

ORIGINAL

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November 8, 1999

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**Re: Docket No. 981591-EG -- Petition for authority to implement Good Cents Conversion Program by Gulf Power Company**

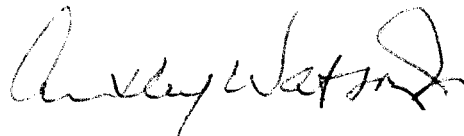
Dear Ms. Bayo:

Enclosed for filing in the above docket, please find the original and 15 copies of Peoples Gas System's Post-Hearing Brief and Post-Hearing Statement of Issues and Positions.

Please acknowledge your receipt of the enclosures and the date of their filing on the duplicate copy of this letter enclosed for that purpose, and return the same to me in the preaddressed envelope also enclosed herewith.

Thank you for your usual assistance.

Sincerely,



ANSLEY WATSON, JR.

- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG Wjr/a \_\_\_\_\_
- LEG \_\_\_\_\_
- MAS 3 \_\_\_\_\_
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- SEC \_\_\_\_\_
- WAW \_\_\_\_\_
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PUBLIC SERVICE COMMISSION

**ORIGINAL**

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In Re: Petition for authority to implement )  
Good Cents Conversion Program )  
by Gulf Power Company. )

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Docket No. 981591-EG

Submitted for Filing:

11-9-99

**POST-HEARING BRIEF OF  
PEOPLES GAS SYSTEM**

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## EXECUTIVE SUMMARY

This docket involves Gulf Power Company's ("Gulf's") petition to implement its proposed Good Cents Conversion Program, and to recover the program's expenses through the Energy Conservation Cost Recovery ("ECCR") Clause. The program offers one-time cash allowances to customers and installing dealers for the replacement of (i) an existing furnace fueled by natural gas, fuel oil or propane, and an electric air conditioning unit, with (ii) a heat pump with a minimum Seasonal Energy Efficiency Rating ("SEER") of 11.0. The Commission initially denied approval of this program as Proposed Agency Action and has previously expressed disapproval for similar endeavors by Gulf. The Commission should once again deny this program since it is contrary to the Florida Energy Efficiency and Conservation Act ("FEECA").

The Commission's Order No. PSC-99-0684-FOF-EG (the "PAA Order") denied Gulf's petition to implement the program because it would increase Gulf's winter peak demand and, if more realistic assumptions (including only the demand and energy savings associated with a change of equipment from the building code minimum of 10.0 SEER to the program requirement of 11.0 SEER) were used, would decrease summer peak demand by only 1.5 MW (0.3 kW per participant). Based on more realistic assumptions, the program would actually increase total annual energy consumption by 6,950 MWh (1,390 kWh per participant), rather than cause a decrease as projected by Gulf in its preferred analysis. The PAA Order, therefore, correctly concluded that the proposed program did not appear to be consistent with FEECA.

The Commission has previously expressed its disapproval for a substantially similar program offered by Gulf. In 1990, the Commission addressed Gulf's "Good Cents Incentive" programs that were in existence from 1987 to 1989. At that time, the Commission found that those programs, designed to replace gas heat with electric heat pumps, were contrary to Commission policy.

The Commission has also previously rejected a key Gulf argument for approval of its Good Cents Conversion Program. Gulf argues that since its summer peak is used for planning purposes, the dramatic increase in electric winter peak demand caused by the program can be ignored and is not inconsistent with FEECA. The Commission rejected a similar argument in 1994 when presented by Gulf in the electric demand side management ("DSM") goal-setting docket. The Commission should reject Gulf's argument again.

In the same DSM goals docket, the Commission also encouraged electric utilities to explore ways to promote natural gas to "moderate Florida's dependence on electric heating." Gulf's Good Cents Conversion Program clearly contradicts the Commission's previously stated appreciation for the contribution natural gas makes toward reducing and mitigating weather-sensitive electric peak demand created by electric heating.

Should the Commission consider making an exception to its previous policies, and consider approving Gulf's proposed program, the program still would not qualify for cost recovery through the ECCR Clause. While Gulf has filed results showing the program to be cost-effective under the Commission's approved methodology, the results are, at best,

questionable. First, the assumed benefit of reduced summer electric peak demand claimed by Gulf is primarily attributable to the state building code. Second, the cost of natural gas used in the Participant Test (at least in Peoples' service area) is overstated, which means a customer's payback period will be even longer than the nine years projected by Gulf. Third, the 30-year analysis period potentially overstates the benefit of the program considering ASHRAE<sup>1</sup> and ARI<sup>2</sup> indicate heat pumps have only 15-year service lives. Fourth, it is likely that many of the recipients of the proposed program's cash incentive will actually be "free riders." And, finally, removal of the natural gas furnace will have the likely consequence of encouraging removal of other (and potentially all) natural gas appliances from a home. When coupled with Gulf's free gas-to-electric water heater program, the assumed reduction in summer electric peak demand will be diminished (or disappear) and the increase to winter electric peak demand and annual electric energy consumption will be even greater. Collectively, correction of these erroneous input assumptions erodes the cost-effectiveness of Gulf's proposed program, as well as support for the approval of a program that is at odds with FEECA and previously expressed Commission policy.

Gulf's petition for authority to implement its proposed Good Cents Conversion Program, and to recover the costs thereof through the ECCR Clause, should be denied and this docket closed.

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<sup>1</sup> American Society of Heating, Refrigerating and Air-Conditioning Engineers, Inc.  
<sup>2</sup> American Refrigeration Institute.

## STATEMENT OF THE CASE AND OF THE FACTS

On November 12, 1998, Gulf petitioned the Commission for authority to implement its proposed Good Cents Conversion Program, and to recover expenses incurred in the program through the ECCR Clause. The program would offer participating customers a one-time \$200 allowance, and installing dealers a \$50 allowance, for a customer's replacement of (i) a combustion furnace fueled by natural gas, fuel oil or propane, and an existing air conditioning unit, with (ii) a heat pump with a minimum SEER of 11.0 (Ex. 1, p. 1).

On April 7, 1999, the Commission issued its Order No. PSC-99-0684-FOF-EG (the "PAA Order") denying Gulf's petition to implement the program. On April 28, 1999, Gulf timely filed a petition for a formal proceeding on its proposed program. On August 5, 1999, Peoples Gas System ("Peoples") sought permission to intervene in opposition to the approval sought by Gulf. Gulf offered no objection, and permission to intervene was granted on August 19, 1999 by the Commission's Order No. PSC-99-1626-PCO-EG.

Gulf submitted cost-effectiveness analyses which assumed customers would install heat pumps with an average SEER of 11.0 in replacement of existing air conditioning units with average SEERs of 7.0 and combustion furnaces with average Annual Fuel Utilization Efficiencies of .68 (T 24). Currently, the Florida building code requires that a heat pump in new construction have a minimum SEER of 10.0 (T 42). An ARI consumer publication indicates that the average SEER for all heat pumps shipped by manufacturers in the United States in 1994 was 10.94 (T 101-102; Ex. 3, p. 4). Gulf's Witness Spangenberg testified that



Gulf estimated the average SEER of the air conditioning equipment which would be replaced under the program by looking at the vintages and SEER ratings of heat pumps -- particularly those that were installed 10 to 15 years ago -- that are being replaced based on Gulf's existing programs (T 39). He testified that, while there is no name for these programs, Gulf has always encouraged customers to install higher efficiency systems (T 40). The major difference between Gulf's past and current efforts to get customers to replace older heating and air conditioning systems with more energy efficient ones, and its proposed Good Cents Conversion Program, is the presence in the proposed program of cash incentives to customers and installing dealers (T 41).

Gulf's proposed program targets program participants having existing equipment installations that are 10 to 15 years old (Ex. 2, p. 60). ARI and ASHRAE data indicate the average life of residential central air conditioning units and heat pumps installed in the 1970s and 1980s is 15 years (ASHRAE's estimated service life for a heat pump being 14 years) (T 6; Ex. 3, pp. 2, 9). Gulf's Witness Shell testified that the 15-year service life set forth in the ASHRAE table understates the actual service life for heating, ventilation and air conditioning ("HVAC") equipment because it represents a compromise by a committee divided over two studies (T 126). He testified that a conservative service life assumption for this type of equipment would be 22 years (T 131-132).

Mr. Spangenberg testified that in 1998 Gulf's customers installed 843 heat pumps that were 11.0 SEER or higher, and that the average SEER of these units was 12.8 (T 40). He

later clarified that only about 150 of these 843 heat pumps would have been eligible to participate in the proposed Good Cents Conversion Program (T 55-56). He stated that those customers who converted from gas furnaces and electric air conditioning to electric heat pumps without incentives were assumed to be "free riders," but that Gulf had not included any adjustments with respect to free riders in its cost-effectiveness analysis for the proposed program (T 55-56). In collecting data on these installations, Gulf collected none with respect to the ages of the equipment being replaced (T 39), the SEER of the equipment being replaced (T 174), or why customers decided to replace their existing equipment (T 45).

Based on Gulf's input assumptions, the results of its analyses indicate that the proposed program is cost-effective under the Rate Impact Measure ("RIM"), the Participant and the Total Resource Cost Tests prescribed by the Commission for assessing the cost-effectiveness of DSM programs (Ex. 1, p. 9). Gulf's witness was uncertain whether Gulf had performed cost-effectiveness evaluations using the "Value-of-Deferral" approach prescribed by the Commission's rules for instances where the life of the DSM measure is less than the life of the avoided unit (T 58-59).

Although not a part of the Good Cents Conversion Program, Gulf currently has another program in which Gulf either (a) gives a customer a free electric water heater (including a timer), or (b) pays the customer a \$140 rebate toward the purchase of an electric water heater, when the electric water heater replaces an existing gas water heater (T 105). Gulf did not consider the effect of this existing gas-to-electric water heater program in

connection with its analysis of its Good Cents Conversion Program because, according to Mr. Spangenberg, the two programs have no "programmatically linkages between them" (T 163). Nevertheless, if Gulf's Good Cents Conversion Program is successful in obtaining the customer's removal of a gas furnace, the application of Peoples' \$7-per-month customer charge over fewer therm sales will increase a participating customer's per-unit cost of gas (T 119). That customer might then make an economic decision to replace an existing gas water heater, as well as other gas appliances, with electric ones (T 120).

Based on Gulf's assumptions, the Good Cents Conversion Program will increase Gulf's system winter peak demand by 22 MW, or 4.4 kW per participant, decrease its summer peak demand by 9.5 MW, or 1.9 kW per participant, and decrease each participant's annual kWh consumption by 1,030 kWh (T 25, 35; Ex. 2, p. 3). Gulf also conducted cost-effectiveness analyses for variations of the proposed program, including one analyzing only the program costs and benefits associated with an assumed upgrade of the replacement heat pump from a SEER of 10.0 to a SEER of 11.0. In this analysis, Gulf assumed a decrease in its summer peak demand of only 0.30 kW per participant, and an increase in annual kWh consumption of 1,390 per participant (Ex. 2, p. 42).

Gulf conducted another analysis in which the SEER of the existing air conditioner being replaced by the 11.0 SEER heat pump was assumed to be 8.0 (Ex. 1, p.9; Ex. 2, pp. 43-46). In this case, the RIM Test results showed the program to be more cost-effective than Gulf's "base case" (the program as filed). The reduction in summer peak demand was

assumed to be 1.2 kW per participant, winter peak demand was assumed to increase by 4.7 kW per participant, and annual energy consumption per participant was expected to decrease by only 21 kWh (Ex. 2, p. 46). The higher RIM Test result for the 8.0 to 11.0 SEER case is due to less electric revenue erosion than is present in the program as filed (7.0 SEER to 11.0 SEER) (T 62). The 8.0 to 11.0 SEER case is more cost effective than Gulf's base case program, but achieves less energy conservation (T 62-63).

Gulf also conducted alternate analyses that showed it would not be cost-effective for Gulf to pay cash incentives to customers to replace existing electric resistance heating systems with heat pumps (T 63-65; Ex. 1, p. 9), even though such a program would result in decreases in Gulf's winter peak demand and annual electric energy consumption (T 64-65).

Under the Participant Test for Gulf's program as filed, the cumulative discounted net benefits of the program as a whole do not become a positive number (*i.e.*, the costs of the program exceed the benefits from the program) until 2012, a period of about 13 years (Ex. 1, p. 7). Individual participating customers would not receive "economic payback" for the conversion of their existing appliances for almost nine years (Ex. 2, p. 16).

Peoples' Witness McCormick testified that any savings in summer peak demand (or in annual electric energy consumption derived from the customer's conversion from existing eligible appliances to an energy-efficient heat pump) are attributable not to Gulf's proposed program, but to Florida's building code (T 100). He stated that Gulf's analysis of the proposed program's cost-effectiveness should use in its assumptions only those savings

associated with a change from a 10.0 SEER heat pump to one with a SEER of 11.0 (T 101). He also testified that the benefits of Gulf's program were overstated since, according to the ARI and ASHRAE data previously referenced, the replacement heat pump's service life averages only 15 years (T 99, 101). According to Mr. McCormick, Gulf's analysis also overstates the benefits of the proposed program because the average cost of gas – at least as to Peoples' customers – is overstated by 22.3 cents per therm, or 31 percent (T 94, 104).

Mr. McCormick expressed Peoples' belief that Gulf's proposed program is inconsistent with the energy conservation objectives of FEECA, and should not be approved by the Commission for cost recovery through the ECCR Clause (T 110-111). Mr. Spangenberg acknowledged that Gulf's winter peak is weather-sensitive (T 178). He also testified that Gulf uses its summer peak demand for planning new generation (T 79), and that if a proposed program meets any of the objectives of FEECA, it should be approved by the Commission for ECCR cost recovery (T 37, 172). Mr. Spangenberg was not aware of any Commission-approved conservation programs which have the effect of increasing electric demand in a particular season (T 85).

## ARGUMENT

### I.

#### **GULF'S COST-EFFECTIVENESS ANALYSIS OF THE GOOD CENTS CONVERSION PROGRAM IS FLAWED BY THE USE OF INACCURATE OR INCOMPLETE ASSUMPTIONS (PREHEARING ORDER ISSUES 1 AND 2)**

Gulf's cost-effectiveness analysis of the proposed Good Cents Conversion Program is flawed in several respects which collectively lead to a conclusion that the cost-effectiveness results of the analysis are questionable at best. These results are overstated for several reasons. For example, the assumed cost of gas is too high due to inclusion of the monthly customer charge, and the 30-year analysis period is too long because ARI and ASHRAE data suggest that the average life of the replacement heat pump contemplated by Gulf's program is only 15 years. Further, the assumed reduction in summer peak demand and annual energy consumption are almost entirely attributable to the state building code. Finally, the analyses ignore free riders as well as the natural consequences of the program which will cause customers to convert other gas appliances to electric ones. While some of these assumptions, if corrected individually, might still result in the program appearing to be cost-effective, taken cumulatively and in conjunction with increases in weather-sensitive peak demand and annual energy consumption, the program is clearly not cost-effective.

Gulf's program requires that its customers install a heat pump (11.0 SEER minimum) in replacement of their existing gas (or other combustion fuel) furnace and electric air

conditioning system. Using Gulf's assumptions for the program as filed, Gulf's winter peak demand will increase by 4.4 kW per program participant, and its summer peak demand will decrease by 1.9 kW per participant. Annual electric energy consumption is estimated by Gulf to be a reduction of 1,030 kWh per participant. However, as the Commission reasoned in the PAA Order, since the Florida building code requires a minimum 10.0 SEER for heat pumps, Gulf's program will actually capture only the demand and energy savings associated with the customer's upgrading his replacement equipment from a SEER of 10.0 to a SEER of 11.0. Using this more realistic assumption, Gulf's alternative analysis shows an assumed reduction in the Company's summer peak demand of only 0.3 kW per participant, and only 1.5 MW in total. Total annual energy consumption per participant is expected to increase by 1,390 kWh. The assumed increase in Gulf's winter peak demand remains at 4.4 kW per participant.

If the proposed program is successful -- as Gulf expects it to be -- in getting Gulf's customers to replace their gas furnaces with heat pumps, and some of Gulf's customers also elect to participate in Gulf's gas-to-electric water heater conversion program, or elect to replace other gas appliances with electric ones due to the effect of the gas customer charge, there will be an even greater increase in Gulf's winter peak demand and annual electric energy consumption, and Gulf's assumed decrease in summer peak demand may never materialize at all. Although Mr. Spangenberg indicated that water heaters under Gulf's other program are equipped with timers (T 171), Mr. McCormick stated that those timers are only

as good as the last time they were set (T 120).

Gulf included in its analysis of the program no adjustments with respect to the impact on cost-effectiveness of so-called "free riders," although Mr. Spangenberg testified that he viewed certain conversions as free riders. Further, while Gulf's analysis shows the program as filed to be cost-effective for both participants and its entire body of ratepayers, both groups of customers will experience considerable delay in achieving economic payback of the benefits Gulf asserts will be realized as a result of the proposed program. Program participants cannot expect economic payback for almost nine years, and ratepayers, as a group, will have to wait about 13 years. Logic suggests that if the benefits to be derived by these groups from Gulf's assumed reductions in summer peak demand and annual energy consumption are either less than assumed, or non-existent, both groups of customers will have to wait even longer to recoup the costs associated with Gulf's program.

Finally, although Gulf tracked certain data with respect to heat pumps installed in its service area during 1998, it made no studies and collected no data with respect to the reasons customers replaced their existing HVAC equipment, or the ages or efficiencies of the equipment replaced by the customers. In Order No. 21317, Docket No. 890002-EG (In re Conservation Cost Recovery Clause), issued June 2, 1989, the Commission, in ordering that Gulf's Super Good Cents Existing Home Program be discontinued by May 1, 1990, stated:

Upon cross-examination, Mr. Young [Gulf's witness] admitted the Company does not have data on what efficiency equipment would be installed without the Good Cents program, nor does it know with precision what efficiency



equipment is being replaced by this program. This leads us to conclude that even the demand savings Gulf claims for this program may be overly optimistic, and perhaps even non-existent. (emphasis supplied)

Order No. 21317 at 7-8.

Peoples submits that the Commission should reach the same conclusion in this docket, and find that Gulf has failed to meet its burden of establishing that the proposed Good Cents Conversion Program is cost-effective.

## II.

**THE COMMISSION SHOULD NOT APPROVE GULF'S  
GOOD CENTS CONVERSION PROGRAM FOR ECCR  
COST RECOVERY BECAUSE THE PROGRAM IS  
INCONSISTENT WITH THE OBJECTIVES OF FEECA  
(PREHEARING ORDER ISSUES 5 AND 6)**

Much of the cost-effectiveness for Gulf's program as filed derives from maintaining, or adding to, Gulf's revenues from the sale of electricity. Even if Gulf's program should be found to be cost-effective under the Commission's criteria, approval of the program would be inconsistent with the energy conservation objectives of FEECA (Sections 366.80 - 366.85, *Florida Statutes*). Energy conservation and cost-effectiveness do not necessarily go hand-in-hand, as evidenced by the fact that the most cost-effective of the alternatives analyzed by Gulf (the 8.0 to 10.0 SEER case) would result in less energy conservation than Gulf's program as filed. In addition, Gulf's analyses show it is cost-effective for Gulf to pay cash incentives to customers to replace central air conditioners and gas furnaces with a heat pump, but not cost-effective to pay such incentives for replacing electric resistance heating systems

with a heat pump. In the latter case, there is greater conservation of annual electric energy consumption and greater reduction in weather-sensitive winter peak demand than is achieved by Gulf's proposed program, but there is lower cost-effectiveness.

As pertinent to the costs associated with Gulf's proposed program – which Gulf seeks the Commission's approval to recover through the ECCR Clause – Section 366.81, *Florida Statutes*, provides as follows:

**Legislative findings and intent.**-- The Legislature finds and declares that it is critical to utilize the most efficient and cost-effective energy conservation systems in order to protect the health, prosperity, and general welfare of the state and its citizens. Reduction in, and control of, the growth rates of electric consumption and of weather-sensitive peak demand are of particular importance. The Legislature further finds that the Florida Public Service Commission is the appropriate agency to adopt goals and approve plans related to the conservation of electric energy and natural gas usage. The Legislature directs the commission to develop and adopt overall goals and authorizes the commission to require each utility to develop plans and implement programs for increasing energy efficiency and conservation within its service area, subject to the approval of the commission. . . . The Legislature further finds and declares that . . . [FEECA is] to be liberally construed in order to meet the complex problems of reducing and controlling the growth rates of electric consumption and reducing the growth rates of weather-sensitive peak demand; increasing the overall efficiency and cost-effectiveness of electricity and natural gas production and use . . .; and conserving expensive resources, particularly petroleum fuels. (emphasis supplied)

The Commission's rules implementing FEECA provide insight into the Commission's reading of FEECA's intent. For example, Rule 25-17.001(3), which sets forth general information with respect to conservation goals and related matters, states:

Reducing the growth rate of weather sensitive peak demand on the electric system to the extent cost effective is a priority. Reducing the growth

rate of weather sensitive peak demand benefits not only the customer who reduces his demand, but also all other customers on the system, both of whom realize the immediate benefits of reducing the fuel costs of the most expensive form of generation and the longer term benefits of deferring the need for or construction of additional generating capacity. (emphasis supplied)

The rule does not mention reducing weather-sensitive peak demand for natural gas. In its Order No. PSC-94-1313-FOF-EG,<sup>3</sup> the Commission set numeric DSM goals for electric utilities subject to FEECA, but declined to set specific end-use goals for natural gas substitution for electricity. In that order, the Commission stated:

Electric utilities should continue to consider measures to reduce electric energy end use without regard to the input fuel used to reduce electricity demand. The Commission has long advocated and recognized the prudence of natural gas use as a means to mitigate volatility of winter peak demands in Florida. After our investigation into the cold weather emergency that occurred in peninsular Florida on December 23-25, 1989 we stated:

Utilities are encouraged to develop and implement cost-effective conservation programs approved by the Commission, including those that promote the cost-effective use of natural gas to moderate Florida's dependence on electric heating. Docket No. 900071-EG, Order No. 22798 at 7. Issued March 20, 1990.

In the order cited by the Commission in the language quoted above, the Commission also stated:

. . . Natural gas is a clean, efficient and, in many instances, a cost-effective alternative to the use of electricity for home heating. Where natural gas is available, it would appear prudent for Florida's electric utilities to consider the role natural gas usage might play in mitigating the volatility of

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<sup>3</sup> Issued October 25, 1994 in Docket Nos. 930548-EG, In re Florida Power and Light Company; 930549-EG, In re Florida Power Corporation; 930550-EG, In re Gulf Power Company; and 930551-EG, In re Tampa Electric Company.

winter electrical peaks in Florida.

Gulf's Good Cents Conversion Program – which, if successful, would cause the removal of existing natural gas furnaces from the homes of customers participating in the program – appears to be inconsistent with the Commission's statements regarding the usefulness of natural gas as an alternative to electricity for home heating for the purpose of mitigating the volatility of winter peak demand in Florida.

The Commission, albeit preliminarily, denied approval of Gulf's program by its PAA Order issued in April of this year. The stated rationale for denying approval of the program for cost recovery through the ECCR Clause was that -- by Gulf's own calculations -- the program was expected to increase Gulf's system winter peak demand by 22 MW, or 4.4 kW per participant. The Commission also recognized in the PAA Order that, because of the state building code requirement that new equipment be a minimum SEER of 10.0, the proposed program would in effect capture only the demand and energy savings associated with the customer's upgrading from 10.0 to 11.0 SEER. In this more realistic case, the Commission noted, there would be no change in Gulf's assumed winter peak demand increase, but the total decrease in summer peak demand would be only 1.5 MW (0.3 kW per participant), and total annual energy consumption would increase by 6,950 MWh (1,390 kWh per participant).

The Commission was correct in its PAA Order, and the appropriate action after hearing in this docket remains denial of approval of Gulf's program for cost recovery through the ECCR Clause. The hearing was useful in disclosing the existence and nature of Gulf's

gas-to-electric water heater program which, if successfully operated in tandem with the proposed Good Cents Conversion Program, could lead to an even greater increase in Gulf's winter peak demand and annual electric energy consumption than assumed in Gulf's analysis of its proposed program, and the program's assumed decrease in summer peak demand may never materialize at all.

Gulf would have the Commission conclude that the assumed increase in winter peak demand should be ignored, because Gulf is a summer-peaking utility. FEECA states that "reducing . . . the growth rates of weather-sensitive peak demand" is of particular importance. Whether or not Gulf uses its winter peak demand for generation planning purposes, there can be no doubt that Gulf's winter peak is weather-sensitive. Peoples submits that FEECA does not contemplate approval of a program such as the Good Cents Conversion Program for cost recovery through the ECCR Clause, particularly when the increase in winter peak demand is – even using Gulf's own assumptions – more than twice the decrease in summer peak demand. In addition, if the program is more realistically assumed to capture only those benefits associated with customers' upgrading from 10.0 to 11.0 SEER equipment, there will be a substantial increase in annual energy consumption (rather than the decrease assumed by Gulf).

In its Order No. PSC-94-1313-FOF-EG, the Commission set numeric DSM goals (both residential and commercial/industrial) for Gulf, which included goals for reduction in both winter demand and annual energy consumption. In discussing the numeric goals

adopted for Gulf in that order, the Commission stated:

. . . GULF argues that it is a summer peaking utility and therefore would receive little or no economic benefit from deferring water heating and space heating in the winter. We do not accept GULF's argument. . . .

156 PUR4th at 354.

Finally, the Commission has previously commented on a similar Gulf program in the course of finding that the program violated the Commission's "fuel source neutrality" policy. See Order No. 12179, Docket No. 830002-PU, In re Investigation of conservation cost recovery clauses of investor-owned utilities, issued June 30, 1983. In Order No. 23573,<sup>4</sup> the Commission stated:

The Good Cents Incentive programs were in existence during 1987 through 1989. These programs were specifically tailored to reward customers for the replacement of gas furnaces with heat pumps. The contractors were paid anywhere from \$25 to \$100, in cash or merchandise, for each installation. In addition, "electropoints" were awarded to contractors which were redeemable for trips, awards, and merchandise.

These programs not only provided incentives for the replacement of gas heat but also increased the Company's winter peak demand and annual energy. The good cents incentive programs clearly promoted electric over gas appliances and were contrary to our policy regarding fuel neutrality.

Order No. 23573 at \_\_\_.

Peoples submits that Gulf's Good Cents Conversion Program should not be approved for implementation or ECCR cost recovery because it will increase winter peak demand, may

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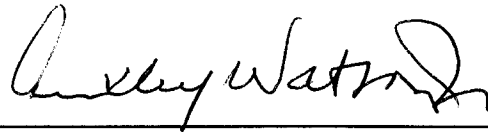
<sup>4</sup> Issued October 3, 1990 in Docket No. 891345-EI, In re Petition of Gulf Power Company for an increase in its rates and charges.

well increase annual kWh consumption, and the decrease in summer peak demand may be considerably less than Gulf has assumed, or even fail to materialize at all.

### CONCLUSION

The Commission's denial in the PAA Order of approval for implementation of the Good Cents Conversion Program, and recovery of its costs through the ECCR Clause, was correct because the proposed program has not been shown by Gulf – using realistic assumptions – to be cost-effective. In addition, using realistic assumptions, and coupled with Gulf's free gas-to-electric water heater program, the proposed program will result in an increase in electric winter peak demand and annual energy consumption, while contributing little, if anything, toward reduction of electric summer peak demand. These results are inconsistent with the objectives of FEECA. Thus, Gulf's petition for approval of the Good Cents Conversion Program should be denied by the Commission.

Respectfully submitted,

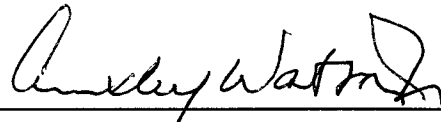


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Attorneys for Peoples Gas System

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing Post-Hearing Brief of Peoples Gas System has been furnished this 8th day of November, 1999, via Federal Express, to Jeffrey A. Stone, Esquire, and Russell A. Badders, Esquire, Beggs & Lane, 700 Blount Building, 3 West Garden Street, Pensacola, Florida 32501; and Tiffany R. Collins, Staff Counsel, Florida Public Service Commission, Capitol Circle Office Center, 2450 Shumard Oak Boulevard, Tallahassee, Florida 32399-0863.

A handwritten signature in cursive script, appearing to read "Ansley Watson, Jr.", is written above a horizontal line.

Ansley Watson, Jr.