

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: September 2, 2009

TO: Office of Commission Clerk (Cole)

FROM: Office of Strategic Analysis and Governmental Affairs (Ellis, Brown)
Office of the General Counsel (Fleming)

RE: Docket No. 090122-EG – Petition for approval of modifications to approved energy conservation programs, by Associated Gas Distributors of Florida.

AGENDA: 09/15/09 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: ~~None~~ McMurrian-ac

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\SGA\WP\090122.RCM.DOC

Case Background

The Associated Gas Distributors of Florida (AGDF) is a trade association that represents the seven investor-owned natural gas utilities: Florida City Gas (FCG), Chesapeake Utilities Corporation (Chesapeake), Florida Public Utilities Company (FPUC), Indiantown Gas Company (Indiantown), Peoples Gas System (PGS), Sebring Gas System (Sebring), and St. Joe Natural Gas Company (St. Joe). These companies are also collectively referred to as Local Distribution Utilities (LDCs). These member companies are all subject to the jurisdiction of the Florida Public Service Commission (Commission).

On March 12, 2009, AGDF filed a petition on behalf of the above-mentioned LDCs seeking modification of their energy conservation programs. Specifically, AGDF sought the

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adoption of a Conservation Demonstration and Development (CDD) Program and Propane Distribution System Conversion Program. According to AGDF, the CDD Program would support research and development, demonstration and monitoring projects designed to promote energy efficiency, conservation, and reductions in climate change emissions. The Propane Distribution System Conversion Program would support the conversion of existing and future propane distribution systems to natural gas through a rebate allowance.

On July 27, 2009, AGDF withdrew a portion of the petition associated with the proposed Propane Distribution System Conversion Program. The withdrawal of the Propane Distribution System Conversion Program from the petition does not modify in any manner any pre-existing LDC Conversion Program.

The Commission has jurisdiction over this matter pursuant to Sections 366.81 and 366.82, Florida Statutes. (F.S.)

Discussion of Issues

Issue 1: Should the Commission approve the Associated Gas Distributors of Florida's petition to add the proposed Conservation Demonstration and Development Program to their member's conservation programs?

Recommendation: Yes. The proposed Conservation Demonstration and Development Program will allow the members of AGDF to pursue opportunities for joint research and development of new natural gas conservation programs. Expenditures for the program should be capped at \$2,000,000 for a five year period starting October 29, 2009, with a project cap of \$400,000. AGDF should submit petitions for specific projects to the Commission before utilizing the funds established in this program. (Ellis, Brown, Fleming)

Staff Analysis: The petition by AGDF requests the establishment of a CDD Program for each of AGDF's member LDCs. The use of uniform programs across all AGDF members has been previously approved by the Commission, with the establishment of uniform rebates for residential new construction, appliance replacement, and appliance retention. Of AGDF's member LDCs, only PGS includes a similar existing program, which would be modified to match the proposed uniform program.

The Commission has historically supported reasonable research and development activities for the investor owned electric utilities. Rule 25-17.001(5)(f) Florida Administrative Code, encourages the development of various methods to increase energy efficiency, stating that electric utilities should engage in programs that:

Aggressively pursue research, development and demonstration projects jointly with others as well as individual projects in individual service areas. In this context, the Commission anticipates that an aggressive research program would include both technological research, research on load behavior and related problems and market-related research.

Staff believes it is appropriate for the same general principles to apply to the natural gas utilities, which can also benefit from joint research and development programs.

Summary of Program

AGDF asserts that the CDD Program could result in the following: 1) an increase in the number of CDD Projects completed, 2) elimination duplicate projects, 3) application of a screening method that would ensure priority ranking of potential projects, 4) guarantee a variety of projects that could benefit all AGDF member LDCs, and 5) a reduction of administrative costs.

The Florida Energy Efficiency and Conservation Act (FEECA) established by the Legislature finds that the Commission is the proper agency to approve plans related to the conservation of electricity and natural gas.¹ AGDF's proposed CDD Program supports the intent

¹ Sections 366.80-366.85 and 403.519, F.S.

of FEECA by encouraging research into methods to increase the conservation of electrical energy and natural gas. All specific projects developed under this program should also follow the intent of FEECA to encourage conservation.

No direct demand savings, consumption savings, or cost-effective analyses were provided for the CDD Program, as it is a research and development program. Any specific projects associated with the CDD Program will have their cost and benefits judged independently of this program. Part of the purpose of the CDD Program is to collect actual data with which to conduct cost-effectiveness analysis.

Specific Project Examples

AGDF contends that a variety of functions and activities could be performed under the proposed CDD Program. Some of those functions include: engineering and evaluations, pilot projects, demonstrations, technology development support, building code analysis and literature searches. Below is a list of some examples AGDF uses in its petition.

- Demonstration: Solar / Gas Tankless Water Heating Systems
- Research: Application of CNG Vehicles
- Research: Consumer / Homebuilder Appliance or Fuel Type Decision Making
- Research: Commercial Building Technologies
- Monitoring: Existing Programs (Conservation Savings and Emissions Savings)

Staff is not recommending approval of any of the above examples. In fact, staff questions the appropriateness of some of these examples including compressed natural gas vehicles as a conservation research project. However, staff does support research and development therefore; staff recommends approval of the general CDD Program with subsequent review of each project before it is adopted. AGDF will only be allowed approval of Commission-approved projects and AGDF should be required to submit a petition for a specific project before recovery of any expenditures. Monitoring and evaluation of specific projects will be addressed in the petition for Commission approval for each project.

Impact to Ratepayers

The petition includes a proposal to have a five year cap established for each AGDF member LDC, as well as a project cap that consists of approximately one year's expenditures. These funds would be recovered through the Natural Gas Conservation Cost Recovery Clause. Allocation of the program costs is based upon the size of the utility. Below is a chart which provides the proposed cost caps allocated between the AGDF member LDCs, including the average residential monthly bill impact for each LDC's most populated customer class.

LDC	Contribution to Five-Year Cap	Contribution to Project Cap	Monthly Bill Impact
City Gas Company	\$500,000	\$100,000	\$0.15
Chesapeake Utilities Comp.	\$300,000	\$60,000	\$0.04
Florida Public Utilities	\$300,000	\$60,000	\$0.05
Indiantown Gas Company	\$50,000	\$10,000	\$0.31
Peoples Gas Company	\$750,000	\$150,000	\$0.02
Sebring Gas System	\$50,000	\$10,000	\$0.33
St. Joe Natural Gas Comp.	\$50,000	\$10,000	\$0.13
Totals	\$2,000,000	\$400,000	\$0.13

Staff believes that this minimal rate impact is worth the potential benefits of any research and development projects that could be authorized as a component of this program.

Conclusion

The proposed CDD Program would allow the AGDF to pursue opportunities for joint research and development of new natural gas conservation programs. Expenditures for the program should be capped at \$2,000,000 for the five year period, effective October 29, 2009. Staff also recommends a cap on expenditures of \$400,000 per project, should not to be exceeded without Commission approval. AGDF should petition the Commission for approval to conduct any specific projects under this program for recovery through the Energy Conservation Cost Recovery Clause.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, the program modifications should become effective October 29, 2009. If a protest is filed within 21 days of the issuance of the proposed agency action order, the program 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 October 29, 2009. If a protest is filed within 21 days of the issuance of the proposed agency action order, the program modifications should not be implemented until after resolution of the protest. If no timely protest is filed, the docket should be closed upon the issuance of a consummating order.