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IN REPLY REFER TO:

August 4, 1999

Ansley Watson, Jr.
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e-mail: aw@macfar.com

VIA FEDERAL EXPRESS

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 981591-EG -- Petition for authority to implement Good Cents Conversion Program by Gulf Power Company

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Peoples Gas System, please find the original and 15 copies of its Petition for Leave to Intervene. A computer diskette containing the petition is also enclosed.

Enclosed also for filing, please find the original and 15 copies of the Direct Testimony and Exhibit of Joseph W. McCormick.

Please acknowledge your receipt of the enclosures and the date of their filing on the duplicate copy of this letter enclosed for that purpose, and return the same to me in the preaddressed envelope also enclosed herewith.

Thank you for your usual assistance.

Sincerely,

RECEIVED & FILED

Handwritten signature of Ansley Watson, Jr.
EPSC-BUREAU OF RECORDS
ANSLEY WATSON, JR.

- AFA
APP
CAF
CMU
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EAG
LEG
MAS
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AWjr/a
Enclosures

Petition
DOCUMENT NUMBER-DATE

09351 AUG-5 99

REC'D-RECORDS/REPORTING

Testimony
DOCUMENT NUMBER-DATE

09352 AUG-5 99

REC'D-RECORDS/REPORTING

Blanca S. Bayo, Director

August 4, 1999

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cc: Jeffrey A. Stone, Esquire
Russell A. Badders, Esquire
Tiffany R. Collins, Esquire

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for authority to implement)
Good Cents Conversion Program)
by Gulf Power Company.)
_____)

Docket No. 981591-EG

Submitted for Filing:
8-5-99

**PETITION OF PEOPLES GAS SYSTEM
FOR LEAVE TO INTERVENE**

Peoples Gas System ("Peoples" or the "Company"), by its undersigned attorneys, files its petition for leave to intervene as a party in the captioned matter, and in support thereof says:

1. The name of the petitioner and the mailing address of its principal office are:

Peoples Gas System
702 North Franklin Street, 7th Floor
Tampa, Florida 33602

2. The names and mailing addresses of the persons authorized to receive notices and communications with respect to this petition are:

Ansley Watson, Jr., Esquire
Macfarlane Ferguson & McMullen
P. O. Box 1531
Tampa, Florida 33601-1531

and

Angela Llewellyn
Peoples Gas System
P. O. Box 2562
Tampa, Florida 33601-2562

3. Peoples is a natural gas utility subject to regulation by the Florida Public Service Commission (the "Commission") pursuant to Chapter 366, *Florida Statutes*, and distributes natural gas throughout most of the State of Florida, including portions of the state where Gulf Power Company ("Gulf") conducts its electric operations.

DOCUMENT NUMBER-DATE

09351 AUG-5 99

FPSC-RECORDS/REPORTING

4. Gulf has requested approval of, and cost recovery through the Energy Conservation Cost Recovery (ECCR) clause for, its proposed Good Cents Conversion Program pursuant to which it would offer incentives to customers to remove existing natural gas, fuel oil, or propane heating systems and electric air conditioning units, and replace such equipment with electric heat pumps. In order to participate in the proposed program, a customer need only have a non-electric heating system and agree to an energy audit to be conducted by Gulf Power. Gulf's assertion that the program qualifies for cost recovery through the ECCR clause based upon cost-effectiveness is premised on assuming that natural gas furnaces with 68% efficiency and air conditioners with a seasonal energy efficiency rating (SEER) of 7.0 will be replaced with a single heat pump with a SEER of 11.0. Gulf assumes that for each participant these equipment changes result in an increase in the peak electric demand at the meter by 4.4 kW during the winter, a reduction of the summer electric peak demand by 1.9 kW, an overall reduction in annual electric energy consumption of 1,030 kWh, and a reduction in natural gas consumption of 302 therms.

5. Gulf's proposed program will, if approved by the Commission, create significant adverse effects with regard to Peoples' costs to provide reliable and adequate gas service to its customers. To the extent that Gulf's Good Cents Conversion Program is approved for cost recovery, Gulf will be able to use the proposed customer rebates to induce Peoples' natural gas customers to replace their gas furnaces with electric heat pumps. Peoples will be forced to spread its revenue requirements over a smaller customer base thereby resulting in higher rates. If the elimination of the gas furnace ultimately results in loss of all gas service to a customer, Peoples will experience additional lost revenue and a cost to deactivate and make safe that customer's service line. In any future rate proceeding, these diminished revenues and increased costs would increase the calculated

revenue deficiency resulting in a greater rate increase (or lesser decrease) than would be necessary absent the program. At the same time, this enhancement of Gulf's electric load will create incremental peak load which will undercut the goals of the Florida Energy Efficiency and Conservation Act ("FEECA"), Sections 366.80 - 366.85, *Florida Statutes*.

6. The Commission correctly denied Gulf's original petition seeking approval of this program for cost recovery through the ECCR clause. In Proposed Agency Action Order No. PSC-99-0684-FOF-EU issued April 7, 1999 in this docket (the "PAA Order"), the Commission stated:

Because this program is expected to increase winter peak demand and is likely to increase annual kilowatt hour consumption, it does not appear to be consistent with the Florida Energy Efficiency and Conservation Act. Therefore, Gulf's petition to implement its Good Cents Conversion Program, with cost recovery through the Energy Conservation Cost Recovery Clause is denied.

The Commission's denial of Gulf's program for cost recovery through the ECCR clause was appropriate on the basis of the clear and compelling analysis relied upon by the Commission.

7. In the PAA Order, the Commission noted that the realistic benefits of the program would be less than those claimed by Gulf due to the fact that participants in the program would install new electrical air conditioning equipment with a SEER of 11.0 while Florida's existing building code requires any such equipment to have a minimum SEER of 10.0. Thus, the reduction to weather sensitive peak electric demand attributable to Gulf's program is only that resulting from the installation of equipment with efficiency exceeding that which the customer must install per the building code. In the PAA Order, the Commission noted that the "realistic" benefit of Gulf's program is a reduction in summer electric demand peak of only 0.3 kW per participant (SEER 10.0 to SEER 11.0) as opposed to the 1.9 kW estimated by Gulf. The Commission also appropriately

noted that adjusting for the effective change in SEER results in an actual increase in electric energy consumption of 6,950 mWh.

8. The Commission's analysis in the PAA Order, concluding that approval of Gulf's program for cost recovery through the ECCR should be denied, is compelling. Further, there are additional facts which were not included in the PAA Order which underscore the correctness of the Commission's conclusion to deny Gulf's program. Gulf overstates the "benefits" of its program by utilizing an excessively long life span for the new heat pump. Gulf's cost-effectiveness analysis is based upon a 30-year program life. However, according to the American Society of Heating, Refrigeration and Air-Conditioning Engineers, Inc. (ASHRAE), the average life span of heat pump is only 15 years. In order to be consistent with cost-effectiveness analysis utilized by other electric IOUs in Florida, Gulf should use a 15-year program life to match the realistic, projected life of the new equipment. Use of a 30-year life for the equipment distorts the analysis by artificially extending the "benefit" stream for twice as long.

9. The assumptions for true summer peak electric demand reduction and program life are of critical importance in the Commission's determination of whether a program qualifies for cost recovery. Gulf's proposed program, once adjusted to reflect the realistic assumptions referenced above, can no longer be considered cost-effective under the Commission's rules for the ECCR clause. In its original petition, Gulf showed results for the Rate Impact Measure (RIM) Test, the Participant's Test and the Total Resource Cost (TRC) Test for the program under various scenarios. As shown by Gulf, when using the correct assumptions of SEER 10.0 to SEER 11.0 and a 15-year program life, the proposed program fails both the Participant Test and the TRC Test with results equal to 0.80 and 0.75, respectively. These results are well below the required result of 1.0 or

greater. This scenario should be the base line analysis for Gulf's proposed program with variations from this base line providing the sensitivity and rigorous analysis that Gulf recognizes, in its original petition, is appropriate. The loss of cost-effectiveness due to the correction in the basic assumptions of Gulf's program further supports the Commission's original decision to deny approval of the program.

10. The cost-effectiveness results are likely to be even worse than shown in Gulf's analysis due to erosion of the projected summer peak electric demand reduction. The purported summer electric peak demand reduction will be diminished, or even eliminated, by the conversion of other natural gas appliances to electric appliances. Removal of a natural gas furnace increases the effective cost of natural gas to a consumer on a per therm basis due to the fixed monthly customer charge, and, therefore, significantly increases the likelihood of additional natural gas appliances being removed from the homes of existing Peoples customers. More importantly, Gulf currently has a program which either gives a customer a free electric resistance water heater (including a timer), or provides the customer with a \$140 rebate, if the customer replaces an existing gas water heater. This program will cause numerous customers to remove natural gas water heaters coincident with the removal of the gas furnace. If the customer removes all gas appliances under Gulf's two programs, the elimination of the monthly gas customer charge over the course of one year (\$84) exceeds the customer's cost of installing a new electric resistance water heater, even if the customer chooses to accept the \$140 rebate instead of the free water heater. Conversion of the natural gas water heater (and ultimately all gas appliances if others remain), will offset the slim 0.3 kW reduction in summer electric peak demand. While adding to Gulf's projected 4.4 kW increase to winter electric peak demand, converting gas water heating load to electricity will further increase

electric energy consumption annually. The foregoing effects provide additional support for the Commission's original denial.

11. The Commission should deny Gulf's request for approval of the new conservation program because it is contrary to FEECA. FEECA, in part, states:

The legislature finds and declares that it is critical to utilize the most efficient and cost-effective energy conservation systems in order to protect the health, prosperity, and general welfare of the state and its citizens. Reduction in, and control of, the growth rates of electric consumption and of weather-sensitive peak demand are of particular importance. (emphasis added)

In implementing the legislative findings and intent of FEECA, the Commission has outlined the key elements of conservation programs under the General Information introduction to Conservation Goals and Related Matters, Section 25-17, Florida Administrative Code. Section 25-17.001(3) states:

(3) Reducing the growth rate of weather sensitive peak demand on the electric system to the extent cost effective is a priority. Reducing the growth rate of weather sensitive peak demand benefits not only the individual customer who reduces his demand, but also all other customers on the system, both of whom realize the immediate benefits of reducing the fuel cost of the most expensive form of generation and the longer term benefits of deferring the need for or construction of additional generation capacity.

Gulf's proposed program would be inconsistent with the priorities for reducing weather-sensitive electric peak demand as set forth in FEECA and the Florida Administrative Code. By its own admission, Gulf estimates that the winter electric peak demand will increase by 4.4 kW per participant. While Peoples agrees that planning criteria may be dictated by one seasonal peak, unnecessary creation of an increase in a winter peak electric demand of this magnitude is contrary to the letter and spirit of FEECA and the Commission's own rules. The winter peak electric demand increase is more than 10 times the realistic summer electric peak reduction of 0.3 kW and

is at least twice Gulf's claimed summer peak electric demand reduction of 1.9 kW. In fact, with the ultimate conversion of other gas appliances to electric, not only will the winter electric peak demand increase, but for some customers the summer electric peak demand will increase.

12. Peoples concurs with the Commission's findings contained in the PAA Order denying approval of Gulf's Good Cents Conversion Program which are disputed by Gulf in its Petition for Formal Proceeding on Proposed Agency Action filed herein on April 28, 1999. In support and furtherance of the Commission's findings, Peoples raises the following additional disputed issues:

a. Whether Gulf's cost-effectiveness analysis must be adjusted to recognize the Florida building code requirement of a 10.0 SEER for new equipment, rather than the assumed 7.0 SEER used by Gulf in its analysis.

b. Whether Gulf's cost-effectiveness analysis must be adjusted to recognize the actual 15-year life of a heat pump, rather than the 30-year life used in Gulf's cost-effectiveness analysis.

c. Whether Gulf's inclusion of the monthly customer charge in the average gas price overstates the cost of gas used in Gulf's cost-effectiveness analysis.

13. Peoples alleges the following ultimate facts:

a. That Gulf's proposed program does not satisfy the cost-effectiveness requirements outlined in 25-17.008, Florida Administrative Code, when properly analyzed utilizing realistic assumptions .

b. That Gulf's proposed program violates the provisions for a conservation program under FEECA and Section 25-17, Florida Administrative Code, by increasing weather sensitive electric peak demand and electric energy consumption.

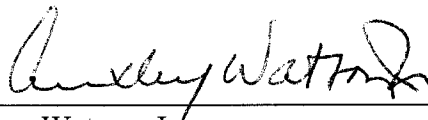
c. That Gulf's proposed program would result in a detrimental impact to consumers of gas within the state of Florida and to Peoples, and would ultimately be detrimental to electric consumers within the state of Florida as well.

d. That cost recovery through the Energy Conservation Cost Recovery Clause should not be allowed for Gulf's proposed program.

14. Peoples is entitled to relief pursuant to Section 366.82, *Florida Statutes*, and Rule 25-17.015, *Florida Administrative Code*.

WHEREFORE, Peoples Gas System respectfully requests that the Commission will grant it leave to intervene and participate as a party in proceedings in this docket on Gulf's Petition for Formal Proceeding on Proposed Agency Action filed herein on April 28, 1999.

Respectfully submitted this 4th day of August, 1999.

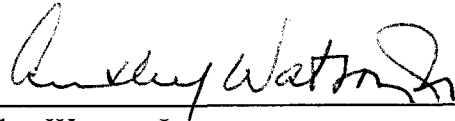


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Attorneys for Peoples Gas System

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Petition for Leave to Intervene has been furnished this 4th day of August, 1999, by regular U.S. Mail, to Jeffrey A. Stone, Esquire, and Russell A. Badders, Esquire, Beggs & Lane, P. O. Box 12950, Pensacola, Florida; and Tiffany R.

Collins, Staff Counsel, Florida Public Service Commission, Capitol Circle Office Center, 2450 Shumard Oak Boulevard, Tallahassee, Florida 32399-0863.

A handwritten signature in cursive script that reads "Ansley Watson, Jr." is positioned above a horizontal line.

Ansley Watson, Jr.