



# Public Service Commission

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

RECORDS AND REPORTING

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**DATE:** AUGUST 6, 1998

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (EAY)

**FROM:** DIVISION OF ELECTRIC AND GAS (HARLOW) *9/27/98 JB JZ*  
DIVISION OF LEGAL SERVICES (C. KEATING) *RUE JOT*

**RE:** DOCKET NO. 980724-EG - PETITION TO MODIFY HEATING AND COOLING PROGRAM BY TAMPA ELECTRIC COMPANY

**AGENDA:** 08/18/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PEPSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\EAG\WP\980724.RCM

### CASE BACKGROUND

On November 1, 1995, the Commission issued Order No. PSC-95-1346-S-EG, in Docket No. 941173-EG, approving Tampa Electric Company's (TECO) Heating and Cooling Program as part of TECO's demand side management (DSM) plan. The Heating and Cooling Program provides incentives for residential customers to replace air conditioning systems that utilize strip heaters with higher efficiency heat pumps. The goal of the program is the reduction of peak demand and energy.

TECO reviews each program in its DSM plan annually for cost-effectiveness. The Heating and Cooling Program was found to be no longer cost-effective in TECO's latest analysis.

On June 9, 1998, TECO filed a petition to modify the Heating and Cooling Program in order to make the program cost-effective. TECO requests that the proposed program revisions be approved by the Commission, including recovery of reasonable and prudent expenditures through the Energy Conservation Cost Recovery clause.

DOCUMENT NUMBER-DATE

**08340** AUG-6 98

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**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission approve Tampa Electric Company's petition for modification of the Heating and Cooling Program, including approval for energy conservation cost recovery?

**RECOMMENDATION:** Yes. The modified Heating and Cooling Program is cost-effective and appears to be directly monitorable. Reasonable and prudent expenditures for the program, as modified, should be approved for cost recovery, and the resulting demand and energy savings should continue to count towards TECO's DSM goals.

**STAFF ANALYSIS:** TECO's residential Heating and Cooling Program provides dealer incentives and customer rebates for replacing an existing air conditioning system which uses strip heating with a heat pump. The current program has two levels of heat pump efficiencies that qualify for a customer rebate. Level 1 has a threshold for qualification of 11.0 Seasonal Energy Efficiency Rating (SEER). Level 2 has a threshold for qualification of 13.0 SEER. Customers receive a rebate of \$350 under Level 1 of the program. A higher incentive of \$750 is paid under Level 2 of the program to encourage customers to install higher efficiency heat pumps. Dealers receive an incentive of \$75 per unit installed.

According to TECO's most recent analysis, the program in its current form is not cost-effective, due primarily to a reduction in avoided cost. Given current incentive levels, both Level 1 and Level 2 of the program fail the Rate Impact Measure Test (RIM), with values of .99 and .86, respectively.

In order to make the program cost-effective, TECO has proposed a one level minimum threshold for qualification of a heat pump with a SEER value of 12.0. Customers would receive a rebate of \$250 for purchasing a qualifying heat pump. TECO estimates that the rebate will cover approximately one-third of the incremental cost for customers to purchase a 12.0 SEER heat pump rather than a system with strip heat. No change is proposed for the dealer incentive for the program.

TECO has determined the cost-effectiveness ratios of the revised Heating and Cooling Program as follows:

Rate Impact Measure Test: 1.30  
Participant Cost Test: 2.54  
Total Resource Cost Test: 1.16

With a RIM value of 1.30, the modified program is significantly cost-effective. This value implies that there is room for error in the avoided cost and peak demand savings assumptions used to determine cost-effectiveness. This increases the assurance that the program will provide benefits to the general body of ratepayers.

The program also appears to be directly monitorable. As part of its DSM Plan, TECO modeled the expected demand and energy savings of the Heating and Cooling Program. TECO has confirmed the results of the model through field sampling of 100 residential households with strip heat and 100 households with heat pumps.

Staff recommends approval of the Heating and Cooling Program because the proposed modifications are necessary to make the program cost-effective. Reasonable and prudent expenditures for the program, as modified, should be approved for cost recovery, and the resulting demand and energy savings should continue to count towards TECO's DSM goals.

**ISSUE 2:** Should TECO be required to submit detailed program participation standards for the Heating and Cooling Program?

**RECOMMENDATION:** Yes. If the Commission grants TECO's petition to modify the program, TECO should file program participation standards within 30 days of the issuance of the order in this docket. These standards should be administratively approved.

**STAFF ANALYSIS:** TECO's program standards should clearly state the Company's requirements for participation in the program, customer eligibility requirements, details on how rebates or incentives will be processed, technical specifications on equipment eligibility, and necessary reporting requirements. Staff requests that it be allowed to administratively approve these program participation standards if they conform to the description of the program contained in the utility's DSM plan.

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**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** This docket should be closed if no person whose substantial interests are affected by the proposed action files a protest within the 21-day protest period.

**STAFF ANALYSIS:** At the conclusion of the protest period, if no protest is filed, this docket should be closed.