

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
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 (Brown)
Office of the General Counsel (Fleming)

RE: Docket No. 060772-EG – Petition for approval of modifications to approved energy conservation programs by Florida Division of Chesapeake Utilities Corporation.

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

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Carter

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060772.RCM.DOC

Case Background

Section 366.81, Florida Statutes, of the Florida Energy Efficiency and Conservation Act (FEECA) gives the Commission authority to oversee electric and natural gas conservation programs. On March 20, 1996, the Commission adopted Rule 25-17.009, Florida Administrative Code, which sets forth the cost effectiveness methodology for natural gas conservation programs.

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 Gas Rate Impact Measure (G-RIM) Test in the format set forth in PSC/EAG/18 (4/96), entitled the “Florida Public Service

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Commission Cost Effectiveness Manual for Natural Gas Utility Demand Side Management Programs.” As long as the programs offered pass the Participants and G-RIM Tests with a score of one or greater, it is deemed cost effective for a company to offer and beneficial for customers.

On November 29, 2006, Chesapeake Utilities Corporation (“Chesapeake”) petitioned for approval of modifications to its approved energy conservation programs. Chesapeake is seeking Commission approval to rename certain programs, modify the allowances payable under some of its existing programs, and clarify the program eligibility standards and qualifying allowances under certain programs.

Jurisdiction over this matter is vested in the Commission by Sections 366.81 and 366.82, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Chesapeake Utilities Corporation's Petition for Approval of Modifications to Approved Energy Conservation Programs?

Recommendation: Yes. Each of the proposed residential programs are cost effective. The proposed increase in cost allowances could decrease the cost to customers when purchasing new appliances. Also, as a result of the higher appliance allowances, it is possible to see an increase in customer participation resulting in more customer savings. (Brown)

Staff Analysis: On November 29, 2006, Chesapeake Utilities Corporation submitted its analysis of the proposed modifications of its conservation programs. Chesapeake proposed modifications to the following programs: Residential Home Builder, Residential Appliance Replacement, and Residential Water Heater Retention Programs. The proposed modifications are as follows:

- 1) Change the program name of the Residential Builder Program to the Residential New Construction Program.
- 2) Establish a tankless natural gas water heater allowance for the three residential programs.
- 3) Allow the Residential Appliance Retention Program to offer allowances for heating systems, cooking, and clothes drying appliances while discontinuing the Dealer incentive.
- 4) Increase the allowances Chesapeake provides to potential customers when purchasing appliances in the new modified programs.

The modified programs were evaluated by staff using the Participants Screening Test and the Gas Ratepayer Impact Test (G-RIM) as required by Rule 25-17.009, Florida Administrative Code.

The proposed allowances are a result of a cooperative development effort by member utilities of the Associated Gas Distributors of Florida (AGDF) which includes all regulated investor-owned natural gas local distribution companies operating in Florida. The AGDF members agreed to focus their initial efforts to develop consistent allowance amounts for the conservation programs directed towards the homebuilding industry, residential appliance replacement, and residential appliance retention programs. The purpose of developing consistency among the allowance amounts is to provide a collective message through joint conservation advertising efforts in the state through the "Get Gas Florida" state-wide advertising campaign. Furthermore, by having consistent rebate amounts, the companies can engage in a unified advertising approach which will serve to reduce costs to all gas companies participating in conservation. The Commission recently approved similar program modifications by Order No. PSC-06-0749-PAA-GU, issued September 5, 2006, in Docket No. 060415-GU, In re: Petition for modification of energy conservation plan of Florida Public Utilities Company, Inc., regarding Residential New Construction Program, Residential Appliance Replacement Program, and Residential Appliance Retention Program and by Order No. PSC-06-0816-PAA-GU, issued

October 4, 2006, in Docket No. 060478-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Peoples Gas System. A recent petition for modification from Florida City Gas was approved at the Commission's January 23, 2007, Agenda Conference. Each modified program, proposed new allowance, and results from the administered Participants and G-RIM Tests are discussed below.

Residential New Construction Program:

The objective of this program is to increase the overall penetration of natural gas in the single family and multi-family residential new construction markets throughout Chesapeake's service territory. The program is designed to expand consumer energy options in new homes. Incentives in the form of cash allowances are provided to support the installation of natural gas including interior gas piping, venting, appliance purchase or lease, and other costs associated with residential gas service. Cash allowances are paid for water heating, space heating, clothes drying, and cooking equipment installations. Chesapeake is also proposing to establish an allowance for gas tankless water heating units. Participation in the program is offered to any home builder or developer who installs the aforementioned energy efficient appliances. Each appliance passed the Participants Test with scores in the range of 1.02 to 1.40. Each appliance passed the G-Rim Test with scores in the range of 1.13 to 1.19.

Residential Appliance Replacement Program:

This program encourages the replacement of inefficient non-natural gas residential appliances in existing residences. Participation in the program is open to current residential customers and to homeowners converting a residence to natural gas where Chesapeake is able to extend service under its extension of facilities policy. The program provides incentives for the replacement of non-gas water heating, heating, cooking, or clothes drying appliances through the purchase and/or lease of energy efficient natural gas appliances. Chesapeake is also proposing to establish an allowance for gas tankless water heating units. Each appliance passed the Participants Test with scores in the range of 1.03 to 1.40. Each appliance passed the G-Rim Test with scores in the range of 1.09 to 1.20.

Residential Appliance Retention Program:

This program was initially designed to promote the retention of energy-efficient water heaters for current natural gas customers. A cash incentive is paid to reduce the cost of purchasing and installing a replacement natural gas water heater. Presently, Chesapeake's Residential Appliance Retention Program only applies to natural gas water heater installations, and a dealer incentive for retailers who sell natural gas water heaters to potential customers. However, in its proposal, Chesapeake seeks to expand the retention program to add heating, clothes drying, and cooking allowances. Chesapeake is also proposing to establish an allowance for gas tankless water heating units. Lastly, Chesapeake has proposed to discontinue the dealer incentive which was offered to natural gas water heater retailers. Chesapeake believes that by increasing the allowance amounts along with expanding the eligible appliances, dealers will have ample incentive to market natural gas appliances. Each appliance passed the Participants Test with scores in the range of 1.30 to 1.47. Each appliance passed the G-Rim Test with scores in the range of 1.41 to 1.50.

The following charts show the current approved and proposed appliance allowances Chesapeake is seeking in this petition for modification of its energy conservation plans:

Chesapeake Residential New Construction Cash Allowances

	<u>Approved Allowances</u>	<u>Proposed Allowances</u>
Gas Storage Tank Water Heating	\$275	\$350
Gas Tankless Water Heating	-	\$450
Gas Heating	\$275	\$350
Gas Cooking	\$ 75	\$100
Gas Clothes Drying	\$ 75	\$100

Chesapeake Residential Appliance Replacement Cash Allowances

	<u>Approved Allowances</u>	<u>Proposed Allowances</u>
Gas Storage Tank Water Heating	\$330	\$525
Gas Tankless Water Heating	-	\$525
Gas Heating	\$330	\$625
Gas Cooking	\$ 50	\$100
Gas Clothes Drying	\$ 50	\$100

Chesapeake Residential Appliance Retention Cash Allowances

	<u>Approved Allowances</u>	<u>Proposed Allowances</u>
Gas Storage Tank Water Heating	\$100	\$350
Gas Tankless Water Heating	-	\$450
Gas Heating	-	\$350
Gas Cooking	-	\$100
Gas Clothes Drying	-	\$100
Dealer	\$ 50	Discontinue

Based upon the information submitted, staff recommends the Commission approve Chesapeake's petition for modification to three approved energy conservation programs:

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Residential New Construction Program, Residential Appliance Replacement Program, and Residential Appliance Retention Program. The program modifications should be approved because each appliance passed the G-RIM and Participants Test with a score greater than one and because each program promotes the goals of energy conservation. The modifications would include: renaming the Residential Builder Program to the Residential New Construction Program; increasing the current allowances for some appliances; an addition of a tankless water heater allowance for all three programs; and allowing the Residential Appliance Retention Program to offer allowances for heating systems, cooking, and clothes drying appliances, while discontinuing an incentive for the dealer allowance.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, the program modifications should become effective March 29, 2007. If a protest is filed within 21 days of the issuance of the proposed agency action order, the modifications should not be implemented until after the resolution of the protest. If no timely protest is filed, the docket should be closed upon the issuance of a consummating order. (Fleming)

Staff Analysis: If Issue 1 is approved, the program modifications should become effective March 29, 2007. If a protest is filed within 21 days of the issuance of the proposed agency action order, the modifications should not be implemented until after the resolution of the protest. If no timely protest is filed, the docket should be closed upon the issuance of a consummating order.