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July 9, 1997

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

Dear Ms. Bayo:

Re: Docket No. ~~970595-EG~~

Enclosed are an original and fifteen copies of an Informal Data Request that was requested by Michael Haff per a telephone conversation with Margaret Neyman, the Marketing Services Manager of Gulf Power Company.

Sincerely,

Linda G. Malone
Assistant Secretary and Assistant Treasurer

lw

ACK _____

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Enclosures

AFA _____

APP _____

cc: Beggs and Lane
Jeffrey A. Stone, Esquire
Gulf Power Company
Susan D. Cranmer

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FROM RECORDS/REPORTING

Gulf Power Company
Docket No. 970595-EG
Informal Data Request

1. Please explain why the current Gulf Express Loan Program was not discontinued when the company filed the Good Cents Energy Loan program.

Answer: The existing program will remain until all outstanding Gulf Express loans are repaid. However, there will be no new loans issued through the Gulf Express Loan program. All new loans will be issued as Good Cents Energy Loans.

2. How are defaults handled and have the associated costs been included in the program evaluation?

Answer: Gulf participates in a loan pool with all of the operating companies in the Southern Electric System. The first 1.5 % of any defaults in the pool will be covered by Fannie Mae. Any loan defaults over the first 1.5 % will be charged back to the issuing company based on the company's participation rate in the total loan pool. Example: The total loan pool (outstanding principal) is \$30,000,000 Gulf has \$2,500,000 in the pool. If the default rate goes above 1.5 % by \$50,000, then Gulf is responsible for $(\$2,500,000/\$30,000,000) \times \$50,000 = \$4,166.67$. The credit scoring criteria utilized was formulated by Fannie Mae based on a very high experience rate to equate to a default rate of 1.5 % or less.

3. Please provide the assumptions used to calculate the kW and kWh savings. Please include a breakdown of anticipated customer participation by installation type.

Answer: Historical observations of Gulf Power Company's approved Gulf Express conservation program and estimates of future customer participation (including the effect of other approved programs such as the Advanced Energy Management Program) result in the following assumptions:

- Homeowners with existing gas equipment will participate at a higher level than other equipment types because of the high saturation of gas equipment in the existing housing stock and the relative value of electricity versus natural gas in our service area.
- Participation by customers with electric resistance heating will be low as we promote the lower cost alternative of an energy management system to them.

	Participation	Winter kW	Summer kW	Annual kWh	Weighted Average		
					Winter kW	Summer kW	Annual kWh
gas to hp	55.00%	4.4	-0.3	1352	2.42	-0.17	744
hp to hp	33.00%	-0.1	-0.3	-570	-0.03	-0.10	-188
strip to hp	2.00%	-4.6	-0.3	-4706	-0.09	-0.01	-94
geothermal	10.00%	-1.5	-0.75	-644	-0.15	-0.08	-64
	100.00%						
R-38 attic	35.00%	-0.6	-0.2	-332	-0.21	-0.07	-116
					1.94	-0.43	282

4. How were the projected participation levels determined?

Answer: The projected participation levels are estimates which incorporated the following information:

Gulf Power assisted customers with 479 Gulf Express Loans in 1996. We are dedicating our resources to a more aggressive marketing effort to our existing residential customers. This effort, along with a loan program accepted and embraced by our trade allies, will result in an increase in the participation rate in our loan program.

5. Is the input data (excluding program specific data) for the Cost Effectiveness analysis the same as that used for the evaluation of Gulf's Commercial Mail In Audit program filed last year? If not, please provide any inputs that have changed.

Answer: The information that has changed between the two filings is reflected on the following chart.

Planning Year Changes in Economic Inputs for Cost/Benefit Analysis Base Year 1996 and Beyond vs. Base Year 1997 and Beyond		
Major Differences in Economic Assumptions	Commercial Mail-in Audit Analysis	Good Cents Energy Loan Analysis
Base Year.....	1996	1997
Incremental Generation Cost per kW per Year.....	\$27.82	\$21.76
Incremental Transmission Cost per kW.....	\$54.00	\$58.00
Incremental Distribution Cost per kW.....	\$27.00	\$32.00
Incremental Generation Cost Escalation Rate.....	3.25%	2.07%
Incremental Transmission, & Distribution Cost Escalation Rate.....	3.25%	2.14%
Generator Fixed O & M Cost per kW per Year.....	\$0.00	\$2.78
Generator Fixed O&M Escalation Rate.....	2.8%	2.53%
Transmission Fixed O & M Cost per kW per Year.....	\$0.32	\$0.73
Distribution Fixed O & M Cost per kW per Year.....	\$0.00	\$0.80
T&D Fixed O&M Escalation Rate.....	3.25%	1.25%
Incremental Gen Variable O & M Costs per kW per Year.....	\$0.00	\$0.57
Incre Gen Variable O&M Cost Esc Rate.....	3.10%	2.57%
Incremental Generation Unit Fuel Cost in \$/kWh.....	\$0.0278	\$0.0356
Incremental Gen Unit Fuel Esc Rate.....	4.5%	2.9%

Note: The change in planning year data also produced changes in expected marginal energy cost.

6. Please explain why the Participants' Cost-Effectiveness ratio is 0.28 and why, given such a ratio, Gulf expects customers to participate.

Answer: The Participant's Test is detailed on PSC Form CE 2.4 and was included as part of Gulf Power's petition filed with the Florida PSC on May 15, 1997. The purpose of the "Participant's Test" is to compare the benefits of a program that accrue to the participants to the costs that participants incur to participate. In the case of the Good Cents Energy Loan Program the participating customers receive benefits from any reductions in energy expenditures, the "buy down" in the interest rate, and from the customer's perceived value received from the equipment purchases made with the loan. The participant costs associated with this program are the equipment costs and any increases in energy expenditures.

This question arises because the Cost-Effectiveness Analysis Methodology (prescribed by Rule 25017.008 of The Florida Administrative Code and embodied in the Cost-Effectiveness Model known as the Florida Integrated Resource Evaluation Model) does not make provision for either the calculation of nor the input of the benefit from the customer's perceived value received from the equipment purchases made with the Good Cents Energy Loan. This value (benefit) can not be known with certainty but it is certain that it is greater than (or, at least, equal to) the cost of the equipment.

To illustrate further, in Gulf Power's filing the 1997 equipment cost is shown to be \$5,000. The customer is willingly borrowing money to purchase equipment costing \$5,000. The purchase is evidence that the consumer values this equipment at more than (or, at least, equal to) the \$5,000 it costs him. Consequently, if a number greater than the escalated face value of the typical loan was included in the analysis, the Participant Test would easily show positive net benefits and a benefit/cost ratio in excess of one. However, the specific value of this participant benefit is unknown and that is why it is not normally included in the analysis. To say that it is unknown, however, does not deny the certain knowledge that the perceived value of these equipment purchases to customers must exceed the cost of that equipment. Otherwise, they would not make the purchases. The 0.28 value results by excluding this perceived benefit from the analysis.

7. This program's cumulative discounted net benefits become positive in the 30th year of the analysis. Please explain why Gulf assumed a 30 year life for this program.

Answer: Gulf's has assumed a 30 year life for all of its conservation programs and has prepared cost-effectiveness analysis accordingly. The only exception to this has been the evaluation of the Advanced Energy Management program evaluated assuming a 21 year life.