

STEEL
HECTOR
& DAVIS

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215 South Monroe, Suite 601
Tallahassee, Florida 32301-1804
904.222.2300
904.222.8410 Fax

August 28, 1996

Charles A. Guyton
904.222.3423

Blanca S. Bayó, Director
Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

961013 - EI

Re: **CONFIDENTIAL MATERIAL**
Florida Power & Light Company's Request for
Confidential Classification of Portions of Staff's
Audit Report Regarding Commercial/Industrial
Demand Side Management Programs

Dear Ms Bayó:

Enclosed for filing on behalf of Florida Power & Light Company ("FPL") are the original and fifteen copies of Florida Power & Light Company's Request for Confidential Classification of Portions of Staff's Audit Report Regarding Commercial/Industrial Demand Side Management Programs. Also enclosed in a separate envelope labeled "CONFIDENTIAL" is Exhibit A to the filing which contains the highlighted confidential material. Attached to each copy of the request as Exhibit B is a redacted copy of the confidential material. To comply with the rule requirement of two redacted copies, we are also enclosing one additional copy of Exhibit B.

If you have any questions regarding this filing, please contact me at 222-2300.

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC _____
- WAS _____
- OTH _____

Respectfully yours,
Charles A. Guyton
Charles A. Guyton
Attorney for Florida Power &
Light Company

cc: AFAD
RECEIVED & FILED
[Signature]

FPSC-BUREAU OF RECORDS
Miami 305 577 7000
West Palm Beach 561 650 7200
305 577 7001 Fax 561 655 1509 Fax

Key West
305 292 7272
305 292 271 Fax

DOCUMENT NUMBER-DATE
09169 AUG 28 1996
582 951 4105
582 951 4106 Fax
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Florida Power & Light Company's) **Docket No. -**
Request for Confidential Classification)
of portions of Staff's Audit Report)
Regarding Commercial/Industrial Demand)
Side Management Programs) **Filed: August 28, 1996**

**Florida Power & Light Company's
Request for Confidential Classification of
Portions of Staff's Audit Report Regarding
Commercial/Industrial Demand Side
Management Programs**

Pursuant to Florida Administrative Code Rule 25-22.006 and Section 366.093, Florida Statutes (1995), Florida Power & Light Company ("FPL") requests confidential classification of portions of the Staff Audit Report entitled "Commercial/Industrial Demand-Side Management Programs of Six Florida Utilities."

1. During Staff's audit of commercial/industrial demand side management programs, Staff requested access to materials which are confidential. FPL provided these materials to the Staff and indicated that some of the information contained therein was confidential.

2. In Staff's draft audit report dated July 23, 1996, Staff included certain of the confidential information provided by FPL to Staff. This draft report was reviewed at the audit exit conference held on August 7, 1996, and FPL was informed that although the draft was to be edited and another draft was to be distributed, to preserve the confidentiality of the material in the July 23, 1996 draft, FPL would need to file a request for confidential classification by August

5. FPL had two choices in addressing the confidential information in the audit report. First, it could seek to protect the identity of the customer and allow disclosure of the alternatives being considered by the customer. Second, it could disclose the customer's identity and not disclose the alternatives the customer considered. FPL chose the former approach, because it was less disruptive to the text of the audit report when the confidential information was redacted. Thus, in ruling whether the name of the customer is confidential, it should be kept in mind that FPL, in the hopes of making the redacted version of the report more informative, has allowed the staff to disclose the alternatives the customer considered. It is the combination of the customer identity with the alternatives being considered and related information which has the potential of resulting in competitive harm to the customer. So, the identity of the customers should be kept confidential. Otherwise, competitors would be informed as to (a) the rate under which the customers takes service, (b) paybacks for alternatives considered by the customers, (c) the nature of capital investments the customers have considered and may still be considering, (d) the name of the firms who have performed analyses for the customers, (e) and the nature of the studies the customers have commissioned to reduce costs and make them more competitive.

6. In support of this request for confidential classification, FPL has enclosed four exhibits:

Exhibit A is an early version of the draft report on which FPL has highlighted the confidential information. As previously noted, this is FPL's only copy of the draft report in which the confidential information is not redacted, and the page and line numbers are not consistent with the page and line numbers on the July 23, 1996 draft of the audit report. Consequently, in an attempt to satisfy the Commission's demanding confidentiality rule, FPL has filed this Exhibit with the confidential information highlighted. It is FPL's understanding that all drafts containing this highlighted information will be treated as confidential. To ease in the

confidential handling of this information, FPL has enclosed this Exhibit in a separate envelope labeled "**CONFIDENTIAL.**"

Exhibit B is Two copies of the redacted version of pages 61, 62, 63, 72, and 73 of the audit report with the confidential information redacted.

EXHIBIT C is the affidavit of Mr. Dennis Brandt explaining why the information FPL seeks to prevent from disclosure is confidential.

EXHIBIT D is the line by line justification required by the Commission's confidentiality rule.

Confidentiality Justification

7. There are two rationales for treating the redacted information on pages 61, 62 and 63 confidential. First, FPL has a corporate policy of not disclosing and treating as confidential customer specific information, including the identity of customers who request energy efficiency analyses and the results of the analyses requested, reviewed, or performed. Second, FPL has been requested by the customer discussed on pages 61, 62, and 63 not to disclose its identity, the input data for the requested analyses, and the findings of analyses performed by FPL or provided to FPL. For technical compliance with the Commission's confidentiality rule, attached as part of Exhibit D is a line by line restatement of these justifications.

8. The rationale for treating the redacted information on pages 72 and 73 confidential is that FPL has a corporate policy of not disclosing and treating as confidential customer specific information, including the identity of customers requesting energy efficiency analyses and the nature of the analyses requested, performed or reviewed. FPL's corporate policy of not disclosing such information is premised upon customers' right to privacy as well as the interests of some customers who have competitive businesses who might be harmed by the

disclosure of such information. For technical compliance with the confidentiality rule, attached as part of Exhibit D is a line by line restatement of this justification.

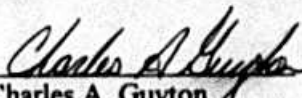
9. The information for which FPL seeks confidential classification shall continue to be confidential after 18 months. It will still be treated by FPL as confidential as a matter of policy, and in the instance where a customer has requested that the information be treated as confidential, the customer has placed no time limit upon its request.

WHEREFORE, FPL respectfully requests that the Commission rule that the information identified by FPL as confidential on pages 61, 62, 63, 72, and 73 of the staff audit entitled "Commercial/Industrial Demand-Side Management Programs of Six Florida Utilities" be given confidential classification by the Commission, be exempt from disclosure, and be redacted from all drafts and editions of the audit report.

Respectfully submitted,

Steel Hector & Davis LLP
Suite 601, 215 S. Monroe St.
Tallahassee, Florida 32301

Attorneys for Florida Power
& Light Company

By: 
Charles A. Guyton

TAL/16587-1

EXHIBIT A

**EXHIBIT A has been separately filed in an envelope stamped
"CONFIDENTIAL" since it contains confidential information.**

line

1 Two case studies serve to illustrate the role DSM programs can play and the effect they
 2 can have in the competition for commercial/industrial customers. These involve [REDACTED]
 3 [REDACTED], and the Cape Canaveral Air Force Station near Titusville.

4 In assessing the impact of Hurricane Andrew and its need for reliable electric service,
 5 [REDACTED] became interested in building a cogeneration facility and
 6 requested assistance from City Gas. Although the financial benefits of self-generation were one
 7 motivation, [REDACTED] was also interested in the operational benefit of increased
 8 reliability of electric service in the event of hurricanes or other natural disasters. The assistance
 9 provided by City Gas led to a September 1993 cogeneration feasibility study by [REDACTED]
 10 [REDACTED] sponsored jointly by City Gas and [REDACTED]. This study
 11 concluded that the capital costs of a cogeneration facility could be recovered in [REDACTED] years
 12 through the resulting energy cost savings, rather than continuing to meet its energy needs
 13 through FPL's current rates. Assumptions included in this [REDACTED] study included
 14 a gas cost of [REDACTED] per million Btu, a [REDACTED] gas price escalation, an equipment availability factor
 15 of [REDACTED], and O&M costs of [REDACTED].

16 [REDACTED] provided the [REDACTED] study to FPL for assistance
 17 in analyzing the results. In October 1993, a study was prepared by FPL, replicating the
 18 [REDACTED] methodology, but using different inputs and assumptions. This FPL
 19 study indicated a simple payback period of [REDACTED] years for the cogeneration facility--nearly
 20 [REDACTED] the [REDACTED] estimate.

21 Also during October 1993, according to CILC program records, FPL began to discuss
 22 the option of CILC participation with [REDACTED]. In late 1993, FPL commissioned a
 23 study by [REDACTED] to evaluate the [REDACTED] study. [REDACTED]
 24 specializes in the design and development of cogeneration facilities. The [REDACTED] study, produced
 25 in January 1994, showed a simple payback period of [REDACTED] years for the cogeneration facility
 26 versus FPL's base rates, and concluded "cogeneration is not economic" for the [REDACTED].

27 The study also found that upgrades to [REDACTED] would
 28 address its reliability concerns, and that the required investment could be paid for within five
 29 years through savings accruing from CILC program participation. [REDACTED] eventually
 30 began participation in the CILC program on November 21, 1995; however, the
 31 [REDACTED] were never built.

32 The [REDACTED] study used the same assumptions as the [REDACTED] study for natural gas cost,
 33 equipment availability factor, and O&M cost per kwh, and a slightly higher gas price escalation
 34 factor of [REDACTED]. In summary, [REDACTED] concluded ". . . the [REDACTED] study contains several aggressive
 35 engineering, energy analysis and financial assumptions." For example, [REDACTED] noted that the [REDACTED]
 36 study incorrectly used a heat rate of 14,107 Btu/kWh instead of 15,644 Btu/kWh, and failed to
 37 take into account the additional fuel consumption by [REDACTED]. These two
 38 discrepancies understated annual costs of the cogeneration facility by a combined [REDACTED].

1 2) Additionally, the [REDACTED] study stated that in estimating "additional costs" (financing fees, attorney
2 3) costs, engineering review, etc.) the [REDACTED] study had gone against the common industry practice
3 of projecting 30% of financed project costs. Using this yardstick, the [REDACTED] study underestimated
4 total financed project costs by [REDACTED].

A more recent case study involving City Gas and FPL's CILC program has been the proposed addition of self-generation facilities at Cape Canaveral Air Force Station (CCAFS). CCAFS adjoins the Kennedy Space Center, and is the site of NASA's unmanned satellite and missile launches.

FPL contacted CCAFS in July 1994 regarding participation in the CILC program. At the time, CCAFS was considering the installation of self-generation facilities, fueled by either natural gas or diesel to meet federally-mandated 20% energy reduction goals by the year 2000. To maximize its conservation efforts, CCAFS began to consider both the installation of the generators and participation in the CILC program.

In October 1995 CCAFS and FPL executed a CILC Agreement, however to date no CCAFS substations are yet operating on the CILC rate. The CILC tariff has been specifically worded in preparation for CCAFS or other space program facilities joining the program. The First Revised Sheets Number 8.654 and 8.655 contain wording that exempts CCAFS from load control interruptions due to "an event whose nature requires that space launch activities be placed in the critical mode . . . as designated and documented by the NASA Test Director at Kennedy Space Center and/or the USAF Range Safety Officer at Cape Canaveral Air Force Station." This exemption, which would have applied for a total of 32 days surrounding various launches in 1995, was provided because a load control interruption could significantly disrupt a launch, and according to FPL because the customer "had a national security need for power in limited instances."

As of 1996 Cape Canaveral Air Force Station is still considering the purchase of a generator offered at low cost by the Tennessee Valley Authority. After conversion to natural gas, the generator may be used by CCAFS to produce some on-site self-generation. However, self-generation would interfere with CCAFS qualifying for the CILC rate. According to FPL, if the customer self-generates, its Supplemental Service rate, instead of the lower CILC rate, would apply. According to FPL, this is because "the CILC rate applies to those who use FPL as their service provider whenever service is available."

7.3.1 Conclusion

In both of these cases, customers pursued obtaining certain services from a gas utility, but resolved their needs partly through an electric DSM program. In each case, the electric DSM program played a role in the outcome of a competitive situation, resulting in the electric utility either fully or partially retaining the load of a customer considering the option of a natural gas application. In both cases, the ratepayer-provided funds for conservation programs also

1 assisted the electric utility in its competitive positioning.

2 In the case of [REDACTED], the customer eventually received conflicting assessments of the feasibility of the cogeneration facility, and once the CILC program was brought into play, the customer may have simply opted for the certainty of CILC's reduced rates. Though CILC may have influenced the outcome, there is no certainty that if the cogeneration facility had been built that it would have been in the customer's best interest.

In the case of Cape Canaveral Air Force Station, the customer's planned use of natural gas for self-generation conflicts with FPL's CILC program. The restrictions regarding the combination of self-generation and receiving the CILC rate present a barrier to fuel-switching. Also, the revision of the operating guidelines for the CILC program to accommodate the special needs of NASA and CCAFS could be interpreted as manipulation to retain one of FPL's largest customers.

1 Prior to 1995, Peoples Gas prepared brief one or two page spreadsheets analyzing the
2 economics of conservation program participation. During 1995, Peoples Gas entered into a
3 contract with Savage Engineering, Inc., an independent engineering firm, to provide analyses
4 for potential participants in conservation programs. After being referred by Peoples Gas'
5 representatives, a preliminary "walk through" analysis by Savage to determine whether sufficient
6 benefits can be expected from participation in a conservation program. If so, a detailed
7 feasibility study is prepared by Savage to compare costs and benefits of electric and gas options.

8 The company's Commercial Sales Representatives are compensated on the basis of salary
9 and commission. The commission is based upon expected actual therm sales. Additionally, a
10 higher commission percentage is given for sales of programs that retain efficient gas load by
11 converting older, less efficient gas equipment to newer, more efficient gas equipment. No
12 compensation of the sales representatives is based on reduction of electric energy or demand.
13 Additionally, the sales representatives salaries and benefits are not passed through ECCR for
14 recovery.

15 The company's Market Development Representatives are not compensated through
16 commissions. They are paid a combinations of salary plus a bonus based upon Sales
17 Performance Incentive Pay that is measured by obtaining customer participation in various
18 programs. The Market Development Representatives salaries and benefits are ECCR
19 recoverable.

20 With their focus on developing new customers through innovative gas applications, the
21 compensation of Marketing Development Representatives is more closely tied to increasing
22 Peoples Gas' market share through promoting natural gas. They are paid a straight salary plus
23 a bonus based upon Sales Performance Incentive Pay that is measured by obtaining customer
24 participation in various conservation programs.

25 8.6 Analysis of Electric/Gas Competition

26 Peoples Gas has faced direct competition from electric utilities in the context of their
27 commercial/industrial conservation programs. The company has not retained the brief in-house
28 analyses performed prior to 1995, however Peoples Gas did provide two studies to staff
29 performed by Savage Engineering in 1995. These studies involved comparison of chiller options
30 for Heartland Medical Center and [REDACTED]. In the case of [REDACTED], the
31 economics of the gas and electric chiller options were very close.

32 In purchasing a chiller, [REDACTED] considered separate proposals from
33 FPL and Peoples Gas during 1994 and 1995. Both the FPL proposal and the Peoples Gas
34 proposal included participation in commercial/industrial conservation programs, which would
35 reduce the cost of the equipment to the hospital through rebates.

1 In November 1994, FPL prepared a study comparing the installation of an electric motor
2 chiller and a gas engine driven chiller. FPL's analysis found that the savings resulting from
3 installing the [REDACTED] ton high-efficiency electric chiller plus participation in the CILC program
4 would provide a [REDACTED] year payback of the hospital's investment. By comparison, the FPL study
5 showed a [REDACTED] year payback for a [REDACTED] ton gas-fired chiller. FPL noted other negative
6 factors such as the potential need to increase plant maintenance staffing, environmental impacts
7 such as engine noise, the limited number of gas engine chiller applications of this size,
8 uncertainty about future gas prices, and the potential supply cutoffs inherent in the interruptible
9 gas rates proposed. The FPL study noted that the gas chiller would not meet the customer's
10 needs as defined by the hospital.

11 In February 1995, [REDACTED] began participation in FPL's CILC program. Apparently,
12 the decision between a gas engine versus electric motor chiller had not yet been made. In June
13 1995, Peoples Gas commissioned a study by Savage Engineering to compare electric and gas
14 chiller options.

15 The Savage study compared a base case 2300 ton York electric motor chiller to a 2300
16 ton York gas engine chiller, taking into account the net heat recovery savings. The study
17 showed a 4.6 year payback for the gas chiller in comparison to the electric chiller. To equalize
18 maintenance cost differences, the gas option included the cost of full maintenance service
19 coverage. In both cases, the costs of preventive maintenance on the chillers were included. To
20 prevent the additional noise of the gas engine chiller, the cost of an engine enclosure was
21 included.

22 The Savage study's payback period of 4.6 years for the gas chiller was [REDACTED]
23 to FPL's [REDACTED] year gas chiller payback estimate. In addition, the Savage study responded to
24 FPL's concerns about issues such as additional O&M staffing and noise reduction. After taking
25 the two studies into consideration, [REDACTED] selected the electric chiller.

26 The case study indicates that at times, Peoples Gas' conservation programs do compete
27 head-to-head with an electric DSM program for a major customer. In such an instance, it is
28 clear that the competitive advantage provided through DSM or conservation program savings can
29 make the difference in a customer's decision.

30 8.6.1 Conclusion

31 In the [REDACTED] case, the difference in the payback periods for the electric and gas may
32 have been the primary reason Peoples Gas did not win the customer. But factors beyond the
33 equipment costs, such as customers' general lack of familiarity with natural gas, may be standing
34 in the way of gas utilities. FPL itself cited the limited track record of large gas chillers as a
35 negative in their study. Engine driven chillers have been so recently developed that normally
36 conservative business managers may tend to select the "known" over the "unknown" unless a
37 substantial cost or operational advantage for gas can be proven.

EXHIBIT C

AFFIDAVIT OF DENNIS BRANDT

STATE OF FLORIDA)
)
COUNTY OF DADE)

BEFORE ME, the undersigned authority, this day personally appeared Dennis Brandt, who, being first duly sworn, deposes and says:

My name is Dennis Brandt. I am employed by Florida Power & Light Company in the position of Manager Commercial/Industrial Marketing. I am a resident of the State of Florida, am over eighteen (18) years and make this affidavit based upon my personal knowledge.

Florida Power & Light Company has a corporate policy not to disclose customer specific information. This policy includes information relating to requests by customers for the performance or review of energy efficiency analyses. FPL treats such analyses, their inputs and results as confidential and does not disclose them, except as required by law, to entities or persons other than the customer without the permission of the customer. FPL's policy is premised upon customers' right to privacy and the potential that the disclosure of customer specific information may harm some customers' competitive interests.

I have reviewed Exhibits A and B to Florida Power & Light Company's Request for Confidential Classification of Portions of Staff's Audit Report Regarding Commercial/Industrial Demand Side Management Programs. The information identified therein as confidential falls within FPL's corporate policy of not disclosing customer specific information. In addition, the information which FPL has identified as being confidential on

pages 61, 62, and 63 of the audit report entitled "Commercial/Industrial Demand-Side Management Programs of Six Florida Utilities," is information which a specific customer of FPL has advised FPL is confidential and proprietary to the customer and the disclosure of which would harm its competitive interests.

Dennis Brandt
Dennis Brandt

Before me the undersigned authority personally appeared, on this the 29th day of August, 1996, Dennis Brandt, who is personally known to me.

Maura Hernandez
Notary Public, State of Florida

MAURA HERNANDEZ
Printed name of notary

CC 528988
Commission number

My Commission expires:

5/25/2000



Maura Hernandez
MY COMMISSION # CC528988 EXPIRES
May 25, 2000
BONDED THRU TROY FAIR INSURANCE, INC.

TAL/16588-1

EXHIBIT D

Line by Line Justification

PAGE 61:

- Lines 2,3:** Customer names and customer specific information regarding energy efficiency analyses are confidential under FPL corporate policy and are not disclosed without the permission of the customer. The specific FPL customer mentioned has asked that FPL treat this information as confidential.
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- Line 7:** Customer names and customer specific information regarding energy efficiency analyses are confidential under FPL corporate policy and are not disclosed without the permission of the customer. The specific FPL customer mentioned has asked that FPL treat this information as confidential.
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PAGE 62

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PAGE 63

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PAGE 72

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PAGE 73

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 7 motivation, [REDACTED] was also interested in the operational benefit of increased
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 30 began participation in the CILC program on November 21, 1995; however, the
 31 [REDACTED] were never built.

32 The [REDACTED] study used the same assumptions as the [REDACTED] study for natural gas cost,
 33 equipment availability factor, and O&M cost per kwh, and a slightly higher gas price escalation
 34 factor of [REDACTED]. In summary, [REDACTED] concluded ". . . the [REDACTED] study contains several aggressive
 35 engineering, energy analysis and financial assumptions." For example, [REDACTED] noted that the [REDACTED]
 36 study incorrectly used a heat rate of 14,107 Btu/kWh instead of 15,644 Btu/kWh, and failed to
 37 take into account the additional fuel consumption by [REDACTED]. These two
 38 discrepancies understated annual costs of the cogeneration facility by a combined [REDACTED].

1 29 Additionally, the [redacted] study stated that in estimating "additional costs" (financing fees, attorney
2 48 costs, engineering review, etc.) the [redacted] study had gone against the common industry practice
3 of projecting 30% of financed project costs. Using this yardstick, the [redacted] study underestimated
4 total financed project costs by [redacted].

A more recent case study involving City Gas and FPL's CILC program has been the proposed addition of self-generation facilities at Cape Canaveral Air Force Station (CCAFS). CCAFS adjoins the Kennedy Space Center, and is the site of NASA's unmanned satellite and missile launches.

FPL contacted CCAFS in July 1994 regarding participation in the CILC program. At the time, CCAFS was considering the installation of self-generation facilities, fueled by either natural gas or diesel to meet federally-mandated 20% energy reduction goals by the year 2000. To maximize its conservation efforts, CCAFS began to consider both the installation of the generators and participation in the CILC program.

In October 1995 CCAFS and FPL executed a CILC Agreement, however to date no CCAFS substations are yet operating on the CILC rate. The CILC tariff has been specifically worded in preparation for CCAFS or other space program facilities joining the program. The First Revised Sheets Number 8.654 and 8.655 contain wording that exempts CCAFS from load control interruptions due to "an event whose nature requires that space launch activities be placed in the critical mode . . . as designated and documented by the NASA Test Director at Kennedy Space Center and/or the USAF Range Safety Officer at Cape Canaveral Air Force Station." This exemption, which would have applied for a total of 32 days surrounding various launches in 1995, was provided because a load control interruption could significantly disrupt a launch, and according to FPL because the customer "had a national security need for power in limited instances."

As of 1996 Cape Canaveral Air Force Station is still considering the purchase of a generator offered at low cost by the Tennessee Valley Authority. After conversion to natural gas, the generator may be used by CCAFS to produce some on-site self-generation. However, self-generation would interfere with CCAFS qualifying for the CILC rate. According to FPL, if the customer self-generates, its Supplemental Service rate, instead of the lower CILC rate, would apply. According to FPL, this is because "the CILC rate applies to those who use FPL as their service provider whenever service is available."

7.3.1 Conclusion

In both of these cases, customers pursued obtaining certain services from a gas utility, but resolved their needs partly through an electric DSM program. In each case, the electric DSM program played a role in the outcome of a competitive situation, resulting in the electric utility either fully or partially retaining the load of a customer considering the option of a natural gas application. In both cases, the ratepayer-provided funds for conservation programs also

1 assisted the electric utility in its competitive positioning.

2 In the case of [REDACTED], the customer eventually received conflicting assessments of the feasibility of the cogeneration facility, and once the CILC program was brought into play, the customer may have simply opted for the certainty of CILC's reduced rates. Though CILC may have influenced the outcome, there is no certainty that if the cogeneration facility had been built that it would have been in the customer's best interest.

In the case of Cape Canaveral Air Force Station, the customer's planned use of natural gas for self-generation conflicts with FPL's CILC program. The restrictions regarding the combination of self-generation and receiving the CILC rate present a barrier to fuel-switching. Also, the revision of the operating guidelines for the CILC program to accommodate the special needs of NASA and CCAFS could be interpreted as manipulation to retain one of FPL's largest customers.

1 Prior to 1995, Peoples Gas prepared brief one or two page spreadsheets analyzing the
2 economics of conservation program participation. During 1995, Peoples Gas entered into a
3 contract with Savage Engineering, Inc., an independent engineering firm, to provide analyses
4 for potential participants in conservation programs. After being referred by Peoples Gas'
5 representatives, a preliminary "walk through" analysis by Savage to determine whether sufficient
6 benefits can be expected from participation in a conservation program. If so, a detailed
7 feasibility study is prepared by Savage to compare costs and benefits of electric and gas options.

8 The company's Commercial Sales Representatives are compensated on the basis of salary
9 and commission. The commission is based upon expected actual therm sales. Additionally, a
10 higher commission percentage is given for sales of programs that retain efficient gas load by
11 converting older, less efficient gas equipment to newer, more efficient gas equipment. No
12 compensation of the sales representatives is based on reduction of electric energy or demand.
13 Additionally, the sales representatives salaries and benefits are not passed through ECCR for
14 recovery.

15 The company's Market Development Representatives are not compensated through
16 commissions. They are paid a combinations of salary plus a bonus based upon Sales
17 Performance Incentive Pay that is measured by obtaining customer participation in various
18 programs. The Market Development Representatives salaries and benefits are ECCR
19 recoverable.

20 With their focus on developing new customers through innovative gas applications, the
21 compensation of Marketing Development Representatives is more closely tied to increasing
22 Peoples Gas' market share through promoting natural gas. They are paid a straight salary plus
23 a bonus based upon Sales Performance Incentive Pay that is measured by obtaining customer
24 participation in various conservation programs.

25 8.6 Analysis of Electric/Gas Competition

26 Peoples Gas has faced direct competition from electric utilities in the context of their
27 commercial/industrial conservation programs. The company has not retained the brief in-house
28 analyses performed prior to 1995, however Peoples Gas did provide two studies to staff
29 performed by Savage Engineering in 1995. These studies involved comparison of chiller options
30 for Heartland Medical Center and [REDACTED]. In the case of [REDACTED], the
31 economics of the gas and electric chiller options were very close.

32 In purchasing a chiller, [REDACTED] considered separate proposals from
33 FPL and Peoples Gas during 1994 and 1995. Both the FPL proposal and the Peoples Gas
34 proposal included participation in commercial/industrial conservation programs, which would
35 reduce the cost of the equipment to the hospital through rebates.

1 In November 1994, FPL prepared a study comparing the installation of an electric motor
2 chiller and a gas engine driven chiller. FPL's analysis found that the savings resulting from
3 installing the [REDACTED] ton high-efficiency electric chiller plus participation in the CILC program
4 would provide a [REDACTED] year payback of the hospital's investment. By comparison, the FPL study
5 showed a [REDACTED] year payback for a [REDACTED] ton gas-fired chiller. FPL noted other negative
6 factors such as the potential need to increase plant maintenance staffing, environmental impacts
7 such as engine noise, the limited number of gas engine chiller applications of this size,
8 uncertainty about future gas prices, and the potential supply cutoffs inherent in the interruptible
9 gas rates proposed. The FPL study noted that the gas chiller would not meet the customer's
10 needs as defined by the hospital.

11 In February 1995, [REDACTED] began participation in FPL's CILC program. Apparently,
12 the decision between a gas engine versus electric motor chiller had not yet been made. In June
13 1995, Peoples Gas commissioned a study by Savage Engineering to compare electric and gas
14 chiller options.

15 The Savage study compared a base case 2300 ton York electric motor chiller to a 2300
16 ton York gas engine chiller, taking into account the net heat recovery savings. The study
17 showed a 4.6 year payback for the gas chiller in comparison to the electric chiller. To equalize
18 maintenance cost differences, the gas option included the cost of full maintenance service
19 coverage. In both cases, the costs of preventive maintenance on the chillers were included. To
20 prevent the additional noise of the gas engine chiller, the cost of an engine enclosure was
21 included.

22 The Savage study's payback period of 4.6 years for the gas chiller was [REDACTED]
23 to FPL's [REDACTED] year gas chiller payback estimate. In addition, the Savage study responded to
24 FPL's concerns about issues such as additional O&M staffing and noise reduction. After taking
25 the two studies into consideration, [REDACTED] selected the electric chiller.

26 The case study indicates that at times, Peoples Gas' conservation programs do compete
27 head-to-head with an electric DSM program for a major customer. In such an instance, it is
28 clear that the competitive advantage provided through DSM or conservation program savings can
29 make the difference in a customer's decision.

30 8.6.1 Conclusion

31 In the [REDACTED] case, the difference in the payback periods for the electric and gas may
32 have been the primary reason Peoples Gas did not win the customer. But factors beyond the
33 equipment costs, such as customers' general lack of familiarity with natural gas, may be standing
34 in the way of gas utilities. FPL itself cited the limited track record of large gas chillers as a
35 negative in their study. Engine driven chillers have been so recently developed that normally
36 conservative business managers may tend to select the "known" over the "unknown" unless a
37 substantial cost or operational advantage for gas can be proven.