



Public Service Commission
REPORTING
CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 9, 1998

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

FROM: DIVISION OF ELECTRIC AND GAS (LOWERY, BULECZA-BANKS, BROWN) *ALB*
DIVISION OF LEGAL SERVICES (PAUGH) *JPRVE* *JDJ*

RE: DOCKET NO. 980427-GU - NOTICE OF FILING COST-EFFECTIVENESS EVALUATION OF ENERGY CONSERVATION PROGRAMS AND REQUEST FOR APPROVAL OF PROGRAMS BY FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION.

AGENDA: 07/21/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\LEG\WP\980427.RCM

CASE BACKGROUND

On October 17, 1994, the Commission opened Docket No. 941104-EG. The purpose of this docket was to evaluate the existing natural gas conservation cost/benefit methodology, and determine whether the methodology should continue to be used, or whether it should be replaced by a new methodology.

After analyzing the Commission's current conservation policies, along with the existing methodology, Staff concluded that a new methodology should be developed. After conducting two workshops, and undergoing numerous revisions, a proposed methodology was brought before the Commission. On November 21, 1995, the Commission proposed Rule 25-17.009, and the new methodology. Three parties filed comments on the proposed rule, and one party requested a conditional hearing. Staff met with the parties and reached agreement as to the wording in the methodology.

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Subsequently, the petition for a conditional hearing was withdrawn, and on March 20, 1996, the Commission adopted Rule 25-17.009, Florida Administrative Code and an amended version of the cost effectiveness methodology.

As stated in Rule 25-17.009 Florida Administrative Code, each gas utility that seeks to recover costs for an existing, new, or modified demand side management program shall file the cost effectiveness test results of the Participants Test and the Rate Impact Measure Test in the format set forth in Form PSC/EAG/18 (4/96), entitled the "Florida Public Service Commission Cost Effectiveness Manual for Natural Gas Utility Demand Side Management Programs." Since the rule was adopted, the Commission has opened three dockets to review the conservation programs offered by Peoples Gas System, City Gas Company of Florida, and Chesapeake Utilities Corporation (CUC.)

On March 25, 1998, CUC submitted the cost effectiveness test results for seven conservation programs. The seven programs include: Residential Home Builder, Residential Appliance Replacement, Residential Propane Distribution, Residential Water Heater Retention, Natural Gas Space Conditioning for Residential Homes, Natural Gas Space Conditioning (non-residential), and Conservation Education.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve CUC's conservation programs, as amended?

RECOMMENDATION: Yes. The Commission should approve CUC's programs, as amended.

STAFF ANALYSIS: On March 25, 1998, CUC submitted its analysis of all existing and new conservation programs as required by Staff. All programs were evaluated using a Participants Screening Test and a Gas Ratepayer Impact Test (G-RIM). CUC's filing showed that six of the seven programs passed both the Participants Test and the and the G-RIM Test. The Participants Test and the G-RIM Test were not applied to the Conservation Education Program.

Staff met with CUC, on June 4, 1998, to discuss the programs and data submitted in its filing. As a result of this meeting, CUC submitted corrected cost effectiveness data on June 11, 1998.

Of the seven programs proposed by CUC, two programs are existing programs, two are existing programs with modifications, and three are new programs.

The two existing programs include the Residential Home Builder Program and the Conservation Education Program. Eligibility standards remain the same for both programs. The Residential Home Builder Program provides incentive payments for the installation of natural gas appliances in residential homes. The only change is in the incentive amounts, which increased by \$55 for the water heater, \$55 for the furnace, \$38 for the dryer, and \$38 for the range. The Conservation Education Program involves the distribution of information through the use of brochures, on-site speeches to community groups and schools. CUC also offers no-cost walk-through energy audits on proper use of natural gas appliances and conservation advice. While it is extremely difficult to conduct a cost/benefit analysis of this program, staff believes that consumer education serves a useful purpose, and should be approved. Over the past 5 years, CUC has expended and recovered \$93 for the Conservation Education Program.

The two existing programs that are being modified are the Residential Appliance Replacement Program and the Natural Gas Space Conditioning Program(non-residential). CUC is proposing to replace two of its existing programs (Water Heater Replacement Program and Replacement of Electric Strip and Oil Heating Program) with the Residential Appliance Replacement Program. CUC's original incentive amounts for the programs being replaced were approved by the Commission in 1982 in Order No. 11451, Docket No. 820430-EG and modified in 1985 in Order No. 14021, Docket No. 820430-EG-A. No changes to these incentive amounts have been made since 1985. CUC also proposes the addition of clothes dryer outlet and range incentives of \$50 each. CUC's proposed modification to its Natural Gas Space Conditioning Program involves applicability standards. Currently, CUC's space conditioning program is available to all customer classes. The modification would limit participation to non-residential customers. CUC is proposing a new space conditioning program for residential customers.

CUC is seeking approval of three new programs including: Residential Water Heater Retention, Natural Gas Space Conditioning for Residential Homes, and Residential Propane Distribution.

The Residential Water Heater Retention Program is a new program designed to encourage the continued use of natural gas in the home and avoid abandonment activities by CUC. The program offers an incentive to customers and dealers when replacement of the natural gas water heater is a necessity. The dealer and customer are given the incentive when the heater is actually replaced by a new natural gas water heater. Keeping customers on the system benefits both existing customers and CUC since the fixed infrastructure costs can be spread over as many customers as possible.

The Natural Gas Space Conditioning for Residential Homes Program is designed to encourage the use of energy efficient natural gas air conditioning products in both newly constructed and retrofit homes. The cost of natural gas space conditioning equipment is significantly higher than its electric counterparts. While the equipment costs are higher, CUC's analyses of the life cycle costs of using natural gas in space conditioning applications reveals that the participating customer and CUC's existing ratepayers will benefit. The benefit to gas ratepayers will be realized in two ways: increasing summer load when capacity is greater than demand; and spreading the cost of existing facilities over a larger throughput.

CUC's Residential Propane Distribution Program is designed to promote the use of gas within developments that are built beyond the economic extension of the Company's existing natural gas infrastructure. Under CUC's program, an underground propane system will be installed and will be used until it is economically feasible to extend the natural gas lines to the development.

According to CUC, the system will be capable of flowing natural gas with an adjustment to the orifices, once the main line reaches the underground system. Prior to the conversion, the infrastructure costs will not be included in the rate base. Only at the time of conversion to natural gas will the transfer of assets occur, at net book value and incentive recovery and administrative costs be sought.

Upon reviewing CUC's Residential Propane Distribution Program, Staff requested additional information to support the program. Staff was primarily concerned with the cost comparison between a buried propane distribution system and a natural gas distribution system. CUC provided data relating to an actual proposed development, that will benefit from the propane distribution system. When Staff compared the Maximum Allowable Construction Costs between the two, it was found that the installation of a

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propane distribution system was more cost effective by over \$51,000. The Contribution in Aid of Construction could amount to over \$73,000, if a natural gas main extension were to be constructed. In addition, as growth occurs between the existing natural gas infrastructure and the subdivision, the natural gas system will be extended and the houses within the underground propane distribution system will be converted to natural gas. In essence, entire developments will be captured with this program, as compared to only a handful of houses converting later to natural gas.

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

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the Commission's proposed agency action timely files a protest within twenty-one days of the issuance of the order, the docket should be closed. If a protest is filed within twenty-one days from the issuance 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.

STAFF ANALYSIS: Pursuant to Rule 25-22.029(4), Florida Administrative Code, any person whose substantial interests are affected by the Commission's proposed agency action shall have twenty-one days after issuance of the order to file a protest. If no timely protest is filed, the docket should be closed.