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MEMORANDUM

July 2, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (FUTRELL, HARLOW, GYNG)
DIVISION OF LEGAL SERVICES (PAUGH) RVE JGP JDJ

RE: DOCKET NO. 970046-EI - ELECTRIC INVESTOR-OWNED UTILITIES - INVESTIGATION INTO THE APPROPRIATE COST RECOVERY OF MARGINALLY COST-EFFECTIVE ELECTRIC UTILITY SPONSORED DEMAND-SIDE MANAGEMENT PROGRAMS

AGENDA: 07/15/97 - REGULAR AGENDA - FINAL ORDER - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\970046EI.RCM

ATTACHMENT NOT PART OF THE ELECTRONICALLY TRANSMITTED VERSION.

CASE BACKGROUND

On November 1, 1995, in Order No. PSC-95-1343-S-EG, the Commission voted to initiate a management review to address the following questions, among others:

> 1. Whether the implementation of conservation programs by the electric and gas utilities, particularly for commercial/industrial (C/I) customers, has complied with the Commission's policy of fuel neutrality.
>
> 2. Whether the conservation programs of the electric and gas utilities, particularly for C/I customers, have resulted in the increased usage of electricity and natural gas.

In September 1996, the Division of Research and Regulatory Review (RRR) published its "Review of Commercial/Industrial Demand-Side Management Programs of Six Florida Utilities." This report in part analyzed the C/I Demand-Side Management (DSM) programs of the four largest investor-owned electric utilities (IOUs), and the two largest gas distribution utilities. The report also examined the effect of C/I DSM programs on the competitive relationship between

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the electric and gas industries. One of the conclusions from the study is that the promotion, advertising, and operation of C/I DSM programs play significant roles in the competition between the electric and natural gas utilities examined. It was concluded that Florida Power and Light Company (FPL) takes an aggressive stance that counters the gas industry's marketing of newly developed natural gas appliances. Some of FPL's advertising was determined not to be fuel neutral. Examples are included in Attachment A. The costs for these two advertisements were paid by customers through FPL's conservation cost recovery clause. The RRR report does not show similarly aggressive use of DSM against natural gas by other utilities. The fact that electricity and natural gas compete for certain customer end-uses is apparent.

> In staff's opinion, it is unrealistic to expect DSM programs to have no effect on the competitive balance, or to expect such programs would not be used as marketing tools....However, the customers targeted by commercial/industrial DSM programs are frequently well-informed energy consumers who are capable of evaluating the claims made by competing energy providers. Many of these customers rely upon the expertise of an on-staff facilities engineer or outside energy services company to control energy-related costs, and are less likely to be confused or misled by an energy providers proposal.
>
> "Review of Commercial/Industrial Demand-Side Management Programs of Six Florida Utilities", page 79.

In November 1996, in Docket No. 960002-EG, the Energy Conservation Cost Recovery (ECCR) docket, discovery responses were received from the four largest electric IOUs with the then current estimates of DSM program cost effectiveness. The responses showed that at that time, the cost effectiveness of many programs, particularly those of FPL and Gulf Power had fallen below 1.0 for the Rate Impact Measure (RIM) test. FPL has subsequently filed for modification of seven programs with marginally cost-effective RIM ratios, and termination of two programs that were less than 1.0 RIM.

In January 1997, the Commission considered approval of two FPL research projects and FPL's Buildsmart program. Staff recommended that if the Commission approved the petitions, FPL should allocate the costs to the rate class(es) to which the research projects and program were targeted. This position was taken as a result of the findings of the RRR report and the declining RIM cost-effectiveness of many DSM programs, particularly those of FPL and Gulf. Program costs that are recovered through the ECCR should not be used as marketing tools or to position a utility for competition in a retail access environment. The incentive to use DSM and the associated cost recovery for these purposes is lessened by allocating program costs to the customer class that is eligible to participate in the program. Allocating cost recovery of programs to rate classes with "at-risk" customers reduces the incentive for utilities to use DSM for competitive purposes because doing so raises the rates of the "at-risk" customers. The Commission did not approve staff's recommendation, but directed staff to open a docket to further investigate these issues.

DISCUSSION OF ISSUES

ISSUE 1: Should this docket be closed?

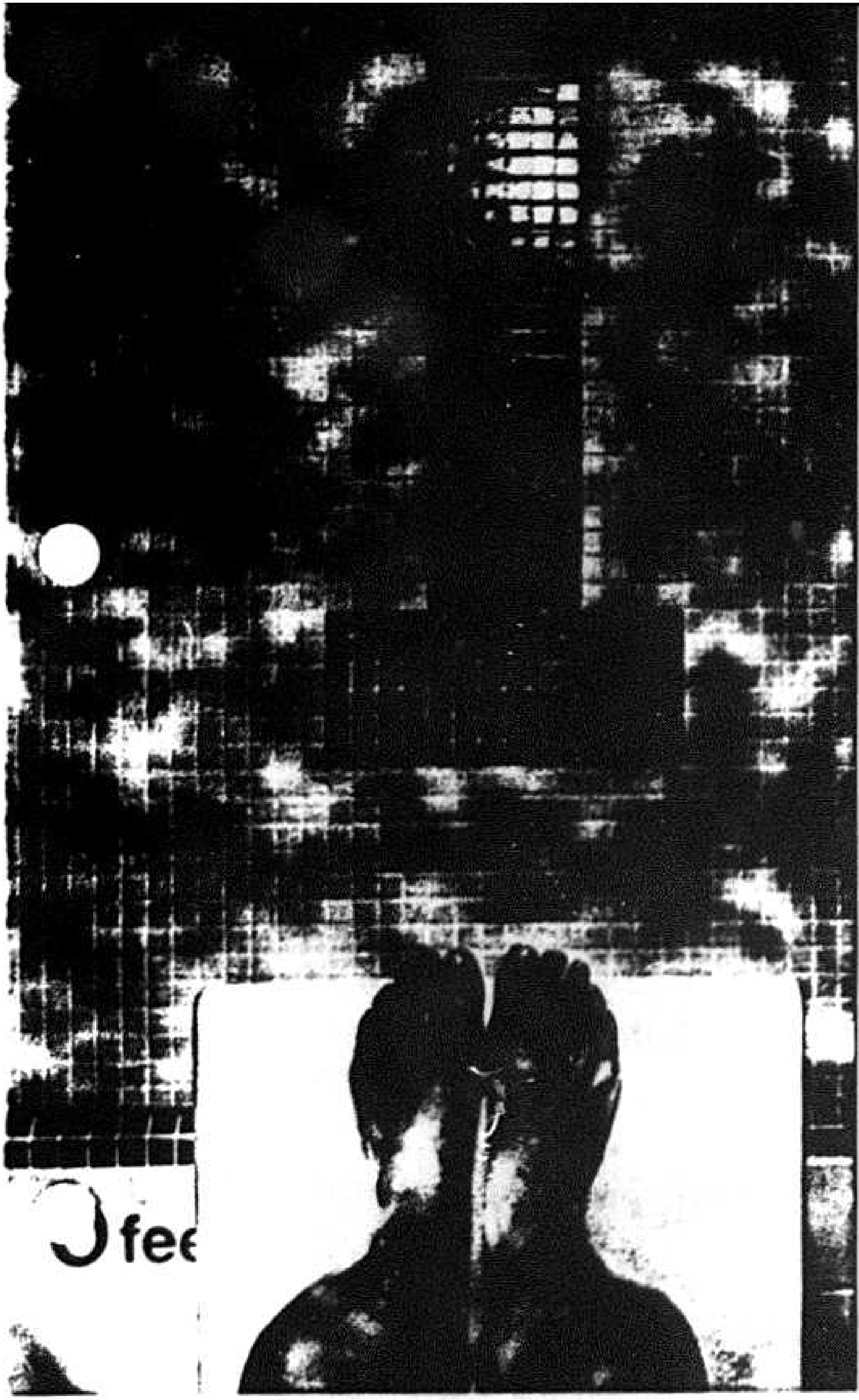
RECOMMENDATION: Yes. Greater monitoring of utility DSM program claimed kW and kWh savings and various avoided cost assumptions, and greater monitoring by staff of DSM program cost-effectiveness ratios should be more effective than allocating DSM costs to rate classes. [FUTRELL]

STAFF ANALYSIS: On May 7, 1997 a workshop was held to develop and discuss issues, and possible solutions of the competitive uses of DSM programs. At the workshop, staff reiterated the findings of the RRR report, and the cost-effectiveness ratios of DSM programs as filed in November 1996. Staff also presented its idea of allocating DSM program cost to those rate classes eligible to participate for programs with a RIM ratio of greater than 1.0 but less than 1.2. The parties questioned whether what was perceived by staff to be a problem, that is the competitive use of DSM programs funded through the ECCR clause, was in fact a problem. Concern was also expressed that establishing a threshold for general cost recovery through the ECCR (greater than 1.2) would become the de facto threshold for all programs proposed by the utilities. Participants were requested to file comments on their positions and to respond to questions posed by staff.

The responses were generally in opposition to staff's proposal. Specifically, parties questioned the linkage of the unavoidable competitive effect of DSM programs and changing cost allocation as a means of addressing the effect. Parties did acknowledge that DSM program cost-effectiveness can be better assured through greater monitoring.

A rule has been proposed by staff which would limit the ability of a utility to mention a competing energy source in DSM program advertising. This has been one of the concerns of staff, as evidenced by Attachment A. Staff intends to monitor DSM programs more frequently, particularly with respect kW and kWh claimed savings, various avoided cost assumptions and resulting cost-effectiveness ratios. As part of the review of new programs and program modifications, additional emphasis will be placed on the utility's efforts to quantify the projected kilowatt and kilowatt-hour savings from the program. These efforts will help to insure that all the ratepayers who pay for cost-effective DSM programs receive the benefit they pay for. DSM programs must meet or exceed the projected savings of each program. Given these activities, and based on the parties' comments at workshop as well as the written comments, further action in this docket is not advisable and it is recommended the Commission close this docket.

Rule 25-17.0021, Florida Administrative Code, requires the Commission to set numeric DSM goals at least once every five years for each utility subject to Chapter 366.82(1), Florida Statutes (the Florida Energy Efficiency and Conservation Act). The Commission last established goals for the four largest electric IOUs in October 1994 by Order No. PSC-94-1313-FOF-EG. Staff intends to open goal setting dockets before the end of 1997 to insure goals can be set by the October 1999 deadline. Many issues relating to the use of DSM for competitive purposes could be considered in goal setting proceedings.



A lot of companies might claim to offer a more cost-efficient alternative to electric power. What you're hearing may sound good, but it may not be the whole story. Before you consider switching, we offer the following advice: Call us.

We'll analyze the real energy and money-saving potential in your current proposal. Or develop an alternate for you, including how your facility can qualify for our conservation incentives. We'll review your energy usage patterns, month by month load, cooling requirements, and load profiles by time of day. We'll calculate comparable capital improvement, financing and operating costs. If their proposal is sound, we'll tell you so. Either way, you'll know you're not jumping to the wrong conclusion.

To schedule an appointment, or to learn whether your facility qualifies for any of our incentives for making energy-saving improvements, call your Florida Power & Light account manager or *1-800-FPL-5566*.

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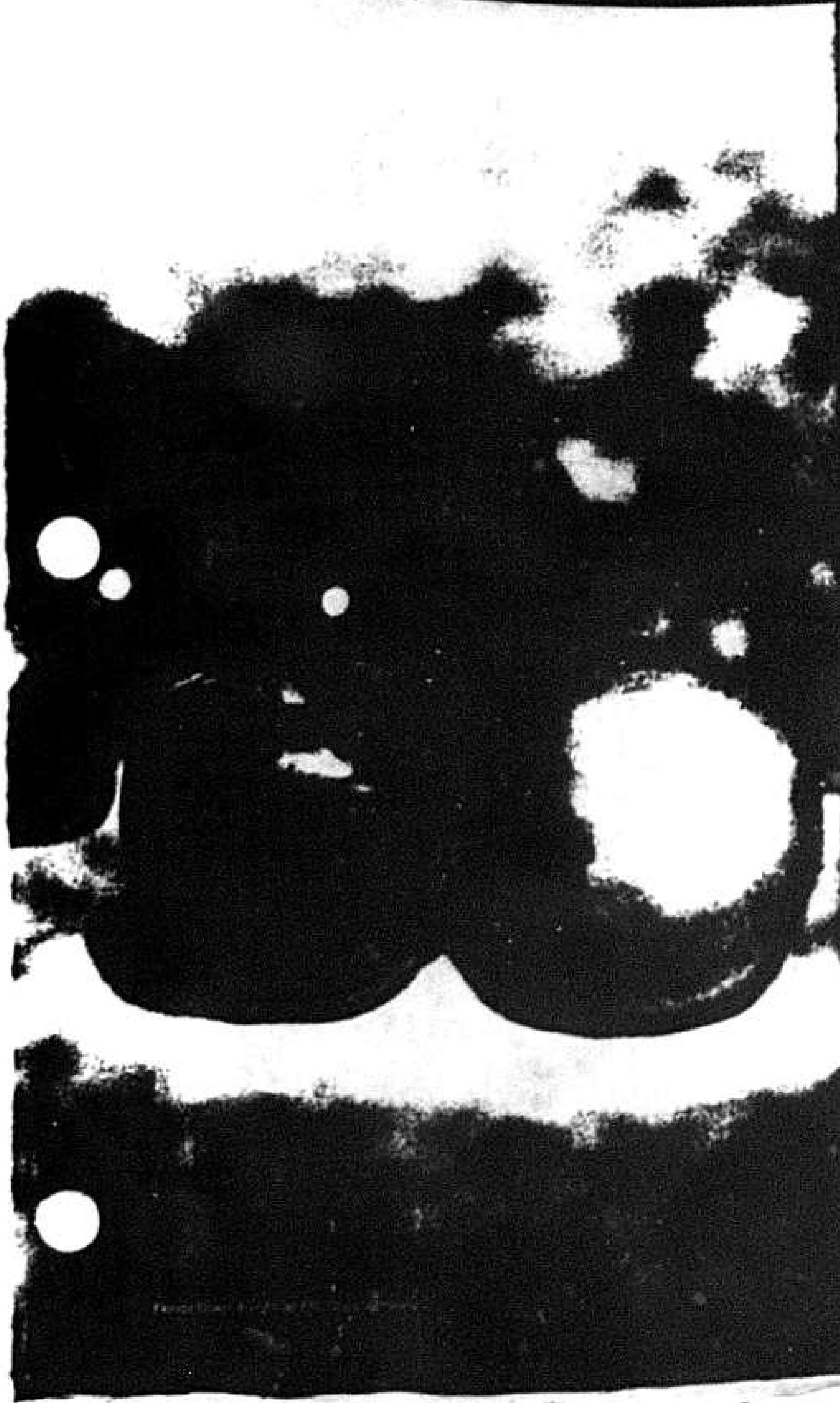
OTHER ENERGY SOURCES MAY CLAIM THAT THEY ARE SAVING YOU MONEY, BUT WHAT ARE THEY REALLY COMPARING?



Before you consider switching to gas-fired air conditioning equipment, be sure you are comparing apples to apples. What you're hearing from the gas company may sound good, but it may not be the whole story.

So before you make a decision, call us. We'll analyze the real energy and money-saving potential in your current proposal. Or develop an alternate for you, including how your facility can qualify for our conservation incentives. We'll review your energy usage patterns, month-by-month load, cooling requirements, and load profiles by time of day. We'll calculate comparable capital improvement, financing and operating costs. If their proposal is sound, we'll tell you so. Either way, you'll know you're making a fair comparison.

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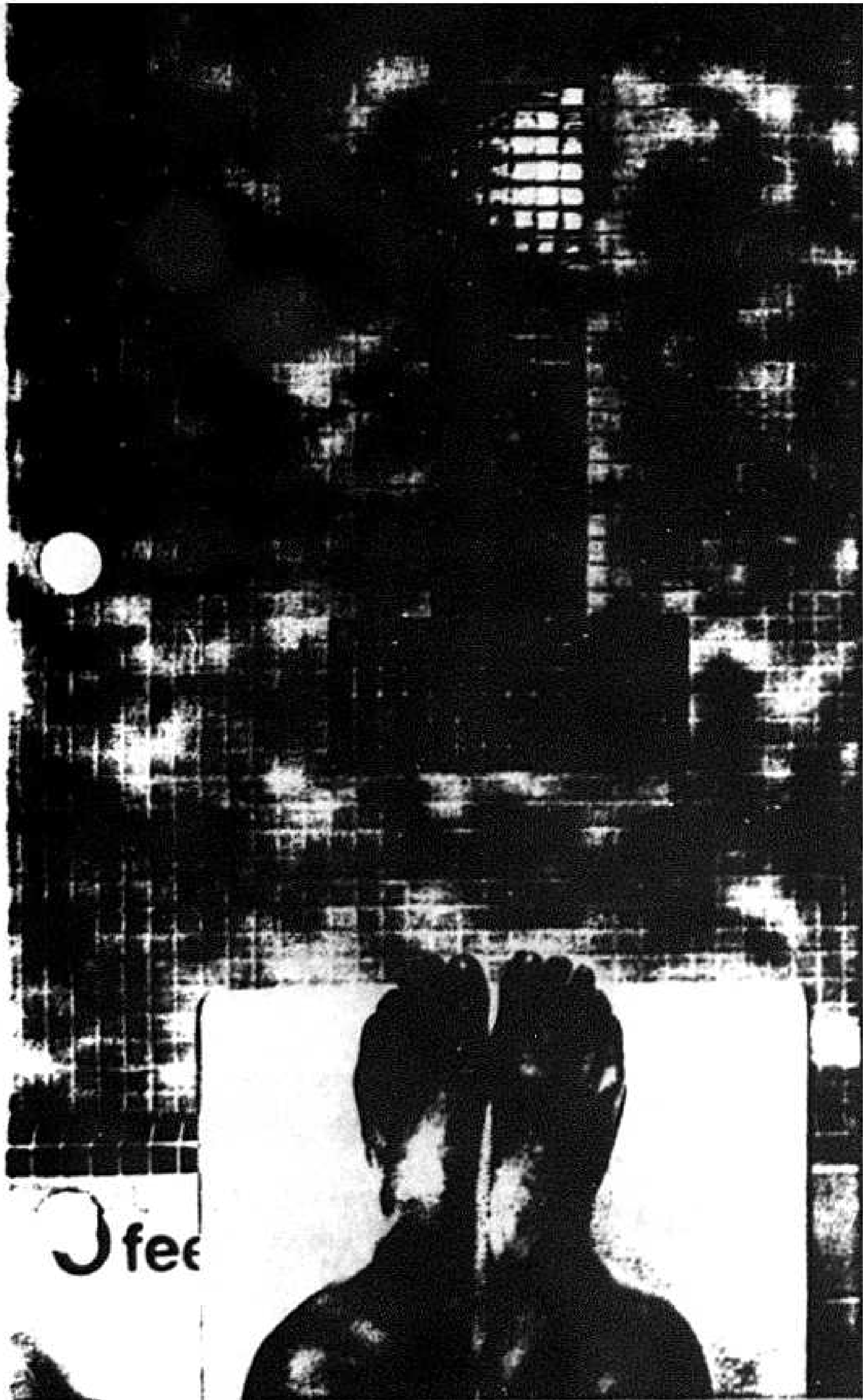

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