

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

December 5, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (GING, BULECZA-BANKS) *DB CRBB*
DIVISION OF LEGAL SERVICES (ERSTLIN) *RL RH*

RE: DOCKET NO. 960557-GU - PEOPLES GAS SYSTEM - REVIEW TO
DETERMINE COST EFFECTIVENESS OF CONSERVATION PROGRAMS FOR
PEOPLES GAS SYSTEM, INC.

AGENDA: 12/17/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960557GU.RCM

CASE BACKGROUND

On June 14, 1994, Chesapeake Utilities Corporation (CUC) filed a petition for approval of its natural gas space conditioning program, Docket No. 940643-EG. On August 16, 1994, Tampa Electric Company (TECO) filed a petition for leave to intervene. TECO claimed that CUC's cost and benefit assumptions were in error. TECO further claimed that if the program was approved "...both the participants in the program as well as the customers of both Chesapeake and Tampa Electric will be harmed."

TECO withdrew its intervention to Docket No. 940643-EG with the understanding that the Commission would open a Docket to reevaluate the methodology used to determine cost effectiveness for Natural Gas Demand Side Management Programs (DSM). In Order No. PSC-94-1183-POF-EG, issued on September 27, 1994, the Commission determined it would open a docket to evaluate the conservation cost effectiveness methodology used by Florida's regulated natural gas utilities. Docket No. 941104-EG was opened on October 17, 1994. The purpose of the Docket was to evaluate the existing natural gas conservation methodology and, if necessary, to develop a new methodology to replace the existing one.

DOCUMENT NUMBER-DATE

12954 DEC-5 96

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After reviewing the Commission's current policy, Staff developed a proposed methodology to evaluate cost effectiveness of conservation programs and mailed it to all parties on November 23, 1994. Staff asked for comments, suggestions, and new methodology proposals. Peoples Gas System (Peoples), City Gas company of Florida (City Gas), Chesapeake Utilities Corporation (Chesapeake), West Florida Natural Gas (WFNG), Florida Power and Light (FPL), Florida Power Corporation (FPC), TECO, and Gulf Power company (GULF) submitted comments on Staff's suggested methodology. In addition, workshops were held on February 1, 1995, and May 19, 1995, to discuss the methodology. Except for Chesapeake, these same utilities filed post-workshop comments.

On November 8, 1995, Staff recommended that the Commission establish a methodology for reviewing gas DSM programs by proposing Rule 25-17.009, Florida Administrative Code, entitled "Requirements for Reporting Cost Effectiveness Data for Demand Side Management Programs for Natural Gas utilities." The proposed rule adopting a new methodology was approved by the Commission on November 21, 1995.

However, on December 29, 1995, West Florida Natural Gas (WFNG), Florida Power & Light (FPL), and Tampa Electric Company (TECO) submitted comments on the proposed rule and TECO requested a conditional hearing. On January 29, 1996, Staff and the interested parties met to discuss the comments filed. The parties reached agreement as to the wording of the cost-effectiveness methodology, and on February 20, 1996, TECO withdrew its conditional request for a hearing. On March 20, 1996, the Commission approved Rule 25-17.009 and the amended cost effectiveness methodology in Order No. PSC-96-0464-FOF-EG.

Subsequently, Docket No. 960557-GU was opened requiring Peoples to refile its conservation programs using the new methodology approved by the Commission. Peoples is the only gas utility required to offer conservation programs because they have annual sales greater than 100 million therms per year per the Florida Energy Efficiency Conservation Act, Section 366.82 (1), Florida Statutes. Peoples has been participating in the conservation cost recovery clause since 1981. Since that time, Peoples has offered the following conservation programs: Residential Home Builder, Energy Audits, Water Heater Load Retention, Oil Heat Replacement, Small Package Cogen, Commercial Electric Appliance Replacement, Residential Electric Appliance Replacement, and Gas Space Conditioning programs.

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DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate Gas Supply Cost to be used in evaluating Peoples proposed conservation programs.

RECOMMENDATION: Gas Supply Costs should equal \$.27/therm (summer), and \$.3015/therm (winter).

STAFF ANALYSIS: Peoples submitted its revised analysis of its seven conservation programs as required by Staff. The programs were evaluated using a Participants screening Test and a Gas Rim Test (G-RIM). Among the benefits included in the Rim test are: Base Rate revenues, Purchased Gas Adjustment (PGA) revenues, and customer charge revenues. Among the Costs included in the G-Rim Tests are: Supply Main, Development Main, Service line, Meter set, utility allowances, Administration, O & M, and Gas supply costs for Winter and Summer gas supplies.

Staff had initial reservations about the Gas Supply Cost/PGA differential. Staff requested that Peoples reconcile the differences between the PGA for the perspective customer, and the gas supply costs associated with it. The difference amounts to \$.08/therm in the summer and \$.0485/therm in the Winter. Staff presumed that gas supply costs should equal the PGA based on the revenue neutrality of the PGA clause. Staff performed an analysis under which the PGA revenues were equal to Gas Supply Costs and the following programs failed under that analysis: The Residential Home Builder Program (all appliances), The Residential Electric to Gas Program (water heater, furnace, range), Space Conditioning Program - Residential (all regions new and existing homes).

Peoples explained that the PGA includes additional charges such as Unused Demand Charges, related "swing supplies", penalty charges incurred from FGT, costs for no-notice transportation service purchased from the pipeline, administrative and related costs associated with balancing and managing the Company's gas transportation supply on a daily basis. Peoples explained that the cost components enumerated above generally do not vary with the consumption attributable to any of Peoples' energy conservation programs, considered either individually or in total. Therefore, it is correct to exclude these costs from the gas supply costs associated with the Company's energy conservation programs.

Peoples provided additional documentation enumerating the gas supply cost/PGA differential and these amounts appear reasonable. This incremental purchased gas analysis is consistent with the incremental fuel analysis used by electric utilities in determining

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the cost effectiveness of electric demand side management programs. As Peoples gas supply costs approximate the PGA charges shown, the Gas Supply Costs of \$.27/Therm during the summer and the \$.3015/Therm should be accepted.

In light of the incremental cost theory purported by Peoples and the additional data supplied, staff concluded that incremental cost theory is consistent with Commission policy and appropriate for this analysis.

ISSUE 2: Should the Commission approve all of Peoples' Conservation programs as filed for Energy Conservation Cost Recovery?

RECOMMENDATION: Yes. The Commission should approve all of Peoples' Conservation Programs as filed.

STAFF ANALYSIS: Staff believes that Peoples' analysis is thorough and complete and that all of Peoples' Conservation programs should be approved as filed.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed. If a protest is filed within 21 days from the issuance date of the order, the programs should remain in effect, pending resolution of the protest.

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed. If a protest is filed within 21 days from the issuance date of the order, the programs should remain in effect, pending resolution of the protest.