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May 23, 1997

ORIGINAL
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HAND-DELIVERED

Blanca S. Bayo, Director
Division of Records and Reporting
Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870

Re: Docket No. 970046-EI

Dear Ms. Bayo:

Enclosed for filing and distribution are the original and fifteen copies of the Florida Industrial Power Users Group's Comments on Staff's Questions and an original and fifteen copies of the Florida Commercial Energy Group's Comments on Staff's Questions in the above docket.

Please acknowledge receipt of the above on the extra copies enclosed herein and return them to me. Thank you for your assistance.

Sincerely,

Vicki Gordon Kaufman

Vicki Gordon Kaufman

VGK/pw
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FIPUG
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05211 MAY 23 5
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL FILE COPY

In re: Determination of Appropriateness of Allocating Electric Utility Sponsored Demand Side Program Costs to Rate Classes Eligible to Participate in Such Programs.	Docket No. 970046-EI Filed: May 23, 1997

THE FLORIDA COMMERCIAL ENERGY GROUP'S
COMMENTS ON STAFF'S QUESTIONS

The Florida Commercial Energy Group (FCEG) pursuant to Staff's directions files its comments on the three questions raised by Staff at the May 7, 1997 workshop held in this docket.

INTRODUCTORY COMMENTS

General Observations Concerning Conservation Programs

FCEG is composed of financial institutions, grocery stores, department stores, schools, small manufacturing companies and a variety of commercial entities served on the GS,GSD,GSLD, IS-3 and CILC rate schedules of the utilities in Florida. As a group, FCEG has historically paid rates that equal or exceed the cost to serve their classes. The group members are generally located inside municipal limits. FCEG customers in the classes enumerated above provide the vast majority of all jobs in Florida and with the exception of the school board pay more state taxes on their utility bills than any other customer class. Most of their utility bills reflect about 20% stated taxes and government fees and contain substantial hidden taxes in the base rates and pass through utility cost recovery charges.

FCEG members are captive customers of the utilities which serve them, but they are engaged in vigorously competitive enterprises. They have a significant stake in fairly allocated charges.

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STAFF QUESTIONS[1]

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?

FCEG response: Yes. One of the principal problems FCEG sees is the definition of benefits. The term benefits is a synonym for savings, but the savings identified in conservation programs is a misnomer to the average customer. Customers think of savings as money saved today not the net present savings based on anticipated avoided future costs. Actually with almost every conservation program instead of receiving current savings customers pay more unless they are participating in a program that actually reduces consumption of electricity. Even the commercial lighting programs cost more. They encourage customers to throw away lights before the end of their useful life rather than suggesting that lights be controlled.

By the current staff criteria, DSM programs which drop below RIM 1.0 may no longer be cost effective under the conservation cost effectiveness rule, but as pointed out in the FIPUG comments filed contemporaneously with this filing, the rates charged may be justified on cost principles measuring embedded rather than future costs.

Other than the non-firm qualification stated above, programs falling below RIM 1.0 should no longer be funded with a conservation surcharge unless the utility is earning below its authorized return.[2] If a utility desires to continue certain DSM

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[1] FCEG's comments do not, and are not meant to, encompass those groups of customers on interruptible or industrial CILC rate. In regard to those customers, FCEG adopts the comments of FIPUG.

[2] When FPC rates were set, base rates for the other classes of customers were reduced because non firm customers were treated in the cost of service study as

programs because of their popularity, image enhancement, or marketing benefits, they should be allowed to do so, but at the utility's expense, not ratepayers.

As pointed out above, the term "benefits" is misleading to most consumers. Consumer information is an integral part of a good conservation program and this recommendation. Consumers have historically trusted their local utility to provide complete, accurate, and unbiased energy recommendations. The competition problem identified by the PSC staff may portend a changed scenario, but only the most savvy technical customers are in a position to know whether a utility conservation program or a used car truly provides benefits. As a result, consumers are making investment decisions which may not be in their best interest. Consumers should not reimburse their utility for costs which they incur to deliver misleadin information.

The increasingly competitive nature of the power business mandates tha regulators increase the information disclosed to consumers. In its efforts to retain load or increase sales, a utility may not fully explain that the application of a particular program will pass a participant test or that consumers are fully informed of all the options available. Consumers will still need protection from utilities which abuse their market power in the delivery of energy informatic . Like the Surgeon General's

though they were firm customers. The non firm rates were then set below firm rates and the rate differential collected through the conservation surcharge. If the utility is earning above the midpoint of its authorized current return base rates are providing surplus revenue that can be used to absorb discontinued conservation charges. Some additional sales are caused by DSM program consumption backlash allowing the utility to recovery the cost of the program through the surcharge and profit from new sales.. If the utility is not meeting this goal, the conservation surcharge to fund embedded cost justified non firm rates should be continued to assure fairness.

warning on cigarettes, perhaps some utility marketing DSM programs should come with the following label:

> The FPSC has determined that this utility program may be used for competitive purposes. Stated claims regarding performance (efficiency, costs, savings, environmental benefits, comfort) may not be achieved in your particular application. Other options may also be available. We recommend that you obtain competent professional advice before signing any contracts or committing to any purchases.

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? Why or why not?

FCEG response: With the qualification stated above for rates which are cost effective on embedded cost principles ratepayers should not continue to pay for DSM programs with the potential to be used for competitive advantage. Analyzes quantifying the benefit for this advantage are not recommended. The level of auditing required to separate benefits and costs for DSM and marketing functions would be difficult, costly, and the results assuredly litigated by the unhappy parties. Two examples come to mind.

In PSC Order 96-0352-FOF, PGS was allowed to recover through the ECCR clause its legal expenses incurred in a fight with TECO over the marketing abuse of both parties for conservation rebates used in residential new construction. In the last conservation goals docket, the gas utilities, the electric utilities, and the Staff could not agree on the right methodology or assumptions to use to determine the cost effectiveness for these programs. The outcome was a new methodology for evaluating gas programs and expensive field testing of the equipment by the parties.

These prolonged battles are expensive exercises and consumers have ultimately picked up the tab. More analysis is definitely not the answer.

3. Staff expressed its concern regarding the marginal RIM cost-effectiveness of DSM programs, and the competitive nature of DSM programs. Assuming these are problems, what solutions should the Commission consider?

FCEG response: As a solution to the competitive aspects of programs, Staff should allow the individual utilities to determine their appropriate level of participation in these programs. This docket is an ideal opportunity for the FPSC to help Florida utilities prepare for competition in the energy marketplace by allowing them, and not consumers, to assume the risks for their marketing based DSM programs.

The utilities acknowledge that competition has made conservation and marketing functions inseparable. Both these functions attempt to lower consumer rates (prices) by avoiding costs and increasing or retaining sales. It should be the goal of any competitive utility to do these functions on its own, i.e. to make cost effective investments in those programs, which meet corporate goals for lower prices, provide services, control costs, attract customers, etc. Utilities become "free riders" when consumers must automatically pay for costs which a prudent utility would absorb in a competitive marketplace.

There are two other reasons to support such a solution. The major benefit driving DSM programs has been avoided generation costs. These costs are low and will continue to decrease as competition in the energy markets increases. In an unregulated environment, traditional avoided power plant costs may not longer "belong" to the serving utility. It is difficult to imagine the FPSC authorizing the transfer of DSM dollars to Georgia for an avoided power plant because Florida consumers choose to purchase lower cost energy from out of state. The value for such avoided costs would be better reflected in competitive energy pricing.

The third reason involves utility subsidiary activities. Along with the regulated utility marketing functions, a number of the Florida utilities are now venturing into non-utility businesses. Examples include engineering firms, home security, interactive control systems, and telecommunications. Some of these functions had technology and expertise roots in the various DSM and load control programs. When a utility spins off one of these functions, it is difficult to determine the ratepayer investment which also left to now earn profits as an unregulated subsidiary.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of **FCEG's Comments on Staff's Questions** has been furnished by (*) hand delivery or U.S. Mail this **23rd** day of **May, 1997** to the following:

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