

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of natural gas residential energy conservation programs, by Associated Gas Distributors of Florida. | DOCKET NO. 100186-EG
ORDER NO. PSC-10-0551-PAA-EG
ISSUED: September 2, 2010

The following Commissioners participated in the disposition of this matter:

NANCY ARGENZIANO, Chairman
LISA POLAK EDGAR
NATHAN A. SKOP
ART GRAHAM
RONALD A. BRISÉ

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING NATURAL GAS
RESIDENTIAL ENERGY CONSERVATION PROGRAMS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Section 366.81, Florida Statutes (F.S.), the Florida Energy Efficiency and Conservation Act (FEECA), gives us the authority to oversee electric and natural gas conservation programs. On March 20, 1996, we adopted Rule 25-17.009, Florida Administrative Code (F.A.C.), which establishes the cost effectiveness methodology for natural gas conservation programs under FEECA.

Associated Gas Distributors of Florida (AGDF) is a trade association representing investor-owned natural gas utilities subject to our jurisdiction under FEECA. AGDF includes: Florida City Gas (City Gas), Florida Division of Chesapeake Utilities Company (Chesapeake), Florida Public Utilities Company (FPUC), Indiantown Gas Company (Indiantown), Peoples Gas System (Peoples Gas), Sebring Gas System (Sebring) and St. Joe Natural Gas Company (St. Joe). On the companies' behalf, AGDF has attempted to make the conservation programs and the associated rebates of each company similar, to facilitate conservation related advertising. To that end, on April 16, 2010, AGDF petitioned for approval of modifications to the existing natural gas residential energy conservation programs of its seven member companies.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

AGDF's petition asks for our approval to change cash allowance amounts for certain of its members' programs.¹ As explained in detail below, we approve the proposed changes, with the exception of the Gas Service Reactivation allowance.

We have jurisdiction over this matter pursuant to Sections 366.81 and 366.82, F.S.

DECISION

As Rule 25-17.009, F.A.C., provides, 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 Form PSC/RAD 14-G (4/96), entitled the *Florida Public Service Commission Cost Effectiveness Manual for Natural Gas Utility Demand Side Management Programs*. The programs offered are considered to be cost-effective when they pass the Participants and G-RIM Tests with a score of one (1.00) or greater.

AGDF requested approval of changes to three of its member companies' common demand-side management (DSM) programs: the Residential Appliance Replacement Program; the Residential Appliance Retention Program; and the Residential New Construction Program. We previously approved these programs for each company.² The proposed changes include adjustments to the current cash incentive allowances and one additional incentive allowance offered to participants. The proposed incentive changes are summarized below.

Residential Appliance Replacement Program

This program is designed to encourage the replacement of existing residential electric appliances with natural gas appliances. Allowances are paid to homeowners for the installation

¹ This is the second petition filed by AGDF for its member companies. In the first petition, we approved a Conservation Demonstration and Development Program for member companies. See Order No. PSC-10-0013-PAA-EG, issued February 25, 2010, Docket No. 090122-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Associated Gas Distributors of Florida.

² See 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 full house residential new construction program, residential appliance replacement program and residential appliance retention program, Order No. PSC-06-0816-PAA-EG, issued October 10, 2006, in Docket No. 060478-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Peoples Gas System, Order No. PSC-07-0122-PAA-EG, issued February 12, 2007, in Docket No. 060746-EG, In re: Petition for approval of modifications to approved energy conservation programs, by Florida City Gas, Order No. PSC-07-0197-PAA-EG, issued March 5, 2007, in Docket No. 060772-EG, In re: Petition for approval of modifications to approved energy conservation programs by Florida Division of Chesapeake Utilities Corporation, Order No. PSC-07-0495-PAA-EG issued, June 11, 2007, in Docket No. 070237-EG, In re: Petition for modifications to approved energy conservation programs and adoption of new energy conservation programs, by St. Joe Natural Gas Company, Inc., Order No. PSC-07-0531-TRF-EG, issued July 20, 2007, in Docket No. 070246-EG, In re: Petition for approval of energy conservation programs, by Indiantown Gas Company, and Order No. PSC-07-0693-TRF-EG, issued August 24, 2007, in Docket No. 070399-EG, In re: Petition for approval of energy conservation programs, by Sebring Gas System, Inc.

of the applicable appliances. The allowances help homeowners cover the conversion costs associated with piping, venting, and purchasing natural gas appliances.

Residential Appliance Replacement Program Cash Allowances			
	Current	Proposed	Change
Gas Storage Tank Water Heating	\$525	\$500	- \$ 25
Gas High Efficiency Stg. Tank Water Heater	\$525	\$550	+ \$ 25
Gas Tankless Water Heating	\$525	\$675	+ \$150
Gas Heating	\$625	\$725	+ \$100
Gas Cooking	\$100	\$200	+ \$100
Gas Clothes Drying	\$100	\$150	+ \$ 50
Gas Service Reactivation (new allowance)		\$350	+ \$350

Residential Appliance Retention Program:

This program is designed to encourage homeowners with existing natural gas appliances to retain natural gas when the existing appliances fail, or are otherwise replaced. AGDF states that the retention allowances help the companies avoid the cost of meter removal and, ultimately, the cost of cutting and capping service lines, as our rules require.

Residential Appliance Retention Program Cash Allowances			
	Current	Proposed	Change
Gas Storage Tank Water Heating	\$350	\$350	\$ 0
Gas High Efficiency Stg. Tank Water Heater	\$350	\$400	+ \$ 50
Gas Tankless Water Heating	\$450	\$550	+ \$100
Gas Heating	\$350	\$500	+ \$150
Gas Cooking	\$100	\$100	\$ 0
Gas Clothes Drying	\$100	\$100	\$ 0

Residential New Construction Program

This program provides cash incentive allowances to developers, builders or consumers constructing single, manufactured or multifamily residences that include certain natural gas appliances. Allowances are paid upon service activation for the installation of the applicable appliances. The program allowances are designed to assist in defraying the cost of interior gas piping, venting, appliance installation, and other costs associated with residential gas service.

Residential New Construction Program Cash Allowances			
	Current	Proposed	Change
Gas Storage Tank Water Heating	\$350	\$350	\$ 0
Gas High Efficiency Stg. Tank Water Heater	\$350	\$400	+ \$ 50
Gas Tankless Water Heating	\$450	\$550	+ \$100
Gas Heating	\$350	\$500	+ \$150
Gas Cooking	\$100	\$150	+ \$ 50
Gas Clothes Drying	\$100	\$100	\$ 0

AGDF explains in its petition that the current allowances for each of the existing conservation programs were based on cost information collected in the late 2005 to early 2006 timeframe. Since that time, manufacturing costs have escalated due to increasing costs of labor, materials, and energy. Installation costs have also increased in the same period. The proposed allowance increases are intended to mitigate the cost increases and help keep gas appliance installations competitive with alternative fuel options.

AGDF does not propose across-the-board or equivalent incentive allowance increases for all appliances. AGDF explains that incentive allowances provide a means of persuading customers to choose more efficient appliances. In addition, the varying changes to the allowances reflect the fact that manufacturing and installation costs also varied between different appliances. Further, the incentive allowances vary among the three programs discussed here, primarily due to differences in installation costs. For example, conversion from an electric appliance to its gas equivalent is more costly than installing gas service during initial construction or replacing a gas appliance with another gas appliance. The proposed allowance for a gas clothes dryer illustrates this difference. The Appliance Replacement Program is the only one of the three programs that has a proposed allowance increase for gas clothes drying, because the other two programs are less costly.

The allowance variance due to efficiency is best illustrated by the proposed allowances for three types of water heaters. AGDF states that its member companies wish to encourage customers to select any gas water heater, but offer a greater incentive allowance for a higher efficiency water heater. The standard storage tank water heater, the least efficient of the three types of water heaters has a reduced incentive allowance in the Appliance Replacement Program, and the incentive allowance for the standard storage tank water heater remains unchanged in the other two programs. A higher allowance is proposed for the high efficiency storage tank water heater, and the highest allowance is proposed for the tankless water heater, the most efficient unit.

The Gas Service Reactivation Allowance

The proposed allowance for gas service reactivation adds an incentive to the program to further encourage customers to replace electric appliances with gas appliances. The \$350 allowance is the low end of the \$350 to \$500 cost to remove the gas meter and cut and cap the line when gas service is abandoned. The turnover of occupants at a residence often results in a potential customer not being aware that gas service is available until the gas company arrives to cut and cap the buried service line. This situation is more frequent with rental homes where occupants may have turned over several times since gas service was discontinued. The new or

returning gas customer is normally charged the fee for reconnection. The proposed incentive allowance for all companies requires that the reconnected customer install a gas water heater or other appliance of equal consumption.

We have concerns with this program. We believe that approval of the proposed allowance would permit the companies to recover a natural gas marketing cost through the Energy Conservation Cost Recovery process, passing the cost of the allowance to all ratepayers. We also believe that it is not appropriate to recover an incentive allowance from ratepayers to cover costs that ultimately will not be incurred. Rule 25-12.045, F.A.C., establishes a 6-year timeframe for cutting and capping abandoned gas lines. The companies are required to cut and cap a gas line after six years of inactivity, but we have granted the companies a two-year waiver of this rule twice, first in 2007, and again in 2010.³ Currently the companies will not incur any costs for cutting and capping unused gas lines until at least 2013. In this circumstance it would be more appropriate for the companies to reduce a customer's cost of resuming gas service by waiving the reactivation fee that covers a cost the companies are not currently incurring. If the reactivation fee is recovered through the conservation cost recovery clause, all ratepayers will pay for what is essentially a marketing expense aimed at converting electrical appliances to natural gas, not a conservation program.

Cost-effectiveness

With its petition, AGDF provided analyses of the proposed program modifications for each member company. The analysis included cost-effectiveness tests for each of the three programs conducted by each company. The proposed program modifications were evaluated using the Participants Test and the G-RIM test as required by Rule 25-17.009, F.A.C. The analysis included the proposed rebate changes.

We have reviewed the analysis of cost-effectiveness conducted by each company, and we find that the sources of the data were reasonable and the tests were conducted as instructed by the *Cost Effectiveness Manual*. Each program for each company passed the Participant Test and the G-RIM test with scores above 1.0. Cost-effectiveness test results are shown in Attachment 1 to this Order.

Impact to Ratepayers

The proposed incentive allowance changes amount to an 18 percent increase in overall incentives. This translates to an impact on the companies' residential customers' monthly bills ranging from \$0.04 to \$0.49. The chart below shows the monthly bill impact for residential customers of each company.

³ See Order No. PSC-10-0158-PAA-GU, issued March 22, 2010, in Docket No. 090522-GU, In re: Petition for extension of waiver of service line abandonment provisions of Rule 25-12.045, F.A.C. by Florida Natural Gas Association.

Residential Bill Impact

Company	Monthly Impact per Consumer Bill
Florida Division of Chesapeake Utilities Corp.	\$ 0.09
Florida City Gas	\$ 0.08
Florida Public Utilities Company	\$ 0.08
Indiantown Gas Company	\$ 0.03
Peoples Gas System	\$ 0.09
St. Joe Natural Gas Company	\$ 0.49
Sebring Gas System	\$ 0.04

The chart above does not reflect bill impact with the Gas Service Reactivation Allowance removed. Removing the cost of that allowance would obviously reduce the impact, but very slightly. We find that the rate increases shown above do not constitute an undue rate impact from the implementation of the DSM incentive allowance changes.

Conclusion

We find that the changes to cash incentive allowances proposed by AGDF on behalf of its member companies remain cost-effective and do not impose an undue impact to customers' monthly bills, with one exception. The Gas Service Reactivation Allowance of the Residential Appliance Replacement Program is more of a marketing method than a conservation measure. Therefore, we approve the proposed changes to the DSM programs, with the exception of the reactivation allowance.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Petition for approval of natural gas residential energy conservation programs, by Associated Gas Distributors of Florida is approved, with the one exception identified herein. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 2nd day of September, 2010.



ANN COLE
Commission Clerk

(S E A L)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 23, 2010.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Cost-effectiveness Test Results														
	Chesapeake		Florida City		FPUC		Indiantown		Peoples		St. Joe		Sebring	
	Part.	G-RIM	Part.	G-RIM	Part.	G-RIM	Part.	G-RIM	Part.	G-RIM	Part.	G-RIM	Part.	G-RIM
Residential Appliance Replacement Program														
Gas Storage Tank Water Heating	1.52	1.43	1.73	1.36	1.88	1.34	1.78	1.20	1.45	1.30	1.49	1.80	1.75	1.35
Gas High Efficiency Stg. Tank Water Heater	1.62	1.30	1.85	1.19	2.01	1.15	1.90	1.08	1.54	1.18	1.59	1.54	1.87	1.18
Gas Tankless Water Heating	1.27	1.30	1.42	1.21	1.51	1.18	1.45	1.08	1.23	1.20	1.26	1.47	1.43	1.20
Gas Heating	1.10	1.29	1.20	1.21	1.27	1.18	1.23	1.08	1.07	1.19	1.09	1.60	1.21	1.20
Gas Cooking	1.17	1.35	1.28	1.28	1.35	1.25	1.30	1.14	1.11	1.24	1.13	1.61	1.27	1.27
Gas Clothes Drying	1.20	1.45	1.32	1.38	1.40	1.37	1.35	1.22	1.14	1.32	1.16	1.84	1.31	1.37
Gas Service Reactivation	1.57	1.35	1.79	1.36	1.95	1.31	1.85	1.19	1.50	1.30	1.54	1.69	1.82	1.37
Residential Appliance Retention Program														
Gas Storage Tank Water Heating	1.57	1.75	1.75	1.77	1.89	1.91	1.79	1.49	1.57	1.46	1.49	2.33	1.72	1.85
Gas High Efficiency Stg. Tank Water Heater	1.68	1.43	1.88	1.44	2.03	1.52	1.92	1.27	1.69	1.31	1.59	1.86	1.85	1.48
Gas Tankless Water Heating	1.31	1.57	1.43	1.55	1.51	1.63	1.45	1.34	1.31	1.34	1.26	2.05	1.42	1.62
Gas Heating	1.15	1.60	1.24	1.60	1.31	1.69	1.26	1.37	1.16	1.36	1.11	2.10	1.23	1.67
Gas Cooking	1.43	1.77	1.57	1.79	1.67	1.95	1.60	1.51	1.43	1.48	1.37	2.37	1.55	1.88
Gas Clothes Drying	1.39	1.79	1.55	1.79	1.65	1.98	1.58	1.53	1.42	1.49	1.35	2.40	1.53	1.91
Residential New Construction Program														
Gas Storage Tank Water Heating	1.61	1.46	1.73	1.43	1.89	1.42	1.79	1.25	1.47	1.31	1.49	1.90	1.76	1.41
Gas High Efficiency Stg. Tank Water Heater	1.69	1.26	1.87	1.20	2.03	1.14	1.92	1.06	1.58	1.18	1.59	1.53	2.01	1.12
Gas Tankless Water Heating	1.31	1.32	1.42	1.27	1.51	1.24	1.45	1.12	1.24	1.21	1.26	1.68	1.50	1.25
Gas Heating	1.19	1.36	1.24	1.32	1.31	1.30	1.26	1.16	1.58	1.24	1.11	1.74	1.25	1.30
Gas Cooking	1.36	1.38	1.52	1.35	1.62	1.33	1.55	1.19	1.33	1.26	1.34	1.79	1.53	1.33
Gas Clothes Drying	1.33	1.49	1.48	1.46	1.59	1.45	1.52	1.28	1.29	1.34	1.30	1.95	1.50	1.44