State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 1, 2007

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Sickel, Draper)
Office of the General counsel (Fleming)

RE: Docket No. 070056-EG – Petition for approval of extension and permanent status of price responsive load management pilot program, by Tampa Electric Company.

AGENDA: 02/13/07 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070056.RCM.DOC

Case Background

On January 17, 2007, Tampa Electric Company (TECO) filed a petition requesting an extension of the demand side management program measure known as the Residential Price Responsive Load Management Pilot program. The pilot program, which became effective February 1, 2005, was first approved by Order No. PSC-05-0181-PAA-EG, issued February 16, 2005, in Docket No. 040033-EG, In re: Petition for Approval of numeric conservation goals by Tampa Electric Company. In that docket, TECO described the new program and provided estimates of the participation and costs, along with the proposed tariff. The description and estimates were based on a projected program period of 24 months from the effective date of the tariff.

In this petition, TECO asserts that the pilot program is worthy of continuation as a permanent component of the company's demand side management (DSM) plan. In order to provide a seamless transition from the pilot to the permanent program, TECO requests authorization to extend the program on a temporary basis pending the company's request to make the program permanent.

The Commission has jurisdiction over this matter pursuant to sections 366.06, and 366.80 through 366.82, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission grant the request by Tampa Electric Company (TECO) to extend its Residential Price Responsive Load Management Pilot Program until the Commission has an opportunity to consider the conversion of this Program to permanent status?

Recommendation: Yes. The pilot program should be extended until the Commission has an opportunity to consider TECO's petition for conversion, but should cease no later than August 31, 2007. TECO is expected to file the petition requesting conversion before May 1, 2007. (Sickel, Draper)

Staff Analysis: The conservation pilot program at issue here was approved by Order No. PSC-05-0181-PAA-EG as part of TECO's conservation planning for the period 2005-2014. The pilot program was authorized based on projections and analysis indicating that it would meet the three criteria required:

- The program would be directly monitorable and yield measurable results;
- The program would be cost effective;
- The program would advance the policy objectives of Rule 25-17.001, Florida Administrative Code, and Sections 366.80 through 366.85, Florida Statutes, also known as the "Florida Energy Efficiency and Conservation Act" (FEECA).

The pilot program was originally described as a new approach, utilizing a new generation of communication and control technologies to put participating residential customers in charge of decisions that could lower energy costs. Pricing information, based on a multi-tiered rate structure, is provided to participating customers on a daily basis. Customer decisions to turn off equipment, change a temperature setting, or procure more efficient equipment would reduce usage during periods of high cost. The resulting load reduction would assist in meeting system peak.

The pilot program is a contrast to previous load control programs. Historically, load control programs included payments to participating customers for permitting the utility to interrupt specified electric appliances. With the new program, the financial benefits to the customer come from limiting energy consumption during high cost periods, and from the customer making decisions that reduce overall energy consumption.

Under the pilot program the company was not obligated to pay monthly incentives, but there were costs for necessary equipment and installation, as well as computer program design and implementation. TECO projected costs of $1,700,000 for 24 months of operation. Actual costs would be the result of customer acceptance and response, and duration of the pilot project would depend on consistency of normal winter and summer weather patterns. Through December 31, 2005, actual program expenses were reported to be $1,139,860.

In its petition, TECO reports that evaluation of the pilot program results is ongoing. Based on indications from preliminary assessments, the program is beneficial and should be converted to permanent status as a component of the company's DSM plan. Preparation of a petition to request approval of the program on a permanent basis is underway, and supporting data is being assembled. TECO projects that request will be filed before May 1, 2007.

The 24 month authorization for the pilot expires February 1, 2007. Even though TECO expects to file a request to make the load management program permanent, the authorization for the pilot would expire before the permanent program could be authorized. A temporary shut down of the program in early 2007 would serve no useful purpose and would send inappropriate signals to participants. Therefore, staff recommends the pilot program should be continued until the Commission has an opportunity to consider TECO's forthcoming petition. Staff expects to bring a recommendation for Commission consideration no later than the agenda conference set for July 10, 2007. With those dates in mind, staff recommends that the pilot extension expire no later than August 31, 2007, or upon action by the Commission, whichever is first.

Issue 2: Should TECO be allowed to recover, for the limited extension, the reasonable and prudent expenditures associated with the Residential Price Responsive Load Management Pilot Program through TECO's Energy Conservation Cost Recovery (ECCR) Clause?

Recommendation: Yes. If Issue 1 is approved, the prudent expenditures required to maintain the operation of the pilot program through the extension are appropriate for recovery. (Sickel)

Staff Analysis: Due to the developmental nature of this program, there was very little precedent for the estimates of participation, benefits, and costs that would unfold. Billing implementation did not begin until July 1, 2005. Activities through the end of June, 2005, included vendor selection, training, selection of customer participants, sample installations, programming and billing interfaces. In its ECCR filing for the period January through December, 2005, TECO reported pilot program expenditures of $1,139,860

The initial description of this program included multiple items and activities that would be new to both the utility and the participating customers. Two way communications would include multi-tiered rates and critical price signals from the company. Customers would use this information to program a smart thermostat based on pricing levels. Equipment could be turned on, turned off, or changed to a different temperature setting, either automatically or manually.

TECO describes the selection of participants for this pilot program as a critical step. Inevitably, some participants would be lost over time due to choice or unanticipated events. A valid analysis of the program requires that a sufficient number of customers remain long enough to establish authentic data and implications. Interconnection for all participants was completed prior to December 31, 2005.

The greater portion of program expenditures was associated with the activities during the year 2005, when the program was initiated. Currently, expenditures consist primarily of the monthly fees paid to an outside vendor who provides data collection and management.

Information relating to energy conservation achieved by this program was only available after billing implementation began on July 1, 2005. Even though the second annual cycle of seasonal operations has not been completed, TECO advises staff that the assessment of conservation achieved clearly indicates that the program is effective.

Staff recommends that, during the limited period of this extension, the prudent expenses for continuing the operation of the pilot program would be appropriate for recovery through the Energy Conservation Clause.

Issue 3: Should this docket be closed?

Recommendation: No. If no timely protest is received, the Order will become final upon the issuance of a Consummating Order. However, the docket should remain open pending Commission action on TECO's application for conversion of the pilot program to a permanent program. (Fleming)

Staff Analysis: If no timely protest is received, the Order will become final upon the issuance of a Consummating Order. However, the docket should remain open pending Commission action on TECO's application for conversion of the pilot program to a permanent program.