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Florida Power
CORPORATION

JAMES A. MCGEE
SENIOR COUNSEL

May 22, 1997

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

Re: Dkt. #970046-EI

Dear Ms. Bayó:

Attached please find an original and fifteen copies of Florida Power Corporation's Post-Workshop Comments and Responses to Staff's Questions in reference to the above matter.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Thank you for your assistance in this matter.

Very truly yours,

for James A. McGee

JAM/kp
Enclosures

cc: Parties of Record

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CERTIFICATE OF SERVICE
Docket No. 970046-EI

I HEREBY CERTIFY that a true and correct copy of Florida Power Corporation's Post-Workship Comments and Responses to Staff's Questions has been sent by regular U.S. mail to the following individuals this 22nd day of May, 1997:

Matthew M. Childs, Esq.
Steel, Hector & Davis
215 South Monroe, Ste. 601
Tallahassee, FL 32301-1804

Michelle Herschel, Esquire
Florida Electric Coop. Assn.
P.O. Box 590
Tallahassee, FL 32301

Jeffrey A. Stone, Esquire
Beggs & Lane
P. O. Box 12950
Pensacola, FL 32576-2950

Vicki Gordon Kaufman, Esquire
McWhirter, Reeves, McGlothlin,
Davidson & Bakas
117 S. Gadsden Street
Tallahassee, FL 32301

James Beasley, Esquire
Ausley McMullen
P.O. Box 391
Tallahassee, FL 32302

Jack Shreve, Esquire
Office of the Public Counsel
111 West Madison Street, Room 182
Tallahassee, FL 32399-1400

Kenneth Hoffman, Esquire
Rutledge Law Firm
P.O. Box 551
Tallahassee, FL 32302

Debra Swim/Gail Kamaras
Legal Environmental Assistance Foundation
1115 N. Gadsden Street
Tallahassee, FL 32303

Mollie Lampi
Pace University Energy Project
122 S. Swan Street
Albany, NY 12110

Attorney

Florida Power Corporation

Post-Workshop Comments and Responses to Staff's Questions

Docket No. 970046-EI

At the workshop, Staff expressed the following two concerns:

- Some DSM programs may have a Rate Impact Measure (RIM) cost-effectiveness ratio close to (or possibly less than) 1.0
- The unavoidable competitive impacts of demand-side management (DSM) programs

Staff also felt that a possible solution to their concerns could be achieved through the application of a different cost allocation mechanism for those DSM programs which are marginally cost-effective. Specifically, Staff proposed that the costs of any DSM program with a RIM cost-effectiveness ratio of less than 1.2 should be allocated only to those rate classes that are eligible to participate in the program.

Florida Power Corporation (FPC) offers the following comments/responses regarding the issues and questions raised by the Commission Staff at the May 7, 1997 Workshop.

Cost-Effectiveness Comments/Responses

1. Staff's proposed allocation methodology is not an appropriate solution to their cost-effectiveness concerns for the following reasons.

   a) Staff's proposal does not directly affect program cost-effectiveness and, therefore, is not a solution for maintaining cost-effective DSM programs.

   b) The application of a threshold RIM ratio of 1.2 is arbitrary and inappropriate. A large-scale DSM program with a RIM ratio of less than 1.1 may yield significantly greater net benefits to the general body of ratepayers than a smaller-scale DSM program with a RIM ratio greater than 1.2. As long a DSM program has a RIM ratio greater than 1.0, then the program benefits all ratepayers.

   c) The costs of DSM should be paid by those customers that receive the benefits of DSM. Since the benefits of RIM cost-effective DSM accrue to all customers, whether or not they are eligible to participate, DSM costs should also be borne by all customers, whether or not they are eligible to participate.

   d) Certain DSM program eligibility requirements may restrict some customers from participating in a DSM program, even though the program is offered within their rate class. In this case, Staff's proposal would make these ineligible non-participating customers pay the costs of a marginally cost-effective DSM program simply because they were in an eligible rate class. On the other hand, ineligible customers in other rate classes where the program is not offered would not be responsible for any of those DSM costs. This is particularly discriminatory since, as noted above, the benefits of the DSM program accrue to both sets of customers.

e) The current method used to allocate DSM program costs is appropriate. The same cost-of-service approach that is used to allocate supply-side generation and transmission costs should be used to allocate DSM program costs since the primary benefit of DSM is the deferral of those supply-side costs, i.e. DSM represents an invisible power plant. DSM program costs are currently allocated in this manner.

2. Staff question number 1: Are the general body of ratepayers at greater risk in terms of realizing benefits from DSM programs as the RIM cost-effectiveness ratio approaches 1.0?

FPC Response:

Not necessarily. There are many inputs and assumptions which drive the cost-effectiveness analysis and results. The risk of realizing net benefits from a DSM programs depends upon the level of uncertainty associated with each input/assumption as well as how much each input/assumption affects the final result. For example, a DSM program with a RIM ratio of 1.1, but with very accurate input estimates, may be a better risk of providing net benefits than another DSM program with a higher RIM ratio but whose input estimates are very inaccurate.

Also, as noted in 1.b) above, a DSM program with a high RIM ratio of 1.5 may yield less net benefits than another DSM program with a low RIM ratio of 1.05.

3. Staff question number 3 (the cost-effectiveness part): Assuming the marginal RIM cost-effectiveness of DSM programs is a problem, what solutions should the Commission consider?

FPC Response:

Staff's concern over DSM program cost-effectiveness can and should be handled within the current regulatory framework. The utilities should be responsible for managing their DSM programs such that they remain cost-effective under the RIM test. This may mean modifying or deleting programs that fall below the 1.0 RIM standard. Likewise, the Commission Staff should monitor DSM program cost-effectiveness on an annual basis by requesting updated cost-effectiveness evaluations from the utilities. In this way both parties are working together to ensure that each DSM program is yielding benefits to all customers.

DSM Competitiveness Comments/Responses

1. In regards to the competitive impacts of DSM, the September 1996 report issued by the Commission's Bureau of Regulatory Review entitled "Review of Commercial/Industrial Demand-Side Management Programs of Six Florida Utilities," offered no specific evidence that any of FPC's DSM programs were being used for competitive purposes. In fact, the report produced the following findings:

   - "Staff found no instances of FPC using anti-competitive or unduly discriminatory methods to promote commercial/industrial DSM programs and electric applications over alternative fuels."
   - "Although Staff did not observe any use by FPC of its commercial/industrial DSM programs specifically to ward off competition, it should be noted that FPC's DSM operations unavoidably intertwine conservation and competition."

   This latter comment is reiterated more generally in the "Executive Summary" and "Conclusions" sections of the report as:

   - "Staff's review of commercial/industrial demand-side management and conservation efforts of the six Florida utilities makes it clear that the operation of DSM programs is inseparably intertwined with competition between electric and gas distribution utilities."

2. These findings do not provide sufficient evidence to suggest that there is a competitive problem with FPC's DSM programs that warrants any Commission action. Also, the fact that DSM is "inseparably" or "unavoidably" intertwined with competition implies that nothing can be done to eliminate those competitive impacts.

3. With respect to the unavoidable competitive impacts of DSM, it is FPC's position that DSM does not represent unfair competition between the gas and electric industry. All utilities should strive to operate in an efficient manner, utilizing the most cost-effective combination of supply-side and demand-side resources to meet customer demands. If all parties are operating under equivalent regulatory guidelines, market competition that occurs between gas and electric utilities is the optimal situation for the consumer. The imposition of rules with the sole purpose of regulating competition between the two industries would be discriminatory toward either the gas or electric industry and would result in a sub-optimal situation for the consumer.

4. Staff question number 2: Recognizing the unavoidable competitive impact of DSM programs, should ratepayers continue to pay for DSM programs through the ECCR clause absent an analysis showing the benefit of such competition?

FPC Response:

Yes. Since RIM cost-effective DSM programs provide benefits to all ratepayers, the costs for those programs should be paid by all ratepayers through ECCR. Any additional analysis showing how potential DSM program participants could benefit from other alternatives does not alter the RIM cost-effectiveness of the DSM program, or the fact that all ratepayers will benefit when customers choose to participate in the DSM program.

Also, if an additional analysis convinced a potential DSM program participant to implement some other alternative fuel option rather than the DSM program, then the general body of electric ratepayers may actually suffer a loss if the alternative fuel option does not pass the electric RIM test. This raises a host of issues regarding cross-subsidization between ratepayers of the competing industries that would need to be addressed.

Thus, FPC does see the need for any additional DSM analysis beyond the RIM test.

5. Staff question number 3 (the competitive part): Assuming that the unavoidable competitive impact of DSM programs is a problem, what solutions should the Commission consider?

FPC Response:

To date Staff has framed the competitive effects of DSM as a very nebulous and undefined issue, or problem, that encompasses all DSM programs. As a result, FPC does not fully understand what the problem is. Before embarking on a search for solutions, potential competitive problems should be specifically identified to determine whether or not there is a problem and the magnitude of the problem. Only then can it be adequately addressed and solved.

Also, any Commission investigation into the competitive issues with DSM programs should not be limited to the investor owned electric utilities. Other electric and gas companies operate DSM programs under the ECCR clause that may also unavoidable intertwine conservation and competition.