In light of certain timing considerations, a utility may choose, in lieu of requesting a hearing, to inform the Commission, the Staff, and the intervenors that a greater than 10% over- or underrecovery is projected to occur. In that event, the Staff or an intervenor could request that a hearing be held, and the Commission could order a hearing on its own motion or in response to a Staff or intervenor request. Staff recommends that the percentage used to trigger the mid-course correction procedure be changed to 15%. The responding utilities suggested percentages ranging from 10% to 25%. Because of the extension of the recovery period to twelve months, Staff believes 15% is the appropriate notification threshold.

The second concern expressed by companies was the timing of recovery of costs associated with conservation programs approved during a cost recovery period. Staff proposes that when a company receives approval of a new conservation program at a time other than at the annual cost recovery hearing and the expenses of this program cause the under-recovery amount to exceed 15% of the projected annual conservation costs, then a petition for mid-course correction would be appropriate.

The procedures for recovery of conservation costs are codified in Commission Rule No. 25-17.015(1). This rule states that conservation costs will be recovered in the same manner and for the same periods as provided for the fuel cost recovery clause in Order No. 9273 issued by the Commission on March 7, 1980. If the Commission adopts Staff's proposal for annual hearings, this section of the rule will need to be changed to reflect the Commission's decision.

Staff recommends the following:

1. The Commission should approve the change of the frequency of energy conservation cost recovery hearings from semi-annually to annually.
2. The Commission should approve the adoption of a mid-course correction procedure applicable to conservation cost recovery.
3. The Commission should initiate rule change proceedings to reflect its decision.