**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

 **M E M O R A N D U M**

 **NOVEMBER 22, 1993**

**TO : DIRECTOR OF RECORDS AND REPORTING**

**FROM : DIVISION OF ELECTRIC AND GAS (WHEELER, BRADY, BERG)**

 **DIVISION OF LEGAL SERVICES (BROWN,ELIAS)**

**RE : DOCKET NO. 930759-EG, GENERIC INVESTIGATION INTO THE APPROPRIATE METHOD FOR ALLOCATION AND RECOVERY OF COSTS ASSOCIATED WITH CONSERVATION PROGRAMS**

 **AGENDA:DECEMBER 7, 1993 - CONTROVERSIAL AGENDA - PARTIES MAY NOT PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\EAG\WP\930759.RCM**

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 **CASE BACKGROUND**

 In 1981, when the Conservation Cost Recovery (ECCR) clause was established, the Commission made two decisions regarding the allocation of conservation costs. The first was the determination that the costs associated with conservation benefits should be spread among all customers. The Commission rejected the notion that only the participants in conservation programs benefit from those programs. The second decision was to allocate costs to the rate classes on a per kilowatt hour, or energy, basis. **Order No. 9974, Docket No. 810050-EU, page 9:**

 One of the issues addressed during this proceeding was whether the unreimbursed costs should be recovered on a per kilowatt hour...basis from all customers, or whether an attempt to be made to impose the costs upon certain classes of customers. Mr. Brubaker, who testified on behalf of the Florida Industrial Power Users Group, advocated the latter proposition, on the theory that those individual customers who availed themselves of conservation measures would receive the benefits of lower bills resulting from reduced consumption. However, Mr. Brubaker acknowledged that, to the extent conservation efforts succeed in obviating the need for expensive new plant, all customers will benefit. Because all customers will enjoy the benefits of such cost avoidancy we direct that the authorized costs be recovered from all customers on a per kilowatt hour...basis.

 This methodology was in effect until 1988, when Tampa Electric Company (TECO) petitioned to exclude its interruptible customers from paying demand-related conservation costs. These customers were required to pay only the conservation costs equal to the estimated fuel benefits they receive from conservation.

 As a result of a Commission-approved rate stipulation (Order No. PSC-92-1197-FOF-EI) in its 1992 rate case, Florida Power Corporation (FPC) and the parties agreed that the costs of dispatchable conservation programs, including an appropriate portion of common administrative costs would be allocated to the rate classes using the 12 Coincident Peak and 1/13 Average Demand (12 CP and 1/13) methodology. The remainder of the ECCR costs were to continue to be allocated on an energy basis. The stipulation also stated that FPC's curtailable and interruptible rates would become conservation programs, with the credits paid to participants recovered through the ECCR clause.

 In its filing of projected conservation costs for the August 1993 ECCR hearing, Florida Power and Light Company (FPL) petitioned to allocate conservation costs for all of its programs using the 12 CP and 1/13th method. In addition, FPL asked to recover costs from demand-billed customers on a demand basis. The decision on FPL's proposed methodology, as well as a review of the treatment for TECO's interruptible customers was deferred to this generic investigation by Order No. PSC-93-1333-FOF-EG. All investor-owned utilities were given an opportunity to propose changes to their current methodology for allocating and recovering conservation costs at a formal hearing held on October 11, 1993.

 At that hearing, FPL proposed the same methodology that it proposed in its petition for the August 1993 ECCR hearing. FPC proposed to continue the methodology in its rate case stipulation, with minor modifications. Gulf Power Company (Gulf) proposed a two-part methodology under which the costs for conservation programs would be assigned directly to the participants whenever possible, and when not feasible, they would be assigned only to the class of customers eligible to participate in the programs. TECO and Florida Public Utilities Company (FPUC) asked to continue to allocate and recover conservation costs on an energy basis.

 **DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission approve a uniform methodology for allocating and/or recovering conservation costs for all investor-owned utilities?

**RECOMMENDATION:** Yes. However, exceptions should be allowed to the extent reasonable, appropriate and necessary.

**POSITIONS OF PARTIES**

**FPL:** A uniform allocation methodology is unnecessary. The Commission has used different allocation methodologies for utilities in rate cases, reflecting a need for flexibility to respond to individual factors. That same flexibility is appropriate in allocating conservation costs. Uniform cost recovery is unnecessary and could result in less meaningful price signals.

**FPC:** Uniformity among the investor-owned utilities is not necessary. The important consideration is consistency between an individual utility's allocation methodologies for its base rates and its cost recovery clauses. Since the cost allocation methodologies used by the Commission in setting the utilities' base rates are not necessarily uniform, the conservation cost allocation methodologies of the utilities should be allowed to vary accordingly.

**GULF:** No. The Commission should continue to give each company the opportunity to develop their own allocation and recovery methodologies, subject to Commission review and approval. This opportunity for differentiation among utilities encourages innovation and experimentation and allows the Commission to evaluate appropriateness of different methods based on experience in Florida.

**TECO:** Not necessarily. The facts of a particular case may affect the way allocation and recovery of conservation costs should be accomplished.

**FIPUG:** Beyond some basic parameters reflecting cost-causation, FIPUG believes there is some reasonable amount of latitude within which companies may differ in respect to their methodologies.

**LEAF:** Yes, unless a utility makes an adequate showing of why a different methodology is more consistent with statutory criteria.

**STAFF ANALYSIS:** To the greatest extent possible, a uniform methodology for allocating and recovering conservation costs should be adopted for investor-owned electric utilities. Staff recognizes that there are significant differences among companies that necessitate some deviation from a single methodology (See Issues 2 through 6). However, as a base line, staff recommends that the Commission adopt the 12 CP and 1/13 average demand allocation methodology for allocating costs associated with dispatchable programs, and to continue to allocate the costs of all other programs on an energy basis. Energy conservation costs should continue to be recovered on an energy basis.

 The Commission has traditionally given the investor-owned utilities considerable latitude to construct conservation program plans that are responsive to their utility-specific system and customer needs. However, latitude in designing conservation programs should not be confused with latitude in assigning responsibility for conservation costs.

 If a utility wishes to allocate and recover conservation costs using a different methodology than other utilities it must specifically demonstrate why the different methodology is reasonable.

**ISSUE 2:** How should Florida Power and Light Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Florida Power and Light Company should allocate costs for its dispatchable conservation programs on a 12 coincident peak and 1/13th average demand basis and costs for its remaining conservation programs on an energy basis. All recovery should be on an energy basis. After the Commission approves FPL's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930548-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**POSITIONS OF PARTIES**

**FPL:** FPL should allocate conservation costs as it would allocate the costs conservation displaces. At present, the 12 CP and 1/13th methodology should be used. To provide better price signals, FPL should recover conservation costs from demand billed customer classes through demand charges and from other customer classes through an energy charge.

**FPC:** No position.

**GULF:** No position.

**TECO:** No position.

**FIPUG:** The costs of the programs should be allocated to classes on the basis of the 12 CP and 1/13th average demand allocators. For those customers who pay demand charges, the costs should be recovered through an increase in the demand charge. See Issue 7 for FIPUG's position as to Interruptible customers.

**LEAF:** The PSC should allocate ECCR costs as it would allocate the supply-side costs avoided by those programs. Rates for ECCR cost recovery should continue to be designed on a cents/kWh basis within each class. FPL's proposed methodology should be rejected.

**STAFF ANALYSIS:**

 **Allocation**

 Since 1981, when the ECCR clause was first established, all conservation program costs have been allocated to FPL's rate classes on a per kWh, or energy, basis. This method allocates all costs to the classes based on their kWh usage.

 FPL has now proposed to allocate all costs using a demand allocation methodology. The method they advocate is the 12 Coincident Peak and 1/13 Average Demand method, which was the method used to allocate non-nuclear production plant costs in FPL's last rate case. This method allocates most costs (12/13ths) to the rate classes based on their contributions to the 12 monthly system peak hours. (TR 5)

 Such a change in methodology results in those classes which have relatively low load factors paying more than they would have under an all energy allocation. Low load factor classes are those with low kWh usage relative to their coincident demands. (TR 56) For example, under the currently effective October 1993 through March 1994 recovery period FPL's residential class customers pay .23 cents per kWh (TR 55), which would be $2.30 on a typical monthly 1,000 kWh residential bill. Under FPL's proposal, as shown in Hearing Exhibit No. 1, a residential customer would pay .26 cents per kWh, or $2.60 on a typical monthly bill, an increase of about 13%.

 FPL has asserted that an all demand allocation is appropriate because the primary purpose of FPL's conservation programs is "the avoidance or deferral of additional generating plant capacity.", and thus the costs of those programs should be allocated to the rate classes in the manner in which they would have been allocated had the deferred or avoided units had been built, and their costs recovered through base rates. (TR 11-12)

 In support of this method, FPL presented an analysis which they contend shows that the demand-related benefits associated with FPL's conservation programs are equal to 111% of the total benefits. The analysis, which is contained on page 8 of Hearing Exhibit 4, consists of the estimates of "avoided costs" taken from the cost effectiveness calculations provided by FPL when the programs were initially filed for Commission approval. This exhibit does not include FPL's research or audit programs, for which a demonstration of cost effectiveness is not required. (TR 20)

 Exhibit 4 divides the costs into energy related and demand related components. The exhibit shows that the energy related total benefits are in fact negative, which witness Birkett explained is due to the so-called "fuel penalty" which is incurred when a more efficient plant is deferred or avoided as a result of a program. (TR 64)

 The staff agrees that an all energy allocation method is no longer appropriate for FPL's conservation costs, and that some demand allocation is appropriate. Staff also agrees that the most appropriate method to use for demand allocation is the 12 CP and 1/13 AD method, as this method was approved in FPL's last cost-of-service study for non-nuclear production plant. It is also identical to that approved by the Commission to develop allocators in Capacity Cost Recovery clause. FPL has proposed to update these allocators using the most recently available load research in the same manner as it does in the Capacity Cost Recovery Clause. (TR 5). Staff concurs that this is appropriate.

 The staff believes that a strong case can be made for the allocation of FPL's dispatchable conservation program costs on a demand basis. Dispatchable programs are those programs which the utility, at its discretion, can call upon to reduce load when that capacity is needed for those system. (TR 108) The staff believes that the costs of dispatchable programs can be described as heavily demand related, as they can be called upon by the utility at times of system peak demand.

 FPL's dispatchable programs consist of its Residential and Commercial/Industrial Load Control programs. (TR 57) Staff believes that it is appropriate to allocate the costs of these programs, as well as a share of their common administrative costs, on a demand basis. In addition, it is appropriate for FPL to allocate the costs of any research projects which are related to dispatchable programs on a demand basis. The staff does not believe, however, that a sufficient case has been made for a shift to the allocation of all of FPL's ECCR costs on a demand basis at this time.

 One concern which the staff has with FPL's analysis supporting an all-demand allocation is that it relies upon estimates of avoided costs made at the time of program approval, and not upon the actual program results after implementation. (TR 50,74)

Hearing Exhibit No. 2, which was a response to a staff interrogatory in Docket No. 930002-EG, contains a comparison of filed and actual kW and kWh savings for 1992. This exhibit shows there can be wide disparities between expected and actual demand and energy savings.

 Another concern with FPL's analysis involves those programs for which no cost effectiveness is required to be demonstrated, namely the audit and research programs. FPL's analysis in Exhibit 2 does not address treatment of these programs. (TR 20)

 Regardless of the actual demand and energy savings from its programs, FPL's current program plan was intentionally designed to primarily avoid capacity costs. This was based on FPL interpreting the primary goal of FEECA to be demand reduction. (Exhibit 4) However, along with all other FEECA utilities, FPL is in the process of revising its conservation program plan to achieve numeric conservation goals which the Commission will approve for FPL in Docket No. 930548-EG. (TR 62-63) There will be separate numeric goals for both demand savings and energy savings pursuant to the Commission's new rules which clearly recognize savings as priority objectives of FEECA. (Rules 27-17.001(3)(4) and 25-17.0021(1), F.A.C.) Based on this process, it seems unlikely that FPL will continue to have a conservation program plan in which it will be appropriate to completely ignore the contribution of energy savings.

 Therefore, staff recommends that FPL allocate only the costs of its dispatchable conservation programs using the 12 CP and 1/13 demand allocation method. These programs represent approximately 60% of FPL's ECCR costs for the period October 1993 through March 1994. (Exhibit 4) Staff recommends that FPL continue to allocate the costs of its remaining programs on an energy basis.

 After FPL's revised DSM plan has been approved by the Commission, the utility's cost recovery methodology should be reviewed for the most appropriate method to allocate the costs of programs with both demand and energy savings. At that time, FPL will have a Commission-established balance of demand and energy saving programs and newly revised and approved cost-effectiveness analyses.

 **Recovery**

 FPL has proposed to recover the energy conservation costs on a billed kilowatt (demand) basis for demand-metered customer classes and on a kilowatt-hour (energy) basis for the remaining customer classes. The recovery method proposed by FPL, at least for the demand-metered customer classes, is consistent with the allocation method proposed by FPL (TR 18). FPL asserts that costs which are allocated to the customer classes on a demand basis should also be recovered from the customers classes on a demand basis, when possible. FIPUG supports FPL's position. Implicit in FPL's argument is the concept of a price signal. FIPUG's Witness Barron states in direct testimony that recovering demand allocated costs on a demand basis, provides customers with the information needed to efficiently assess the costs they impose on the utility (TR 195). Staff believes that FPL's proposal, while not without merit, is not appropriate and recommends that FPL continue to recover the energy conservation costs on an energy basis from all customer classes.

 The method of recovery can be thought of as an **intraclass** allocation issue. Recovery on an energy basis tends to recover a higher proportion of the allocated costs from the higher load factor customers within a customer class while recovery on a demand basis tends to recover a higher proportion of the allocated costs from the lower load factor customers within the same customer class. Generally, the appropriate recovery method is more obvious when costs are allocated on a energy basis than when costs are allocated on a coincident demand basis. Costs which are allocated on energy basis are a function of the kWh's a customer consumes irrespective of the time at which the kWh's are consumed (i.e. off peak or on peak). Clearly costs which are allocated on an energy basis should be recovered on an energy basis.

 Costs that are allocated on a coincident demand basis are a function of a customer class's demand at the time of the system peak. However, for billing purposes, an individual customer's maximum demand (billed kw) is determined by the customer's greatest amount of continuous use during any 30 minute time period. The customer's billed kW may or may not occur when the system is at its peak. Witness Slusser testified that neither of them (billing kW or billing kWh recovery methods) are a perfect collection of coincident demand costs (TR 111). This is because neither are billing determinants that are directly tied to coincident peak demand.

 While Witness Slusser did testify that an energy recovery method and a demand recovery method both have merit, (TR 95) he did not see the need, at least for FPC, to change recovery methodologies. Mr. Slusser did not believe any additional intra-class equity would be gained by the demand metered customers if conservation the costs were recovered on billed kW (TR 83). In fact, FPL's Witness Birkett also testified that he did not believe there were any existing intra-class inequities associated with continued recovery on an energy basis from the demand-metered customers (TR 283).

 In the August 1993 fuel hearing, FPL proposed to recover the costs in the Capacity Payment Recovery clause on a demand basis for demand metered customers. Staff, in its recommendation, supported FPL's proposal. The Commission in Order No. PSC 93-1331-FOF-EI found FPL's proposed method of capacity cost recovery reasonable. Because of the above mentioned mismatch between billing demand and coincident demand, staff does not believe it is appropriate to recover additional demand-allocated recovery clause costs on a demand a demand basis.

 If the Commission adopts staff's above recommendation regarding the allocation of ECCR costs, there will be a substantial portion of costs that will be allocated on an energy basis. This offers further support for recovery on an energy basis.

**ISSUE 3:** How should Florida Power Corporation allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Florida Power Corporation should continue to allocate costs for conservation as stipulated in its last rate case, using the 12 coincident peak and 1/13th average demand method for dispatchable conservation programs, and an energy basis for the remaining programs. All recovery should continue to be on an energy basis. After the Commission approves FPC's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930549-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**POSITIONS OF PARTIES**

**FPL:** No position.

**FPC:** FPC should use an allocation methodology for recovery of its conservation costs that is consistent with the cost allocation methodology used in setting its base rates, as the Commission requires in the Capacity Cost Recovery (CCR) mechanism. FPC's current conservation cost allocation and recovery methodology, as described in Mr. Slusser's testimony, was stipulated by the parties and approved by the Commission in the Company's 1992 rate case and is based on the same cost allocation methodology used in that case and in the CCR mechanism.

**GULF:** No position.

**TECO:** No position.

**FIPUG:** The costs of demand-related programs should be allocated to classes on the basis of the 12 CP and 1/13th average demand allocators. For those customers who pay demand charges, these costs should be recovered through an increase in the demand charge. See Issue 7 for FIPUG's position on Interruptible customers.

**LEAF:** FPC's present allocation methodology is reasonable, although it can be improved. ECCR costs should be allocated in the same manner as the supply-side costs avoided by those programs.

**STAFF ANALYSIS:**

 **Allocation**

FPC has not proposed any changes to the method by which it allocates and recovers its ECCR costs, with the minor exceptions of the adjustments for line loss and metering voltage discussed in Issues8 and 9. FPC's method was established in the rate design stipulation approved by the Commission in FPC's last full rate case, Docket No. 910890-EI. (TR 80)

 In that rate stipulation, it was agreed that all of FPC's conservation costs related to its dispatchable programs, which are comprised of its interruptible, curtailable, and load management programs, would be allocated to the rate classes using the method employed in the Capacity Cost Recovery mechanism. This method allocates costs using the 12 CP and 1/13 demand allocation method, which was the company's approved cost-of-service methodology in its last rate case.

 Witness Slusser testified that a demand allocator is appropriate for recovery of dispatchable programs because they are "especially demand related". This is because they can be called upon by the company to meet demand at times of system peak. (TR 82, 98) Witness Slusser also testified that the portion of common administrative costs which could be attributable to dispatchable programs was also allocated on a demand basis, as well as that portion of FPC's research programs which was directed toward dispatchable programs. (TR 109-110) The remainder of FPC's program costs continue to be recovered on an energy basis.

 The staff believes that this is a reasonable way to allocate FPC's conservation costs. FPC's method acknowledges that the costs of dispatchable programs are heavily demand related, and allocates them on a demand basis. It also recognizes that there are some energy savings inherent in all other conservation programs, and thus allocates a portion of ECCR costs on an energy basis.

 Staff recommends the Commission approve FPC's petition to continue to allocate its dispatchable programs on the 12 CP and 1/13 method and its remaining programs on an energy basis. After FPC's revised DSM programs have been approved by the Commission in Docket No. 930549-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**Recovery**

 Staff supports FPC's proposal that continues to recover ECCR costs on an energy basis from all customers. FIPUG recommends that these costs be recovered on an billed demand basis from demand metered customers (See Issue 2).

 While Witness Slusser did testify that an energy recovery method and a demand recover method both have merit, he did not see the need for FPC to change recovery methodologies. The first reason is because Mr. Slusser could find no additional intra-class equity that would be gained from recovering conservation costs from demand-metered customers on a billed kW basis (TR 83). In fact, FPL's Witness Birkett also testified that he did not believe there were any existing intraclass inequities associated with continued recovery on an energy basis from the demand-metered customers (TR 283).

 The second reason is primarily one of administrative ease. There are administrative costs and burdens associated with reprogramming the customer accounting and billing system to accommodate a billing demand recovery method (TR 113). In the absence of any existing inequities, Staff does not believe the additional administrative costs and burdens should be imposed. TECO's Witness Kordecki added a third reason that supports Staff's position, which is simply that customers accept the current rate design. (TR 153)

**ISSUE 4:** How should Tampa Electric Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Tampa Electric Company should allocate dispatchable conservation program costs which are recovered through the ECCR clause on the 12 coincident peak and 1/13th average demand basis and costs for its remaining programs on an energy basis. All recovery should be on an energy basis. After the Commission approves TECO's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930551-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**POSITIONS OF PARTIES**

**FPL:** No position.

**FPC:** No position.

**GULF:** No position.

**TECO:** The allocation and recovery of the costs of conservation programs should continue under the methodology currently used by Tampa Electric. This will (a) keep the methodology consistent with the last approved Tampa Electric cost of service study, and (b) avoid unnecessary administrative complexity.

**FIPUG:** The costs of the programs should be allocated to classes on the basis of the 12 CP and 1/13th average demand allocators. For those customers who pay demand charges, the costs should be recovered through an increase in the demand charge. See Issue 7 for FIPUG's position on Interruptible customers.

**LEAF:** TECO's present allocation methodology is adequate, although it can be improved. ECCR costs should be allocated in the same manner as the supply-side costs avoided by those programs.

**STAFF ANALYSIS:**

 **Allocation**

 TECO has not proposed any changes to the method which it uses to allocate its conservation costs. They advocate continuing their practice of allocating all conservation costs on an energy basis. With the exception of their treatment of interruptible customers, as discussed in Issue 7, this is the same method employed by TECO since the inception of the ECCR clause in 1981.

 TECO's witness Kordecki testified that, with the exception of the interruptible treatment, no other method would be more appropriate than the one which TECO currently uses, and thus no changes are necessary. He stated that none of the other methods proposed, such as an all demand allocation as proposed by FPL, or some combination of energy and demand allocation as proposed by FPC, would be any better, or worse, than an all-energy allocation. (TR 176)

 This was based on the witness's contention that there is a timing mismatch between the way conservation costs are allocated to rate classes and the way the benefits flowing from those programs are realized. He contends that allocation using any of the current or proposed methods is flawed, because the proposed allocation methods, whether demand or energy, are based on embedded costs, while the benefits of conservation are determined on a marginal basis. The only remedy for this situation which the witness could identify would involve "...radical changes in regulatory philosophy and rate design...", and would involve setting base rates on a marginal, rather than an embedded cost basis. (TR 147-150)

 The staff believes that this overstates the problems involved in determining an appropriate allocation method. Staff acknowledges that there is a mismatch between costs allocated on an embedded basis and benefits determined on a marginal basis. However, this is a problem that can be said to exist with virtually any type of recovery method.

 Virtually all of the witnesses in this proceeding have testified that, to the extent possible, the allocation of ECCR program costs should reflect the manner in which the costs they avoid would have been allocated. The staff believes that FPC's allocation method, which allocates those costs attributable to dispatchable programs on a demand basis, is appropriate. See Issue 3 for a discussion of FPC's allocation method.

 The staff recommends that those costs associated with TECO's dispatchable programs should be allocated using the 12 CP and 1/13 AD method, which was the approved methodology for allocating production plant costs in TECO's last rate case. (TR 173)

 In addition, those common administrative costs which are attributable to dispatchable programs, as well as any research program costs which address dispatchable programs should be allocated on a demand basis. The remainder of TECO's program costs should continue to be allocated on an energy basis.

**Recovery**

 Staff supports the Company's proposal that continue to recover ECCR costs on an energy (kWh) basis (See Issue 3). FIPUG believes the Company should recover the ECCR costs on a billed kW basis from the demand metered customers (See Issue 2).

**ISSUE 5:** How should Gulf Power Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Gulf Power Company should continue to allocate and recover the costs of its conservation programs on an energy basis. After the Commission approves Gulf's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930550-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**POSITIONS OF PARTIES**

**FPL:** No position.

**FPC:** No position.

**GULF:** Each class's allocation should include only costs for programs designed for that class. Where practical, costs should be assigned to participants. Costs allocated to class should be recovered through a kWh charge. Costs assigned to specific program participants should be recovered through a line item charge on the participants' bills.

**TECO:** No position.

**FIPUG:** The principles expressed by FIPUG with respect to the other companies would be applicable to Gulf Power (see Issues 1-4, 7).

**LEAF:** The PSC should allocate ECCR costs as it would allocate the supply-side costs avoided by those programs. Rates for ECCR cost recovery should continue to be designed on a cents/kWh basis within each class. Gulf's proposed methodology does not appropriately reflect cost-causation and does not eliminate cross-subsidization.

**STAFF ANALYSIS:** Gulf Power Company has proposed two separate methodologies for allocating conservation costs, depending on the nature of the conservation program involved. The methodologies do not attempt to assign conservation costs on either a demand or energy basis but rather on a program participation basis.

1. **Participant Assignment method**. Where practical, costs would be directly allocated to the specific program participant and recovered through a line item charge on the participant's bill. To the extent that Gulf is proposing to recover costs for programs through a line item charge on the participant's bill, there are no expenditures to be allocated in ECCR.
2. **Rate Class Assignment method**. Each class's allocation of ECCR costs would include only the costs for conservation programs in which that class is eligible to participate. Recovery would be through a kWh charge. Staff recommends the Commission reject this proposed method as less equitable than the problem it is intended to resolve.

 Gulf recognizes that its proposed methodologies differ markedly from those employed or proposed by the other investor-owned utilities. (Brief at 10) Gulf's reason for proposing these methods is to eliminate cross subsidies of conservation costs. The Rate Class Assignment method is to eliminate **inter** class cross subsidies and the Participant Assignment method is to eliminate **intra** class cross subsidies. (TR 126, 128-130, 133; Exhibit 10)

 The cross subsidies which Gulf's methods propose to resolve relate only to the direct costs to offer conservation programs, so-called cost incurrence. The other utilities and parties to this docket have proposed methodologies concerned with the indirect costs of fuel savings and deferred plant that conservation is meant to avoid, so-called cost causation. (TR 243-244, 255-258)

**Participant Assignment method**

 The Participant Assignment method assigns the cost for a conservation program directly to the participant. Gulf's reason for proposing this method, whenever possible, is to eliminate intra-class subsidy whereby customers who choose not to participate in conservation programs for which they are eligible still have to pay a portion of the costs. (TR 128) Directly assigning the cost for a conservation measure to the participant is, in effect, voluntary conservation. The customer's incentive is the reduction in electric bills. There are precedents for this methodology in other states. Gulf cited Georgia Power's recently-approved Commercial and Industrial DSM programs and PacifiCorp's FinAnswer program. (TR 128)

 Gulf currently has only one approved conservation program for which the Participant Assignment method is appropriate, the Express Loan Program. (TR 139-140 and Exhibit 11, Page 4) To the extent that Gulf is proposing to recover costs for this program through a line item charge on the participant's bill, there are no expenditures to be allocated in ECCR. Should Gulf wish to pursue this proposal further, it needs to petition the Commission to discontinue Gulf Express as a conservation program with cost recovery through ECCR and petition, instead, for a tariff to add a line item charge to the customer's bill. This would also be the case with any other future programs for which Gulf would propose similar cost recovery. (See Commissioner Clark's discussion with witness Kilgore on Gulf's pilot TransText program. TR 136-137)

 There is one major problem with the Participant Assignment method which is relevant to these proceedings. There are basic energy services costs, such as audits and information programs, as well as transaction costs for establishing participant program charges, which may be significant enough to lower the value of voluntary conservation if the full costs are passed to the individual participants. When this is the case, Gulf proposes recovering these extra program costs separately through ECCR in the same manner as its other DSM programs costs are recovered. (TR 130-131 and 139-142) If so, a program would have to be designed for these costs such that cost-effectiveness analysis could be performed for Commission approval. However, to the extent that a majority of the costs of these programs are voluntarily absorbed by the participants, the programs should pass cost-effectiveness tests with a high benefit to cost ratio for the ratepayers.

**Rate Class Assignment method**

 For extra costs from the Participant Assignment method above and for all other conservation programs, Gulf proposes to assign the costs only to the class of customers eligible to participate. The equity issue intended to be resolved is inter-class subsidy of customers paying for programs in which they do not have an opportunity to participate and to realize direct benefits. (TR 133) In this case, Gulf is not proposing voluntary conservation, as above, but an imposition of the cost of conservation upon certain classes of customers. It is worth noting that a similar interclass cross-subsidy argument was raised and rejected in Commission Order No. 9974 which originally approved the ECCR clause in 1981. The Commission decided that "to the extent conservation efforts succeed in obviating the need for expensive new plant, all customers will benefit." (See the Case Background.)

 However, Gulf believes times have changed. With increasing competition, its customers can no longer afford to purchase services for which they receive little or no direct benefits. (TR 127) Gulf recognizes that nonparticipants "may" eventually see benefits associated with either fuel savings or capacity avoidance or deferral. However, Gulf believes these estimates are difficult to precisely forecast as they are based on load forecasts and customer response which can't be known with certainty. (TR 35-38, 134, 253-255)

 Staff agrees that load forecasts and customer behavior are difficult to predict and can possibly lead to programs being approved which might not be cost-effective for non-participants. But to totally discount that any fuel or deferred plant savings are conferred upon non-participating classes by assigning all the costs of conservation to the participating classes is not a more equitable and efficient approach. A more obvious solution would be for Gulf to look for opportunities in its revised DSM plan, which is scheduled to be filed December 1994 in Docket No. 930550-EG, to create a program blend which will enable every customer class to have equal access to conservation opportunities.

 Staff recommends the Commission reject Gulf's proposed Rate Class Allocation method. Instead, Gulf should continue to allocate and recover its costs for conservation on an energy basis since Gulf currently has no dispatchable conservation programs for which allocation on the 12 CP and 1/13 basis would be more appropriate. (TR 137-138) After the Commission has approved Gulf's revised 1994 DSM plan, the utility's cost recovery methodology should be reviewed for continued appropriateness.

**Recovery**

 Staff supports the Company's proposal that continue to recover ECCR costs on an energy (kWh) basis (See Issue 3). FIPUG believes the Company should recover the ECCR costs on a billed kW basis from the demand metered customers (See Issue 2).

**ISSUE 6:** How should Florida Public Utilities Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Florida Public Utilities Company should continue to allocate and recover the costs of its conservation programs on an energy basis. After the Commission approves FPUC's demand-side management (DSM) plan, scheduled to be filed August 1995 in Docket No. 930552-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**POSITIONS OF PARTIES**

**FPL:** No position.

**FPC:** No position.

**GULF:** No position.

**TECO:** No position.

**FIPUG:** No position.

**LEAF:** No position.

**STAFF ANALYSIS:** In its letter dated September 10, 1993, FPUC requested to be excused from further participation in this investigation and agreed to abide by any methodology the Commission ordered. Prior to that letter, FPUC had prefiled testimony requesting to continue to allocate and recover its conservation costs on an energy basis. Staff concurs that per kilowatt hour conservation cost allocation is the most appropriate methodology for FPUC at this time since the utility has no dispatchable DSM programs for which allocation on the 12 CP and 1/13th AD basis would be more appropriate. (See Staff Analysis for Issue 10)

 Only last year, FPUC passed the 500 Gigawatt-hours of annual retail sales which is the threshold requirement for a utility to be subject to the provisions of FEECA. However, FPUC has had a voluntary conservation program plan since the inception of FEECA, and has recovered the costs through ECCR in the same manner as the other investor-owned utilities which were subject to FEECA.

 As a FEECA utility, FPUC is now required to establish separate numeric demand-saving and energy-saving conservation goals pursuant to the Commission's new conservation rules. The utility is scheduled to file a DSM plan to meet these goals in August of 1995 in Docket No. 930552-EG. After the Commission has approved FPUC's new conservation plan, the utility's cost recovery methodology should be reviewed for continued appropriateness.

**Recovery**

 Staff supports the Company's proposal that continue to recover ECCR costs on an energy (kWh) basis (See Issue 3). FIPUG believes the Company should recover the ECCR costs on a billed kW basis from the demand metered customers (See Issue 2).

**ISSUE 7:** How should conservation costs be allocated to interruptible and other non-firm customer classes?

**RECOMMENDATION:** FPL's Commercial/Industrial Load Control customers should continue to pay their fully allocated cost of conservation programs, just as those customers in any other rate class. Likewise, FPC's Interruptible and Curtailable customers should continue to pay their fully allocated costs of conservation. TECO's current treatment, under which its interruptible customers pay only an amount equal to the estimated fuel savings from conservation is also appropriate and should be continued until reviewed in its next rate case. Gulf and FPUC do not have interruptible or other non-firm rates, and thus this issue is not relevant to them.

**POSITIONS OF PARTIES**

**FPL:** Conservation costs should be allocated to interruptible, curtailable and load management customer classes using the 12 CP and 1/13th methodology used to allocate the costs they displace. These customers are already compensated for their value to FPL's system, and further credit by lowering their cost responsibility is inappropriate.

**FPC:** Conservation costs should be allocated to non-firm customer classes in the same manner that production costs are allocated in setting base rates and Capacity Cost Recovery charges. In FPC's case, demand-related production costs are allocated to non-firm customer classes in the same manner as firm classes, with the non-firm nature of their service recognized through separate DSM billing credits. FPC's demand-related conservation costs should likewise be allocated to both firm and non-firm customer classes.

**GULF:** Each class's allocation should include only costs for programs designed for that class. Where practical, costs should be assigned to participants. Costs allocated to class should be recovered through a kWh charge. Costs assigned to specific program participants should be recovered through a line item charge on the participants' bills.

**TECO:** Conservation costs should continue to be allocated under Tampa Electric's present allocation methodology. However, if any change in allocation is made, it should be timed to coincide with (and be consistent with) the cost allocation methodologies used in the company's next rate proceeding.

**FIPUG:** Since Interruptible customers do not cause peak demand costs to be incurred, Interruptible customers should be excluded from the allocation of demand-related costs of conservation programs.

**LEAF:** The PSC should allocate ECCR costs as it would allocate the supply-side costs avoided by those programs.

**STAFF ANALYSIS:**

 **Florida Power and Light Company**

 While FPL has proposed to allocate all ECCR costs on a demand basis, rather than an energy basis as in the past, it has not proposed any changes to the treatment of its Commercial/Industrial Load Control (CILC) customers. This treatment entails allocating to CILC customers their share of conservation costs in the same manner as any other rate class. FIPUG has argued that these customers should be excused from the payment of all demand-related conservation costs.

 Staff believes that FPL's proposal to allocate conservation costs to CILC customers in the same manner as all other classes is appropriate.

 FPL's CILC program is a Commission-approved conservation program, under which participants pay a lower rate in return for agreeing to remove their load from the system during peak periods. This discount, which represents the capacity avoidance/deferral benefit, is recovered through the ECCR. (TR 268)

 If CILC customers were to be excused from paying their share of conservation costs, they would be receiving benefits in excess of those which they provide the system through their willingness to be interrupted. As FPL's witness Birkett testified, the cost effectiveness test which was filed to obtain Commission approval of the CILC program yielded a benefit to cost ratio of approximately 1:1. Any additional discount given to CILC customers, whether through excusing them from the payment of ECCR charges or any other means, would result in them being overcompensated for their interruptibility. (TR 268-269)

 FIPUG's witness Baron argues that because interruptible customers do not cause peak demand costs to be incurred, that they should not be required to pay those conservation costs which are designed to reduce demand. (TR 197) It still does not provide an argument for excusing FPL's CILC customers from the payment of ECCR costs, because, as the undisputed testimony cited above indicates, CILC customers are already being fully compensated for their interruptibility.

 **Florida Power Corporation**

 FPC has not proposed any changes to the manner in which it treats its interruptible and curtailable customers. FPC allocates ECCR costs to these classes in the same manner as they do to all customer classes. FIPUG argues that these customers should not be required to pay any demand-related conservation costs.

 Staff believes that FPC's proposal to allocate conservation costs to non-firm customers in the same manner as all other classes is appropriate. These rates are Commission-approved conservation programs. As a result of the rate stipulation approved in FPC's last rate case, these customers were assigned costs in the cost-of-service study based on their use characteristics, without making adjustments to account for their willingness to leave the system at the time of system peaks. They are then paid a credit which represents the value of the coincident peak avoidance which they provide by leaving the system at peak times. (TR 110-111, 210)

 Since this credit represents the value of capacity avoidance provided by non-firm customers, they should not be provided an additional discount by being excused from the payment of ECCR costs.

 FIPUG's witness Baron argues that because interruptible customers do not cause peak demand costs to be incurred, that they should not be required to pay those conservation costs which are designed to reduce demand. (TR 197) This does not provide an argument for excusing FPC's non-firm customers from the payment of ECCR costs, because, as the undisputed testimony cited above indicates, these customers are already being fully compensated for their interruptibility.

 **Tampa Electric Company**

 TECO has proposed no changes to the treatment of its interruptible customers. Currently, these customers only pay ECCR costs which are equal to the estimated fuel savings benefits which they receive. (TR 151)

 Staff believes this treatment to be appropriate. Unlike FPC's interruptible program, and FPL's CILC program, TECO's interruptible rate is not a Commission-approved conservation program. When the rate was established in TECO's last rate case, the loads of the interruptible customers were excluded from the cost-of-service study. Because the rate was developed in this manner, it is not appropriate to charge interruptible customers those conservation costs which serve to reduce peak demand. They are only charged an amount which represents an estimate of the fuel savings benefits which accrue from conservation programs.

**ISSUE 8:** Is it appropriate to adjust for line losses by class in allocating energy-related conservation costs?

**RECOMMENDATION:** Yes.

**POSITIONS OF PARTIES**

**FPL:** Yes. FPL's methodology allocates energy-related costs using contribution to sales at the generator, which takes into account losses by voltage level. If the Commission decides that an energy allocation is appropriate for ECCR costs, however, energy at the generator should be used to allocate.

**FPC:** Yes. FPC has proposed this refinement to its currently approved conservation cost allocation methodology to be consistent with the allocation of energy-related costs in base rates and fuel cost recovery charges.

**GULF:** No position at this time. Such adjustment is not necessary if the allocation/recovery methodologies proposed by Gulf are followed.

**TECO:** No, unless the present methodology is changed to some type of cost of service allocation.

**FIPUG:** Yes.

**LEAF:** Yes.

**STAFF ANALYSIS:** Line losses are incurred throughout the entire electric system in delivering electricity from the generating source to the customer's load. The amount of energy line losses for a particular customer class is, in large part, a function of the different voltage levels at which customers within that class receive service.

 Most customers receive service at the lowest voltage level, distribution secondary. There are some customers, however, who desire service at higher voltage levels, such as distribution primary or transmission voltage level. Delivery at higher voltages does not incur the same proportion of line losses as delivery at lower voltage levels.

 Because the amount of line losses may vary by rate class, it is appropriate to recognize such differences when allocating the cost responsibility to the customer classes.

 TECO's position is consistent with the belief that no changes to the ECCR collection methodology should be made outside of a rate case (TR 158). Staff believes this minor refinement can be made outside of a rate case because the adjustment is currently made for fuel costs and the energy portion of purchased power capacity costs.

**ISSUE 9:** Is it appropriate to adjust for metering voltage in allocating conservation costs?

**RECOMMENDATION:** Yes.

**POSITIONS OF PARTIES**

**FPL:** Yes. FPL's methodology allocates energy-related costs using contribution to sales at the generator, which recognizes line and transformation losses. A differentiation of ECCR charges by metering voltage is appropriate for customer classes with base rates that have non-fuel energy charges that vary due to differences in metering voltage.

**FPC:** Yes. FPC has proposed this refinement to its currently approved conservation cost allocation methodology to be consistent with the development of base rates and fuel and capacity cost recovery charges.

**GULF:** No position at this time. Such adjustment is not necessary if the allocation/recovery methodologies proposed by Gulf are followed.

**TECO:** No, unless the present methodology is changed to some type of cost of service allocation.

**FIPUG:** Yes.

**LEAF:** Yes.

**STAFF ANALYSIS:** A metering voltage adjustment is appropriate for customer classes that have non-fuel energy charges that vary due to differences in metering voltage. The metering voltage adjustment is similar to the line loss adjustment (TR 1130. However, this adjustment is an intra-class adjustment whereas the line loss adjustment is an inter-class adjustment. The metering voltage adjustment recognizes customer specific line loss differences within a customer class that result from the different voltage levels at which customers are metered.

 TECO's position is consistent with the belief that no changes to the ECCR collection methodology should be made outside of a rate case (TR 158).

**ISSUE 10:** What are the actual and potential benefits, if any, of demand side conservation programs that would necessitate any changes in allocation and recovery of conservation costs?

**RECOMMENDATION:** The benefits of conservation which are relevant to the decision on how ECCR costs should be allocated are capacity deferral or avoidance, and fuel savings.

**POSITIONS OF PARTIES**

**FPL:** The demand costs avoided by FPL programs are 111% of net benefits. Exhibits 4, 6. No FPL program has demand benefits of less than 66% of total benefits. Id. Programs that provide the primary benefit of capacity deferral should be allocated with a demand allocator like the costs they displace.

**FPC:** FPC is not aware of any benefits from its DSM programs that would necessitate changes in its conservation cost allocation and recovery methodology, nor have any such benefits been identified in this proceeding.

**GULF:** It is not simply the nature of the benefits of conservation programs that causes the need for the change in Gulf's methodology. Rather, it is the need to properly recognize the competitive nature of the energy efficiency market that causes the need for the change.

**TECO:** Tampa Electric is precluded from responding to this issue because the issue does not identify the starting point (relative to actual and potential benefits) from which to determine whether any changes in allocation or recovery of conservation costs are necessitated. Neither does the issue explain how "actual and potential benefits" necessitate changes in conservation cost allocation or recovery. The issue doesn't explain from what type of conservation cost allocation or recovery any perceived changes would be made.

**FIPUG:** Conservation programs primarily avoid peak demand-related costs. Certain utilities are allocating the costs among customer classes on the basis of the classes' respective kWh consumption levels, thereby failing to follow the principle of reflecting cost causation. The costs should instead be allocated on the basis of contributions to peak demand.

**LEAF:** Avoided unit capacity costs; avoided purchase power costs; avoided unit operation and maintenance costs; avoided unit fuel costs - replacement fuel costs; avoided transmission & distribution losses; tax credits (TRC); avoided sulfur dioxide emission allowance costs; increased revenues (RIM); reduced adverse environmental impacts; reduced risk of cost of compliance with future environmental regulations; and enhanced reliability.

**STAFF ANALYSIS:** The specific benefits of utility conservation programs which require changes in allocation and recovery are capacity deferral or avoidance benefits and fuel savings benefits. These benefits are discussed in issues 2 through 6, which address the specific allocation methods which the staff has recommended.

**LEGAL ISSUE:**

**ISSUE 11:** In deciding on the proper allocation and recovery of demand side program costs under the Conservation Cost Recovery Clause, is the Commission required to consider the criteria in Sections 366.041(1) and 366.06(1), Florida Statutes?

**RECOMMENDATION:** The Commission is authorized, not required, to consider the criteria set out in Section 366.04(1), Florida Statutes in ratemaking proceedings, along with any other criteria the Commission deems reasonable under particular circumstances. The Commission is only required to consider the enumerated criteria in Section 366.06(1), Florida Statutes, to the extent the Commission deems practicable under particular circumstances.

**POSITIONS OF PARTIES**

**FPL:** The Commission is authorized to consider, among other things, the criteria in Section 366.041(1), Florida Statutes. The Commission is required to the extent practicable to consider the criteria in Section 366.06(1). No one factor is primary or controlling.

**FPC:** The Commission is authorized, not required, to consider the criteria in Section 366.041(1), F.S. The Commission is required to consider the criteria in Section 366.06(1), F.S., only to the extent practicable.

**GULF:** The Commission is authorized, not required, to consider the criteria in Section 366.041(1), F.S. The Commission is required to consider the criteria in Section 366.06(1), F.S., only to the extent practicable.

**TECO:** If deciding on the proper allocation and recovery of demand side program costs under the Conservation Cost Recovery Clause constitutes an exercise by the Commission of its authority under Section 366.041(1) and 366.06(1), Florida Statutes, then the Commission's decision making is governed, at least in part, by the provisions of the referenced statutes.

**FIPUG:** As in other ratemaking contexts the statute contemplates that the cost to serve should be the primary consideration.

**LEAF:** The Commission is authorized, not required, to consider the criteria in Section 366.041(1), Fla. Stat. and is required to consider the criteria in Section 366.06(1), Fla. Stat. to the extent practicable.

**STAFF ANALYSIS:** Section 366.04(1), Florida Statutes, provides, in pertinent part, that;

 In fixing the just, reasonable, and compensatory rates, charges, fares, tolls, or rentals to be observed and charged for service within the state by any and all public utilities under its jurisdiction, the commission is authorized to give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered; the cost of providing such service and the value of such service to the public; the ability of the utility to improve such service and facilities; and energy conservation and the efficient use of alternative energy resources; provided that no public utility shall be denied a reasonable rate of return upon its rate base in any order entered pursuant to such proceedings. . . .

 (emphasis supplied)

 Section 366.041(1) gives the Commission considerable authority and discretion to consider a wide range of criteria in fixing fair, just and reasonable utility rates in all of its varied ratemaking proceedings, including this investigation into the proper allocation and recovery of conservation costs. The Commission is not required to consider only those criteria set out in the section; nor is it required to give particular weight to one criterion over another.

 Section 366.06(1), Florida Statutes, provides in pertinent part that;

 In fixing fair, just, and reasonable rates for each customer class, the commission shall, to the extent practicable, consider the cost of providing service to the class, as well as the rate history, value of service, and experience of the public utility; the consumption and load characteristics of the various classes of customers; and public acceptance of rate structures.

 (emphasis supplied)

 Section 366.06(1), Florida Statutes, requires that the Commission consider certain enumerated criteria when it fixes fair, just and reasonable rates between customer classes, to the extent that consideration of the criterion is relevant and reasonable under the circumstances of a particular case. The Commission is not precluded from consideration of other criteria as well that may be relevant to a particular proceeding or a particular case; and again, there is no requirement that the Commission give more weight to one criterion over another.

 Sections 366.041(1) and 366.06(1) effectuate the Legislature's intent to give the Commission the broad authority, the considerable discretion, and the flexibility it needs to respond effectively to changing economic conditions and varied regulatory circumstances. This principle of regulation is so well-established in the law it is almost axiomatic, and hardly needs repeating in this case.

**ISSUE 12:** What should the effective date be of any decisions made in this docket?

**RECOMMENDATION:** April 1, 1994, the beginning of the next ECCR cost recovery period.

**POSITIONS OF PARTIES**

**FPL:** FPL's proposed changes to ECCR allocation and rate design should be effective April 1, 1994, the beginning of the next ECCR cost recovery period.

**FPC:** Any decisions made in this docket should be implemented in conjunction with the ECCR factors for the next recovery period.

**GULF:** Any changes should be made effective on a prospective basis concurrent with the next implementation date of new ECCR factors. This would allow the Company to redesign any programs for which costs would be allocated directly to participants to allow for the change in allocation and recovery.

**TECO:** If the decision requires a change in the methodology for allocating conservation costs, the change should not become effective for any utility until that utility's cost of service study for its next rate case is completed.

**FIPUG:** No position.

**LEAF:** No position.

**STAFF ANALYSIS:** If the Commission votes to change allocation methodologies for any of the utilities, those changes should become effective beginning with the next ECCR recovery period, which will be the April 1994 through March 1995 period.

All parties who have taken a position on this issue have agreed that April 1, 1994 is the appropriate effective date, with the exception of TECO. Their position on this issue is consistent with their contention, as stated in Issue 4, that no change to their allocation and recovery of ECCR costs is appropriate unless there is a change to TECO's cost-of-service methodology, which would have to be done in the context of a rate case. Staff has recommended in that issue that a change outside a rate case is appropriate, and thus it recommends the April 1, 1994 effective date for all investor-owned utilities.

**ISSUE 13:** Should the Commission accept the recommended responses to LEAF's proposed findings of fact?

**RECOMMENDATION:** Yes

**STAFF ANALYSIS:** The Commission should adopt the recommended responses to LEAF's proposed findings of fact, which are attached to this recommendation (Attachment A).

**ISSUE 14:** Should this docket be closed?

**STIPULATED**

**RECOMMENDATION:** Yes.

 **ATTACHMENT A**

 **LEAF'S PROPOSED FINDINGS OF FACT**

 **(ISSUE 1): GENERIC ALLOCATION AND RECOVERY**

**FACT 1:** The costs of load management or conservation programs that avoided base load plant should not be allocated using the 12 CP and 1/13th AD factor, but instead using a method that more closely reflects the roles of peak demands and energy requirements in system planning. [TR 238, Line 21 to TR 239, Line 1]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion, not a fact.

 **(ISSUE 2): FPL-SPECIFIC ALLOCATION AND RECOVERY**

**FACT 2:** Under FPL's proposed ECCR allocation methodology, only the residential class would pay more during the October 1993 to March 1994 period. [TR 28, Line 18 to TR 29, Line 23]

**STAFF RECOMMENDATION:** Accept.

**FACT 3:** The benefits of FPL's DSM programs translate to lower bills for all FPL customers. [TR 30, Lines 4-7]

**STAFF RECOMMENDATION:** Reject. The proposed finding is vague and not supported by the record. Actual bill impacts cannot be known with certainty. FPL's currently approved end-use DSM programs passed the Rate Impact Test which is a determination that rates, not bills, for the participants and non-participants will remain the same or decrease.

**FACT 4:** Within each of FPL's rate classes, not every customer receives the same benefit. [TR 30, Lines 8-20]

**STAFF RECOMMENDATION:** Reject. The witness stated he did not know this fact necessarily to be true. Also, the finding is vague.

**FACT 5:** For ECCR allocation purposes, FPL defines its customers' benefits in terms of the avoided power plant costs and the kilowatt hours not used as result of customers' participation in DSM programs. [TR 30, Line 21 to TR 31, Line 4]

**STAFF RECOMMENDATION:** Reject. The proposed finding is vague. See Fact No. 6.

**FACT 6:** FPL determines customer benefits from its DSM programs in terms of the cost-effectiveness calculations included when each DSM program is filed for Commission approval. [TR 31, Lines 5-14]

**STAFF RECOMMENDATION:** Accept.

**FACT 7:** None of FPL's existing approved DSM programs was evaluated against a peaking unit in the cost-effectiveness program approval filing. [TR 32, Lines 6-11]

**STAFF RECOMMENDATION:** Reject. The proposed finding is not relevant or material to a decision on the issues in this case.

**FACT 8:** None of FPL's existing approved DSM programs was evaluated against an intermediate unit in the cost-effectiveness program approval filing. [TR 32, Lines 12-16]

**STAFF RECOMMENDATION:** Reject. The proposed finding is not relevant or material to a decision on the issues in this case.

**FACT 9:** FPL's analysis of the benefits of its DSM programs (Exhibit 6) was based upon avoided costs derived solely for FPL's cost-effectiveness program approval filing. [TR 33, Line 12 to TR 34, Line 15 and EXHIBITS 5 & 6]

**STAFF RECOMMENDATION:** Accept.

**FACT 10:** Exhibit 5 purports to explain how FPL derived the "program benefit data" on page 8 of FPL's response to Staff Interrogatory No. 1. [EXHIBIT 5]

**STAFF RECOMMENDATION:** Accept.

**FACT 11:** For some DSM programs, FPL states that the "fuel energy related costs" equal: avoided generation unit fuel cost - replacement fuel costs + program fuel savings + program fuel savings payback. [EXHIBIT 5, Pages 1-2]

**STAFF RECOMMENDATION:** Accept.

**FACT 12:** For some DSM programs, FPL's "fuel energy related costs" were purportedly derived from PSC Forms CE 2.1 and 2.2, in the DSM Cost Allocation Manual adopted in Rule 25-17.008(3), FAC. [EXHIBIT 5, Pages 1-2]

**STAFF RECOMMENDATION:** Accept.

**FACT 13:** For some DSM programs, FPL's avoided generation unit fuel cost was allegedly taken from PSC Form CE 2.1, Col. (5). [EXHIBIT 5, Pages 1-2]

**STAFF RECOMMENDATION:** Accept.

**FACT 14:** The avoided generation unit fuel cost in PSC Form CE 2.1, Col. (5) contains the "annual fuel costs for the avoided generating unit" - "this may be calculated by taking the fuel cost reported on PSC Form CE 1.1 times the kilowatts saved times the capacity factor times 8760, with fuel costs escalated appropriately." [RULE 25-17.008(3) and MANUAL, Page 36]

**STAFF RECOMMENDATION:** Accept with qualification. The Rule and Manual establish a minimum filing requirement for reporting cost effectiveness data for DSM programs. Nothing in the rule prohibits any party from proposing additional formats.

**FACT 15:** For some DSM programs, FPL's "replacement fuel cost" was allegedly taken from PSC Form CE 2.1, Col. (6). [EXHIBIT 5, Pages 1-2]

**STAFF RECOMMENDATION:** Accept.

**FACT 16:** The "replacement fuel cost" in PSC Form CE 2.1, Col. (6) "contains the replacement fuel costs that occur because the avoided generating unit was not built" - "these costs may be calculated by multiplying the annual kWh generation of the avoided unit by the replacement fuel costs shown on PSC Form CE 1.2." (The net fuel savings of the avoided plant would be calculated by subtracting this column from column 5). For a base-loaded avoided unit, the net fuel savings might be large. At the other extreme, the net fuel savings for a peaker might be very small or slightly negative." [RULE 25-17.008(3) and MANUAL, Pages 36-37]

**STAFF RECOMMENDATION:** Accept with qualification. The Rule and Manual establish a minimum filing requirement for reporting cost effectiveness data for DSM programs. Nothing in the rule prohibits any party from proposing additional formats.

**FACT 17:** For some DSM programs, FPL stated the "program fuel savings" as PSC Form CE 2.1, Column (8). [EXHIBIT 5, Pages 1-2]

**STAFF RECOMMENDATION:** Reject. The program fuel savings are PSC Form CE 2.2, Column (8).

**FACT 18:** The "program fuel savings" in PSC Form CE 2.1, Column (8) are "the fuel savings generated by the conservation program" - "this is the product of the kWh saved per customer, the number of participating customers, and the appropriate marginal fuel costs." [RULE 25-17.008(3) and MANUAL, Pages 38-39]

**STAFF RECOMMENDATION:** Reject. The program fuel savings are in PSC Form CE 2.2, Column (8).

**FACT 19:** Although FPL referred to the "program fuel savings payback" in the calculation of "fuel energy related costs" for some DSM programs on Exhibits 4 and 5, there is no Column (8a) on PSC Form CE 2.2. [EXHIBIT 5, Pages 1-2; RULE 25-17.008(3); and MANUAL, Pages 38-39a]

**STAFF RECOMMENDATION:** Accept with qualification. The Rule and Manual establish a minimum filing requirement for reporting cost effectiveness data for DSM programs. Nothing in the rule prohibits any party from proposing additional formats.

**FACT 20:** FPL's Page 8 of its response to Staff Interrogatory No. 1 was allegedly based upon "fuel energy related costs" for some conservation programs, but FPL did not provide the input data from the cost-effectiveness filing, including marginal fuel cost data. [EXHIBIT 5]

**STAFF RECOMMENDATION:** Reject. For some conservation programs, the input data from the cost-effectiveness filings for avoided marginal fuel cost was provided by FPL on PSC Form CE 3.3, Column (2) in Exhibit 5.

**FACT 21:** For the Efficient Motors GS program, FPL stated the fuel aspect of energy related avoided costs as ($102,000). [EXHIBIT 5, Page 4]

**STAFF RECOMMENDATION:** Accept.

**FACT 22:** For its Efficient Motors GS program filing, FPL stated the avoided generation unit fuel cost in 1993 as $0, the replacement fuel costs as $0 and the program fuel savings as $0, whereas in 1994 the figures were $0, $0, and $1,000, respectively. [EXHIBIT 5, Pages 8-9]

**STAFF RECOMMENDATION:** Accept.

**FACT 23:** The 1992 actual energy savings from FPL's approved DSM programs differs from those savings which FPL projected in FPL's filings for Commission approval of those programs. [EXHIBIT 2 and TR 38, Lines 5-11]

**STAFF RECOMMENDATION:** Accept.

**FACT 24:** The 1992 actual demand savings from FPL's approved DSM programs differs from those savings which FPL projected in most of FPL's filings for Commission approval of those programs. [EXHIBIT 2 and TR 38, Lines 5-11]

**STAFF RECOMMENDATION:** Accept.

**FACT 25:** As of 1992, the cumulative program-to-date energy savings from FPL's Residential Load Control (On Call) was 7.84 GWh, but FPL projected it would be 15.04 GWh when the program was filed. [EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept.

**FACT 26:** FPL alleged that actual "demand-related costs" are 117.77% of the total avoided costs projected for October 1993 - March 1994 for FPL's Residential Load Control (On-Call) program using the cost-effectiveness data in the program filing. [EXHIBITS 4 & 5]

**STAFF RECOMMENDATION:** Accept.

**FACT 27:** As of 1992, the cumulative program-to-date winter demand savings from FPL's Residential Load Control (On Call) was 141.17 MW, but FPL projected it would be 277.45 MW when the program was filed. [EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept.

**FACT 28:** For 1992, the energy savings from FPL's Residential High-Efficiency HVAC Program was 34.01 GWh, but FPL projected it would be 23.56 GWh when the program was filed. [EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept.

**FACT 29:** FPL alleged that actual "demand-related costs" are 110.11% of the total avoided costs projected for October 1993 - March 1994 for FPL's Residential High-Efficiency HVAC program using the cost-effectiveness data in the program filing. [EXHIBIT 4 and EXHIBIT 5, Page 4]

**STAFF RECOMMENDATION:** Accept.

**FACT 30:** For 1992, the summer demand savings from FPL's Residential High-Efficiency HVAC program was 7.63 MW, but FPL projected it would be 9.65 MW when the program was filed. [EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept.

**FACT 31:** For FPL's Residential Load Management Program (On-Call), the actual ratio of energy-to-demand savings for 1992 is 44 kWh/KW. [TR 48, Lines 2-7 and EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept in part and reject in part. The number is correct, but an energy to demand ratio has no Commission-established meaning.

**FACT 32:** For FPL's HELP Low-Cost program, the actual ratio of energy-to-demand savings for 1992 is 436,000 kWh/KW. [TR 48, Lines 13-20 and EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept in part and reject in part. The number is correct, but an energy to demand ratio has no Commission-established meaning.

**FACT 33:** For FPL's C/I Load Control Program, the actual ratio of energy-to-demand savings for 1992 is 1.8 kWh/KW. [TR 49, Lines 3-7 and EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept in part and reject in part. The number is correct, but an energy to demand ratio has no Commission-established meaning.

**FACT 34:** FPL alleged that actual "demand-related costs" are 125.00% of the total avoided costs projected for October 1993 - March 1994 for FPL's C/I Load Control Program using the cost-effectiveness data in the program filing. [EXHIBIT 4 and EXHIBIT 5, Page 4]

**STAFF RECOMMENDATION:** Accept.

**FACT 35:** For FPL's C/I Efficient Lighting program, the actual ratio of energy-to-demand savings for 1992 is 4,227 kWh/KW. [TR 49, Lines 21-24 and EXHIBIT 2]

**STAFF RECOMMENDATION:** Accept in part and reject in part. The number is correct, but an energy to demand ratio has no Commission-established meaning.

**FACT 36:** FPL alleged that actual "demand-related costs" are 79.45% of the total avoided costs projected for October 1993 - March 1994 for FPL's C/I Efficient Lighting Program using the cost-effectiveness data in the program filing. [EXHIBIT 4 and EXHIBIT 5, Page 4]

**STAFF RECOMMENDATION:** Accept.

**FACT 37:** The proportion of "demand-related costs" to total projected avoided costs for FPL's approved DSM programs varies from 66.16% (Residential Ceiling Insulation) to 159.83% (Residential HELP). [EXHIBIT 5, Page 4]

**STAFF RECOMMENDATION:** Accept.

**FACT 38:** Generally, participants in FPL's DSM programs benefit more than non-participants, no matter what the rate class. [TR 277, Lines 4-8]

**STAFF RECOMMENDATION:** Reject. The proposed finding is vague.

**FACT 39:** FPL witness Birkett's opinion that all of FPL's programs are demand-related is based upon his analysis of the dollar benefits of FPL's DSM programs solely from projected cost-effectiveness data in each program-approval filing. [TR 49, Line 25 to TR 50, Line 17]

**STAFF RECOMMENDATION:** Accept.

**FACT 40:** Participants in FPL's DSM programs that have energy benefits receive the benefit of lower bills than the customers would have received if they had not participated, all other things being equal. [TR 278, Line 7 to TR 279, Line 3]

**STAFF RECOMMENDATION:** Reject. The proposed finding is vague.

**FACT 41:** For non-demand billed FPL customers, the benefits of FPL's DSM programs are related to the effectiveness that those programs have in saving customers energy. [TR 279, Lines 4-14]

**STAFF RECOMMENDATION:** Reject. Whether or not a class of customers is demand or non-demand billed is unrelated to any benefits the class receives from DSM programs.

**FACT 42:** For FPL's non-time-of-use customers, there is no within-class inequity associated with recovering ECCR costs from demand customers on the basis of kWh consumption. [TR 283, Lines 9-19 and EXHIBIT 16]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion, not a fact.

**FACT 43:** Actual benefits that both participants and non-participants receive from DSM programs are dependent upon the accuracy of forecasts in program filings. [TR 134, Lines 5-16]

**STAFF RECOMMENDATION:** Reject. Actual benefits are what they are, independent of the accuracy forecasts.

**FACT 44:** FPL's proposed allocation mechanism is inappropriate because it would allocate all ECCR costs with[out] distinguishing those costs that primarily avoid capacity costs and those that primarily avoid energy costs. [TR 241, Lines 6-13]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion, not a fact.

**FACT 45:** All of FPL's current DSM research projects are designed primarily to reduce peak demand rather than to primarily reduce energy consumption. [TR 59, Lines 11-20]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion and not a finding of fact. For purposes of developing an exhibit in this docket, FPL was asked to make such a rough approximation of its research projects. However, the basis for determining what constitutes primary peak demand reduction verses primary energy consumption reduction is a policy decision which has not been established by the Commission.

**FACT 46:** In FPL's 1989 MFR rate filing, conservation costs were treated as a clause, as such were not allocated to rate classes (zeroed out). [TR 21, Line 20 to TR 22, Line 4]

**STAFF RECOMMENDATION:** Accept.

 **(ISSUE 3): FPC-SPECIFIC ALLOCATION AND RECOVERY)**

**FACT 47:** FPC's allocation methodology comes the closest to reflecting cost causation of DSM programs. [TR 234, Lines 8-14]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion, not a fact.

**FACT 48:** FPC's current load management programs primarily avoid peaking units. [TR 239, Lines 2-5]

**STAFF RECOMMENDATION:** Reject. The proposed finding is vague and not supported by the record.

**FACT 49:** Peaker-generated electricity is generally more expensive than energy generated from base load and intermediate units. [TR 239, Lines 22-23]

**STAFF RECOMMENDATION:** Reject. The proposed finding is vague.

**(ISSUE 4): TECO-SPECIFIC ALLOCATION AND RECOVERY**

**FACT 50:** TECO's present allocation methodology is more appropriate than its prior allocation methodology because it is more consistent with allocating and recovering DSM program costs on a "cost-causer-pays" basis. [TR 246, Lines 1-19]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion, not a fact.

 **(ISSUE 5): GULF-SPECIFIC ALLOCATION AND RECOVERY**

**FACT 51:** Gulf's proposed allocation methodology does not properly reflect principles of [cost] causation. [TR 243, Line 15 to TR 244, Line 21]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion, not a fact.

**FACT 52:** Gulf's proposed allocation methodology would not eliminate customer cross-subsidization. [TR 244, Line 23 to TR 245, Line 1]

**STAFF RECOMMENDATION:** Reject. This statement is conclusory opinion, not a fact.

 **ISSUE AND RECOMMENDATION SUMMARY**

**ISSUE 1:** Should the Commission approve a uniform methodology for allocating and/or recovering conservation costs for all investor-owned utilities?

**RECOMMENDATION:** Yes. However, exceptions should be allowed to the extent reasonable, appropriate and necessary.

**ISSUE 2:** How should Florida Power and Light Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Florida Power and Light Company should allocate costs for its dispatchable conservation programs on a 12 coincident peak and 1/13th average demand basis and costs for its remaining conservation programs on an energy basis. All recovery should be on an energy basis. After the Commission approves FPL's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930548-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**ISSUE 3:** How should Florida Power Corporation allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Florida Power Corporation should continue to allocate costs for conservation as stipulated in its last rate case, using the 12 coincident peak and 1/13th average demand method for dispatchable conservation programs, and an energy basis for the remaining programs. All recovery should continue to be on an energy basis. After the Commission approves FPC's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930549-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**ISSUE 4:** How should Tampa Electric Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Tampa Electric Company should allocate dispatchable conservation program costs which are recovered through the ECCR clause on the 12 coincident peak and 1/13th average demand basis and costs for its remaining programs on an energy basis. All recovery should be on an energy basis. After the Commission approves TECO's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930551-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**ISSUE 5:** How should Gulf Power Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Gulf Power Company should continue to allocate and recover the costs of its conservation programs on an energy basis. After the Commission approves Gulf's demand-side management (DSM) plan, scheduled to be filed December 1994 in Docket No. 930550-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**ISSUE 6:** How should Florida Public Utilities Company allocate and recover the costs of conservation programs?

**RECOMMENDATION:** Florida Public Utilities Company should continue to allocate and recover the costs of its conservation programs on an energy basis. After the Commission approves FPUC's demand-side management (DSM) plan, scheduled to be filed August 1995 in Docket No. 930552-EG, this cost recovery methodology should be reviewed for continued appropriateness.

**ISSUE 7:** How should conservation costs be allocated to interruptible and other non-firm customer classes?

**RECOMMENDATION:** FPL's Commercial/Industrial Load Control customers should continue to pay their fully allocated cost of conservation programs, just as those customers in any other rate class. Likewise, FPC's Interruptible and Curtailable customers should continue to pay their fully allocated costs of conservation. TECO's current treatment, under which its interruptible customers pay only an amount equal to the estimated fuel savings from conservation is also appropriate and should be continued until reviewed in its next rate case. Gulf and FPUC do not have interruptible or other non-firm rates, and thus this issue is not relevant to them.

**ISSUE 8:** Is it appropriate to adjust for line losses by class in allocating energy-related conservation costs?

**RECOMMENDATION:** Yes.

**ISSUE 9:** Is it appropriate to adjust for metering voltage in allocating conservation costs?

**RECOMMENDATION:** Yes.

**ISSUE 10:** What are the actual and potential benefits, if any, of demand side conservation programs that would necessitate any changes in allocation and recovery of conservation costs?

**RECOMMENDATION:** The benefits of conservation which are relevant to the decision on how ECCR costs should be allocated are capacity deferral or avoidance, and fuel savings.

**ISSUE 11:** In deciding on the proper allocation and recovery of demand side program costs under the Conservation Cost Recovery Clause, is the Commission required to consider the criteria in Sections 366.041(1) and 366.06(1), Florida Statutes?

**RECOMMENDATION:** The Commission is authorized, not required, to consider the criteria set out in Section 366.04(1), Florida Statutes in ratemaking proceedings, along with any other criteria the Commission deems reasonable under particular circumstances. The Commission is only required to consider the enumerated criteria in Section 366.06(1), Florida Statutes, to the extent the Commission deems practicable under particular circumstances.

**ISSUE 12:** What should the effective date be of any decisions made in this docket?

**RECOMMENDATION:** April 1, 1994, the beginning of the next ECCR cost recovery period.

**ISSUE 13:** Should the Commission accept the recommended responses to LEAF's proposed findings of fact?

**RECOMMENDATION:** Yes

**ISSUE 14:** Should this docket be closed?

**STIPULATED**

**RECOMMENDATION:** Yes.