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May 22, 1997

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 970046-EI

Enclosed for official filing are an original and fifteen copies of Gulf Power Company's response to your letter dated May 8, 1997 that had questions that were posed at the workshop that was held that day.

Sincerely,

Susan D. Cranmer

ACK _____
 AFA _____ Susan D. Cranmer
 APP _____ Assistant Secretary and Assistant Treasurer
 CAF _____ tw
 CMU _____
 CTR _____ Enclosure
 EAG *Stutell* cc: Beggs and Lane
 LEG 1 Jeffrey A. Stone, Esquire
 LIN 5 97
 OFC _____
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FPSC-RECORDS/REPORTING

Gulf Power Company
Docket No. 970046-EI

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1. Is the general body of ratepayers at greater risk in terms of realizing benefits from DSM programs as the RIM cost-effectiveness ratio approaches 1.0?

No. The uncertainty surrounding both the benefits and the costs of any program should be handled either directly within the cost-effectiveness analysis or through that analysis' sensitivity evaluations. Methodologically, this has become standard practice, to a greater or lesser extent, throughout the electric utility industry.

Even if the analysis methodology did not explicitly deal with the benefit and cost uncertainties, the regulatory process should. Public service commissions should not approve any program unless they are reasonably sure that the benefits of the program will exceed the program's costs. If conditions change that call into question the continued cost-effectiveness of any previously approved program, that program's cost-effectiveness should again be demonstrated to the satisfaction of the public service commission or the program, as previously approved, should be discontinued.

If a DSM program, for some reason, has merit but the prospective net economic benefits of that program have not been clearly established, the public service commission may require the utility to more rigorously monitor actual program results to insure that positive net benefits materialize.

Finally, one should be cautious when judging a program based on the ratio of benefits to costs. If the rule is; do all programs that have a benefit:cost ratio greater than one, then no particular problem arises. When one is choosing to do some programs but not all programs showing a benefit:cost ratio greater than one, the rule should not be; do the ones with the largest benefit:cost ratios first. This rule would not serve anyone well. Imagine a program with \$1,100,000 in benefits at a cost of \$1,000,000. The net benefits are \$100,000 and the benefit:cost ratio is 1.1. Imagine another program that has benefits of \$10,000 and costs of \$8,000. Here the net benefits are only \$2,000 but the benefit:cost ratio is 1.25. Clearly, if one could, one would do both programs but if you could only do one, which would you choose? Most people would answer the

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one with the \$100,000 in net benefits even though the other program has a significantly higher benefit:cost ratio. Therefore, when choosing between cost-effective programs, one is better served by choosing on the basis of the present value of net benefits rather than a benefit:cost ratio.

2. **Recognizing the unavoidable competitive impact of DSM programs, should ratepayers continue to pay for DSM programs through the ECCR clause absent an analysis showing the benefit of such competition? Why or why not?**

Yes. Such analysis would unnecessarily duplicate the results produced by a freely functioning marketplace even if one were to accept the stated but unproved premise that DSM programs have "unavoidable competitive impacts". There is no evidence that such impacts are bad for consumers and should be avoided by prohibiting the program.

The ECCR clause is a mechanism for recovering from the general body of customers energy conservation program costs for energy conservation programs that provide net RIM benefits. The Commission has accepted that RIM-passing programs are in the best interests of the general body of customers in that they produce benefits for them in excess of the costs. The mechanism that is provided, by which the general body of customers pay for these program costs, is the ECCR.

DSM programs are designed to improve the welfare of the participants and the general body of customers. "Competition" does this also. By allowing market participants to freely choose among alternative products, programs, and services, competitive markets not only maximize the welfare of the market participants but also that of society at large.

The Staff's apparent concern is that by participating in some electric DSM programs participants may use less natural gas than they otherwise might have and that such a result, if it were to happen, is somehow bad. Gulf rejects this notion. Programs should be developed by electric utilities that produce net benefits for participants and their general body of customers. Gas utilities should be encouraged to do the same. Customers will then choose to participate in those programs most benefiting them and the general body of customers will benefit from the efficient distribution of resources that results.

The question also suggests that before the general body of customers is asked to pay for approved DSM programs showing

positive net RIM benefits, some other analysis should be provided. This additional suggested analysis presumably must show that all customers, including the participants, would not have been even better off by voluntarily choosing other actions that would have resulted in more natural gas purchases. Gulf Power has confidence in consumers' abilities to choose from the various offers presented to them in a manner that will maximize their own welfare and thus, encourage the more efficient distribution of resources to everyone's betterment. The additional suggested analysis is therefore unnecessary.

3. **Staff expressed its concern regarding the marginal RIM cost-effectiveness of DSM programs and the competitive nature of DSM programs. Assuming these are problems, what solutions should the Commission consider.**

See Gulf's answers to questions 1. and 2. above. Embedded within each answer are observations of what the Commission can and is doing regarding the approval, monitoring, and evaluation of DSM programs. Regarding the so called "unavoidable competitive impact", Gulf Power believes that having product and program choice is good for consumers as long as consumers are making their own choices.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Determination of appropriateness of)
allocating electric utility sponsored demand)
side program costs to rate classes eligible)
to participate in such programs)

Docket No. 970046-EI

Certificate of Service

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 22nd day of May 1997 to the following:

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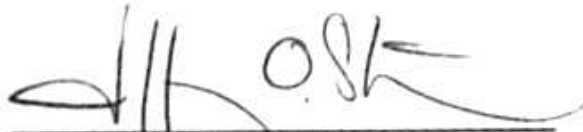
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