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December 23, 1997

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

FROM: DIVISION OF ELECTRIC & GAS (LOWERY, BULECZA-BANKS) JDS
DIVISION OF LEGAL SERVICES (ELIAS) RVE

RE: DOCKET NO. 970478-GU - CITY GAS COMPANY - REVIEW TO DETERMINE COST EFFECTIVENESS OF CONSERVATION PROGRAMS FOR CITY GAS COMPANY OF FLORIDA.

AGENDA: 01/06/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\970478GU.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-FOF-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.

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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 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.

On August 22, 1996 Peoples became the first gas utility to file under the new methodology in Docket No. 960557-GU. Peoples conservation programs were approved as filed on December 17, 1996.

Subsequently, Docket No. 970478-GU was opened requiring City Gas to refile its conservation programs using the new methodology approved by the Commission. City Gas is 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. City Gas has offered the following conservation programs: Residential Builder, Multi-Family Residential Builder, Residential Appliance Replacement, Dealer, and Gas Appliance in Schools.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve City Gas' Conservation programs as filed under the gas conservation cost-effectiveness models?

RECOMMENDATION: Yes. The Commission should approve City Gas' Conservation Programs as filed under the gas conservation cost-effectiveness models.

STAFF ANALYSIS: On August 18, 1997, City Gas submitted its analysis of all existing and new conservation programs as required by Staff. Five programs filed by City Gas are existing programs and four are new programs. The five existing programs include the Residential Builder, Multi-Family Residential Builder, Residential Appliance Replacement, Gas Appliance in Schools, and Dealer Programs. City Gas is also seeking approval of four new programs which consist of the Residential Propane Conversion, Residential Cut and Cap Alternative, Commercial/Industrial Conversion, and the Commercial/Industrial Alternative Technology Incentive Programs. All 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.

On November 10, 1997, City Gas submitted additional information, per Staff's request, regarding usage estimates, cost estimates, and methodology used to calculate general assumptions. City Gas also provided corrections for one of the programs due to a mathematical error.

Staff had initial reservations regarding the Dealer Program and certain aspects of Commercial/Industrial Conversion Program. Staff was primarily concerned with incentives for gas equipment that resulted in test calculations below the acceptable cost/benefit ratio of 1.0. Staff was also concerned the Commercial/Industrial Alternative Technology Incentive Program was too broad in nature to analyze under the current cost-effectiveness methodology.

In response to Staff's concerns, City Gas amended its filing on December 10, 1997. City Gas modified the description of the Residential Appliance Replacement Program to include language stating that incentives for natural gas ranges and clothes dryers

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In response to Staff's concerns, City Gas amended its filing on December 10, 1997. City Gas modified the description of the Residential Appliance Replacement Program to include language stating that incentives for natural gas ranges and clothes dryers are available only when there is an existing line present, or at least one other qualified appliance is installed at the same time as the range or dryer. City Gas modified the Commercial/Industrial Conversion Program to exclude conversions from oil to natural gas. City Gas also withdrew the Dealer Program. In addition, City Gas agreed to file all costing models, RIM tests, and evaluations, with respect to individual projects in the Commercial/Industrial Alternative Technology Incentive Program, each year along with its annual Energy Conservation Cost Recovery (ECCR) Filing. This will allow Staff to analyze each project to enure the appropriateness of any expenditures and determine cost-effectiveness before any cost are recovered through ECCR.

Based on City Gas' responses to Staff's data requests, and amended filing, Staff believes that City Gas' analysis is thorough and complete. Accordingly, all of City Gas' Conservation Programs, as amended, should be approved.

ISSUE 2: 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 previously approved should remain in effect, pending the resolution of the protest. Programs not previously approved should not be implemented until after resolution of the protest.

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