Peoples Gas

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December 14, 1995

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Fl 32399-0850

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RE: Docket No. 950002-EG -- **Peoples Gas System, Inc. Comments on the Conservation Audit Report - Period Ending September 30, 1995**

Dear Ms. Bayo,

Enclosed for filing in the above mentioned docket are the Company's responses to the conservation audit report.

Please forward them for consideration by the staff in the preparation of a recommendation for this case.

Thank for your assistance in this matter.

Sincerely,

Vernon I. Krutsinger

Vernon I. Krutsinger
Manager of Energy Utilization

VIK
Enclosures

Cheryl Bulecza-Banks
D. R. Pountney
Robert S. Wright

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111 Madison Street • P.O. Box 2562 • Tampa, Florida 33601-2562 • (813) 273-0074 • FAX (813) 272-0061

December 14, 1995

RE: Docket No. 950002-EG -- Peoples Gas System, Inc. Comments on the Conservation Audit Report - Period Ending September 30, 1995

Audit Disclosure No. 1

Subject: Outside Services

The opinion in the audit states that "The Commission allows recovery of only costs directly related to energy conservation programs." and then goes on to say that certain costs "do not directly relate to existing energy conservation programs and should be disallowed." The Audit Report concludes that energy conservation costs are overstated by $106,792. The Company does not agree with this conclusion and believes that all except $3,158 of the expenses are directly related to the existing programs and the Company should be allowed to recover these expenses through ECCR. The Company has identified the following issues in support of its position.

Legal Expenses

Issue 1. The legal expenses of $41,625 were associated with Docket No. 941165-PU - Emergency Complaint of Peoples Gas System, Inc. Against Tampa Electric Company for Providing Unauthorized Incentives for Electric Water Heating. (Reference - Landers and Parsons invoices dated January 2, 1995, February 1, 1995, March 1, 1995, item 753-15.)

This complaint was filed by the Company to defend its Commission-approved Residential Home Builder Program from action taken by Tampa Electric Company (TECO) against this program. TECO was offering to provide three water heating measures at no charge, which by all indications were targeted specifically at customers and builders in areas where Peoples had just made gas service available under the Commission-approved Residential Home Builder Program. The successful implementation of TECO's offerings would have significantly undermined Peoples' implementation of its Commission-approved Residential Home Builder Program.

The Counter Complaint filed by TECO was a direct attack on all of Peoples' Commission-approved energy conservation programs as well as the overall cost-effectiveness methodology used by the Company and the Commission for the approval of such programs.

The Company incurred these legal fees solely to protect its Commission-approved ECCR programs. If FEECA did not exist, these legal expenses would not have been incurred. These charges are directly related to energy conservation programs and should be recovered under the ECCR clause.

Issue 2. The legal expenses of $7,828 were associated with Docket No. 941104-EG - Development of Cost-Effectiveness Methodology for Gas Utility Demand Side Management. (Reference - Landers and Parsons invoices dated January 2, 1995, February 1, 1995, March 1, 1995, item 753-16.)

The costs associated with the development of a cost-effectiveness methodology by the Company and its participation in the docket meets the criteria of being "reasonable and prudent unreimbursed costs projected to be incurred" as found in Chapter 366.82 paragraph 5 of FEECA. These costs were included in the projections of costs for outside services filed by the Company for recovery under ECCR, and were approved for ECCR recovery by the Commission.

Docket 941104-EG was opened as a result of an electric utility's intervention in a gas utility's petition for Commission approval of a modification to an approved ECCR program.

Peoples' existing programs and any potential future modifications to its existing programs will be affected by the outcome of Docket 941104-EG. Legal fees incurred by Peoples' participation in this docket are "directly related to energy conservation programs". As with Issue I, if FEECA and the Commission's ECCR program did not exist, Peoples would not have incurred any legal expenses to participate in this important docket ,which nay have far reaching effectson Peoples' and othe rgas utilites' energy conservation programs.

Peoples should be allowed to recover these legitimate conservation-related expenses through ECCR.

Issue 3. Landers and Parsons invoices dated January 2, 1995, February 1, 1995, March 1, 1995, contained charges that should not have been charged to energy conservation. Those include item 756-01 for $136.05, and item 753-08 for $2,740.50, totalling $2,876.55 on the January invoice. These items were coded and approved correctly, but were inadvertently entered as ECCR items. The company agrees that recovery under ECCR should not be allowed..

Issue 4. Landers and Parsons invoices dated January 2, 1995, February 1, 1995, March 1, 1995, contained charges associated with work done in the Electric Conservation Goals docket. These items are 753-02 for $175.50, $40.50, and item 753-17 for $65.55, Totalling $281.55. The company agrees that recovery under ECCR should not be allowed.

Other Outside Consultant Work

Issue 5. The audit opinion identifies expenses of $40,038 associated with Docket No. 941104-EG - Development of Cost-Effectiveness Methodology for Gas Utility Demand Side Management. These expenses are for the development of a cost-effectiveness methodology and the development of a model which will allow the Company to perform cost-effectiveness tests on existing programs as well as potential modifications that may be required as a result of the new methodology. Further, this model will allow the integration of a DSM plan into a comprehensive 10 year econometric forecast. This is not just a "study summarizing Company historical data ($30,123)" as characterized in the audit.

This issue is identical to Issue 2, except that the expenses are for technical consulting services, rather than legal expenses. Therefore, for the reasons set forth in response to Issue 2, the company believes that these are legitimate, reasonable and prudent conservation related expenditures that should be recovered through ECCR.

Issue 6. The audit opinion identifies expenses of $12,711 as a "Chiller option study for an existing gas customer". This was a comprehensive energy audit and presentation of the Commission-approved Gas Space Conditioning Program to a customer which met the program standards. The expenses are for technical consulting services required to present the conservation program to the prospective participant. These types of costs were anticipated by the Company and were included in the discussions on pages 210 and 211 of the Company's program filing. "This effort anticipates development of specific test sites for the evaluation and demonstration of technologies such as desiccant cooling..." and "Criteria for selection of projects for field demonstration are of necessity open-ended and dependent on the developmental availability of such technologies for field testing." Field demonstration of projects of this size are necessary to foster acceptance of the program and encourage participation in the program from similar projects.

In most instances, Company personnel perform energy audits, prepare presentations, and economic analyses for prospective participants of energy conservation programs. These expenses are "directly related to energy conservation programs" and are historically recovered in ECCR. In some cases the efforts involved are minimal and in others, very extensive analysis is required. The project being analyzed in this case was a hospital with the potential of 2300 tons of gas engine driven space conditioning and required a more comprehensive audit.

The analysis revealed that the project was cost-effective with a payback of 4.6 years. The annual electric energy savings would be 8,857,550 kWh, and 1,361 kW. The project required an investment of $1.7 million and was the best overall option from an energy conservation perspective for the facility. Investments of that magnitude are not made without the kind of extensive audit and analysis as that which is in question. Without the audit and the related expenses, there would be no way to communicate the program to the prospective participant. This expense is "directly related to energy conservation programs" and Peoples should be allowed to recover these legitimate conservation-related expenses through ECCR.

Audit Disclosure No. 2

No comments at this time.