

COMMISSIONERS
BOB DURDEN, CHAIRMAN
DAVID N. (DAVE) BAKER
ROBERT B. (BOBBY) BAKER
MAC BARBER
STAN WISE

Georgia Public Service Commission

244 WASHINGTON STREET SW
ATLANTA, GEORGIA 30334-5701
(404) 656-4501 OR 1 (800) 282-5813

Docket No. 5602-U

ORDER ON RECONSIDERATION ADOPTING AMENDED INTEGRATED RESOURCE PLAN

In the Matter: Savannah Electric and Power Company's Application for Approval

of An Integ

Date Submitted: June 7, 1995

Date decided: August 3, 1995

Date reconsidered: August 15, 1995

APPEARANCES

On behalf of the Consumers Utilities Counsel:

NANCY GIBSON, Attorney
DAN WALSH, Attorney
ALLISON MORRIS

On behalf of Savannah Electric and Power Company:

LEAMON R. HOLLIDAY, III, Attorney

On behalf of Commission Adversary Staff:

TIANE L. SOMMER, Special Assistant Attorney General

On behalf of Atlanta Gas Light Company

L. CRAIG DOWDY, Attorney

On behalf of Campaign for a Prosperous Georgia:

A. RENEE WEST, Executive Director
RITA KILPATRICK, Staff
JULIE SIMON, Staff

On behalf of Georgia Textile Manufacturers Association

PEYTON S. HAWES, JR., Attorney

On behalf of Independent Power Producers Group:
WILLIAM W. MAYCOCK, Attorney

On behalf of Resource Service Ministries:
LYNN WESTERGAARD, Director

On behalf of Southern Natural Gas Company:
DAVID C. WEAVER, Attorney,

On behalf of Union Camp Corporation:
CHRISTOPHER HAGY, Attorney
RANDALL D. QUINTRELL, Attorney,

On behalf of United States Department of Defense
and other Federal Executive Agencies:
DAVID A. MCCORMICK, Attorney,

On behalf of U.S. Generating Company:
GREGORY B. KELLY, Attorney
CLAY HUCKABY, Attorney

1. INTRODUCTION

A. Summary

The Commission has reconsidered its initial order in this docket, and now issues this order on reconsideration to adopt an amended Integrated Resource Plan ("IRP") applicable to Savannah Electric and Power Company's ("Savannah Electric," "SEPCO" or Company). The Commission is required under O.C.G.A. 46-3A-2 to make determinations as to the adequacy of the IRP and whether it contains certain information. This requirement is implemented by Commission Rule 515-3-4 (the Commission's IRP Rule). Other issues addressed in this docket are regulatory treatment of Demand-Side Management ("DSM") programs and DSM planning and supply-side planning as part of the IRP. The Commission issues this summary order to announce its decision within the statutory deadline for this docket. The Commission may issue a later order further describing its decision in greater detail.

B. Jurisdiction and Issues

Savannah Electric and Power Company is a public electric utility serving retail customers within the State of Georgia. Savannah Electric is one of the five operating companies that are part of the Southern Company system. This Commission has jurisdiction

over Savannah Electric's IRP pursuant to O.C.G.A. 46-2-1 *et seq.* generally and the Georgia IRP Act, O.C.G.A. 46-3A-1 *et seq.* in particular.

The minimum issue addressed in this IRP docket is whether Savannah Electric has satisfied the requirements of the IRP Act and the Commission's IRP Rule. Other general issues presented in this

docket are a review of DSM certificates previously granted to Savannah Electric in Docket No. 4135-U, reauthorization of the DSM programs under these certificates, regulatory treatment for demand-side programs, and the appropriate policy for DSM including conservation and load-management. The Commission must also adopt in this docket a forecast of future Georgia retail electricity requirements of Savannah Electric. See O.C.G.A. 46-3A-5(b). The Commission affirms its adoption of Savannah Electric's load-forecast, summarized in Appendix A, and the supply-side portion of its IRP, summarized in Appendix B.

C. Statement of Proceedings

Savannah Electric and Georgia Power Company ("Georgia Power"), which is a Southern Company affiliate of Savannah Electric, both submitted their second Integrated Resource Plan (IRP) filings to the Commission on January 31, 1996, for approval pursuant to O.C.G.A. 46-3A-2.¹

The Commission entered the Procedural and Scheduling Order on February 9, 1995. The previous IRP proceedings, held during 1992 on both utilities' filings, were handled as non-contested cases under the Georgia Administrative Procedure Act. The Commission held in the procedural and scheduling order of this docket, however, that this docket would be handled as a contested case. The Commission decided to hold concurrent and consolidated hearings and proceedings in these dockets. An informal meeting for all interested parties was held on February 13, 1995 at which Georgia Power and Savannah Electric made available their personnel and documents to provide information and discuss the issues. On March 1, 1995, Savannah Electric filed direct testimony.

The Commission established a fee on April 3, 1995 for Savannah Electric's application for approval of the IRP and Commission review of DSM certificates. The total fee was \$283,687, which included \$53,280 for the costs of review of DSM certification filings incorporated within this docket. Savannah Electric paid the fee on April 5, 1995, and so under O.C.G.A. 46-3A-2 and 5(b) the statutory deadline was August 3, 1995. The Commission held the initial hearings on the utilities' direct cases on March 28 through March 30, 1995. On May 1 and May 25, the Commission entered supplemental orders for procedures and schedules.

The Staff and interveners filed on May 8, 1995 direct testimony, regarding Savannah Electric's IRP filing, DSM certificate review and regulatory treatment issues. Savannah Electric filed rebuttal testimony on June 2, 1995. The Commission took the Staff and interveners' direct testimony and the Company's rebuttal testimony at hearings on June 13 through June 15, 1995. All parties filed their briefs on June 30, 1995.

The Commission issued its initial Order Adopting Integrated Resource Plan on August 3, 1995. Subsequently the Commission on its own motion moved for reconsideration at a special called Administrative Session held on August 7, 1995, and reached its decision on reconsideration at the Administrative Session on August 15, 1995.

II. SUPPLY-SIDE ISSUES - DESCRIPTION

¹The Commission assigned Georgia Power's IRP Docket No. 5601-U.

No party contested Savannah Electric's load forecast, nor was the supply-side portion of its plan controversial. Southern Company does the supply-side planning for Savannah Electric, which is one of the five operating electric utility companies within the Southern Company pool. Southern Company first develops a comprehensive catalog of potential supply-side options, then screens the options to identify the most likely cost-effective options and finally selects the appropriate mix of supply-side resources for the Southern Company pool across the IRP planning horizon. (Tr. 1488.)

Southern Company considered a variety of supply-side options. Several options were eliminated due to geographical limitations or because of their very early stage of development. The second step in the analysis used the busbar cost screening analysis to determine the primary options for final consideration. The primary options identified by the analysis were combustion turbines combined cycle-units and pulverized coal units.

Staff witnesses McGaughy and Evans concluded that the three primary options were the most cost-effective technologies across the complete range of capacity factors. (Tr. 1488.)

The final stage in the Southern Company supply-side analysis uses the PROVIEW computer model to select the appropriate mix of supply-side resources. The selected resources are then assigned to an operating company within Southern Company, based mostly upon the operating companies' need for additional resources. (Tr. 1489.)

The PROVIEW model accounts for existing and planned demand-side programs by reducing the load forecast input into the model. The demand-side options are therefore not compared head-to-head against supply-side options in the final selection process. Staff witnesses McGaughy and Evans did not find this lack of direct comparison to be a deficiency in Southern Company's planning process. (Tr. 1491.)

III. DEMAND-SIDE ISSUES - DESCRIPTION

The IRP Act requires the Commission to determine whether "[t]he plan adequately demonstrates the economic, environmental, and other benefits ... associated with ... [i]mprovements in energy efficiency." O.C.G.A. 46-3A-2(3). Savannah Electric filed five alternate DSM plans in its IRP. These plans are the Societal Cost Test Plan, Utility Cost Test Plan, Common Benefits Test Plan, Average Cost Test Plan and Savannah Electric's Proposed Plan. Savannah Electric is required by Commission Rule 515-3-4-.04(5)(f) to use the Societal and Utility Cost Tests for screening DSM programs when developing alternative configurations of IRPs. Among the issues raised, however, was Savannah Electric's recommendation that the IRP rules be reviewed and modified. (SEPCO Brief at 2.)

Savannah Electric's Proposed Plan would include New Home, Second Refrigerator, New Small Business, Existing Non-Residential, Existing Residential, and Interruptible Service programs.

The Societal Cost Test Plan results in 6 MX of demand reduction, energy savings of over 40 million kWh on an annual basis, and DSM spending of approximately \$3.2 million over the next nine years. (Tr. 764). The Utility Cost Test Plan creates 11 MW of demand reduction, approximately 57.9 million kWh in annual energy savings, and DSM spending of about \$9.9 million through 2004. (Tr. at 764). Savannah Electric's Proposed Plan results in 12 MW of demand reduction, approximately, 61.1

million kWh in annual energy savings, and DSM spending of about \$10.5 million through 2004. (Tr. at 764).

The parties disagreed as to which test(s) should be used. There was also disagreement as to whether any new conservation programs should be established, and even whether the existing programs should be continued. The Adversary Staff recommended use of the Total Resource Cost test, but with a 1.5% rate impact "cap" so that over the long term, the rate increases from implementation of all the certified DSM programs would not exceed 1.5%. Savannah Electric proposed consideration of a Common Benefits Test, intended to assess adverse impacts on non-participants. Other parties recommended use of the Rate Impact Measure ("RIM") test to prevent any adverse rate impact on non-participants.

A. Benefit/Cost Tests

There are five principal benefit/cost tests typically used in evaluating DSM as a part of integrated resource planning. These tests are the Participant, Rate Impact Measure,

Total Resource Cost, Utility Cost and Societal Cost Tests.² Adversary Staff witness Spellman provided the following summary of these tests (Tr. 800):

- C The Participant Test measures the cost and benefits of a program to a customer who participates in the program.
- C The Rate Impact Measure Test measures the changes in customer rates as a result of changes in utility revenues and operating costs.
- C The Utility Cost Test measures the "net costs of a demand-side management program as a resource option based on the costs incurred by the utility (including incentive costs) and excluding any net costs incurred by the participant." (California Public Utilities Commission and California Energy Commission, Standard Practice Manual, Economic Analysis of Demand-Side Management Programs, p. 33. December 1987.)
- C The Total Resource Cost Test "measures the net costs of a demand side management program as a resource option based on the total costs of the program, including both the participant's and the utility's costs." (*Id.* at 25.)
- C The Societal Cost Test is the same as the Total Resource Cost Test except "that it attempts to quantify the change in total resource costs to society as a whole rather than to only the service territory (the utility and its ratepayers)." (*Id.* at 27.) The Societal Cost Test includes externalities such as health costs associated with air pollution or

² The major components of these benefit/cost tests are listed in Table 1, page 6 of Adversary Staff witness Spellman's direct testimony. (Tr. 764.) The commission notes that these benefit/cost tests are only used for evaluating DSM Programs.

benefits that result from reduced emissions of nitrogen oxides and sulfur dioxide from utility power plants. The Societal Cost Test also uses a societal discount rate, which is lower than the utility's cost of capital discount rate. The use of the societal discount rate has the effect of showing the net present value of benefits as being higher than would be shown by using the utility cost of capital as in the other tests.

B. Low-Income Residential DSM Programs

The Commission certified a low-income residential DSM program as part of the three-year SEP-1-DSM Certificate issued in Docket No. 4134-U. This program has been administered by the Georgia Environmental Facilities Authority's Division of Energy Resources (GEFA) (formerly the Governor's Office of Energy Resources), but the Commission retained oversight of the program.

Savannah Electric did not file a separate low-income residential DSM program, but proposes to make DSM options available beginning in 1996 to low-income customers through its Existing Residential Program. (Tr. 869.) Savannah Electric's proposed program would not use GEFA for implementing the low-income DSM component of the program. (Tr. 869.) The Staff recommend that local community action agencies be used when possible in identifying and encouraging low-income households to participate. The Staff also recommended that Savannah Electric consider developing and filing for certification a low-income DSM program that incorporates DSM bidding.

C. Fuel Substitution and Load Building

Savannah Electric is required by the Commission IRP Rule to evaluate the use of fuel substitution measures as DSM options. *See* Commission Rule 515-3-4-.04(4)(a)(3). Savannah Electric did not perform this analysis, and only filed an analysis completed by Atlanta Gas Light (AGL) in December 1992 for AGL's IRP filing. (Spellman. Direct at 46.) Savannah Electric did not include in its IRP filing any of the fuel substitution measures found to be cost-effective by AGL.

The Adversary Staff recommended the following policy regarding fuel substitution and load building: The utility receiving the new load (whether it be gas or electric) should be allowed to conduct load building programs to encourage the installation of high efficiency appliances for space and water heating, and space cooling. This policy will ensure that the utility has an incentive to promote the installation of high efficiency appliances. The Commission should not grant rider cost recovery for any load building programs allowed by Commission policy. (Tr. 792.)

D. Load Management

Savannah Electric indicated that it plans to conduct a beneficial cost analysis of a load management program for its customers, and that it will provide the results to the Commission when the study is completed. (Tr. 778.) The Staff supported this and asked the Commission to direct the filing of such analysis.

E. Regulatory Treatment of DSM Programs

Regulatory treatment of DSM programs currently consists of incentives and program costs that are recovered through a rider mechanism. The Commission addressed Savannah Electric DSM regulatory treatment issues in the previous IRP and DSM certification dockets. (*See* Amended Order

Approving and Adopting Integrated Resource Plan Applicable to Savannah Electric and Power Company, Docket No. 4134-U, August, 1992: Certificate of Public Convenience and Necessity No. SE-1-DSM, Application of Savannah Electric and Power Company for Certification of Demand-Side Programs. Docket No. 4134-U, January 1993, Certificate of Public Convenience and Necessity No. SE-2-DSM.

Application of Savannah Electric and Power Company for Certification of Commercial and Industrial Demand-Side Programs. Docket No. 4135-U. August 1993.)

The current mechanism for Savannah Electric to recover incentives and costs associated with DSM programs is through riders on residential, commercial and industrial customers' bills. The Commission adopted this primarily because of the initial uncertainty of DSM program costs. The Commission approved Savannah Electric's ECR-1 rider by Letter Order in Docket No. 4135-U on July 27, 1993. That Letter Order also stated that the Commission retained jurisdiction over the proceeding for the purpose of entering such further order or orders as the Commission may deem proper.

In the SE-2-DSM Certificate Order issued in Docket No. 4135-U on August 6, 1993, the Commission concluded that adoption of a rider mechanism furthered the "regulatory policy of providing reasonable incentives for the utility to engage in these demand-side programs for the trial period ending December 31, 1995. (Order at 20.) In the SE-1-DSM Certificate Order issued January 7, 1993, the Commission agreed with allowing the use of a rider for Savannah Electric's proposed pilot-phase residential and small business program (Order at -3.) An annual true-up review process was also adopted, to be initiated by the Company annually filing a statement. (Order at 30.)

The Adversary Staff proposed an alternative to the rider approach in the current IRP dockets. The Adversary Staff alternative to the riders, described by, witness Spellman, to fully, recover actual DSM program costs through a test year method without frustrating the letter or intent of O.C.G.A. 46-3A-9. DSM costs would be recovered through rates rather than riders, using a rate case-based approach. (*See*, Tr. 786-787.) Furthermore, the Adversary Staff proposal would permit review of DSM programs at the same time as other general operating issues, which would increase the effectiveness and efficiency of these programs. (Tr. 786-787.)

The Adversary Staff also pointed out that O.C.G.A. 46-3A-9 and *Georgia Power Co. v. The Georgia Industrial Group*, 214 Ga.App. 196 (1994) do not require the use of a rider for DSM costs. Noting that the issue before the Court of Appeals was whether the superior court erred in holding that recovery must be accomplished through the O.C.G.A. 46-2-26.1 test year approach, *see* 214 Ga.App. at 196, the Adversary Staff stated that the Court of Appeals' decision authorizes a rider but does not preclude the Commission from adopting a different approach. The Court apparently was concerned that a test year method would not allow a utility to recover actual costs or an "additional sum" pursuant to O.C.G.A. 46-3A-9. However, the Adversary Staff explained that recovery through a mechanism of base rates could be another alternative to allow such recovery.

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

Based upon the foregoing and the extensive record in this docket, and having reviewed the issues upon reconsideration, the Commission reaches the following findings of fact and conclusions of law.

A. Load Forecast

The Commission adopts the Company's load forecast as filed. The load forecast is summarized in Appendix A, attached hereto and incorporated herein by reference. The Commission also directs Savannah to develop in its next IRP high, expected and low forecasts of load impacts from interruptible service to be used in conjunction with the three load forecasts.

B. Supply-Side Plan

The Commission adopts the supply -side portion of Savannah Electric s IRP as filed, summarized in Appendix B, attached hereto and incorporated herein by reference.

C. Demand-Side Management, including Low-Income Programs

With respect to demand-side management programs, the Commission must make a policy decision concerning the future of demand-side management in the state of Georgia. In its Final Order in Docket 4133-U, the Commission ordered Savannah Electric to be bold and aggressive in the implementation of DSM programs. The Commission must now decide first of all if the Company should continue to offer demand-side management programs and if so, whether to pursue bold and aggressive implementation or a more reasonable and cost effective policy.

The Commission finds and concludes that the appropriate cost-benefit test that shall be used for any new DSM programs shall be the Rate Impact Measure ("RIM") test. This shall result in a revised DSM plan that will replace the one included in Savannah Electric's January 1995 filing. Savannah Electric should notify and work with the Commission's Staff in making any further economic screening analysis associated with this revised DSM plan, as part of the approved IRP in accordance with the RIM test.

A. Reauthorization for 1995

Consistent with the Commission's findings, conclusions, and directives in this Order on Reconsideration, Savannah Electric is directed to proceed to scale down or reduce its existing certified programs so that they shall be concluded by December 31, 1995.

E. Fuel Substitution and Strategic Load Building

In order to ensure that the utility has an incentive to promote the installation of high efficiency appliances, the Commission adopts the policy proposed by the Staff as follows: The utility receiving the new load (whether it be gas or electric) is allowed to conduct load building programs to encourage the installation of high efficiency appliances for space and water heating, and space cooling. The Commission will not grant a rider mechanism for cost recovery for expenditures on load building

programs that are allowed under Commission policy.

F. Load Management

Any new load management program shall be designed to pass the RIM test. If such a load management program is cost-effective according to the RIM test, the Company should submit a filing including a budget and implementation plan with the Commission.

G. DSM Rider and DSM Cost Recovery

The Commission finds and concludes that the rider mechanism shall be discontinued effective October 1, 1995. The approach the Commission now adopts, will eliminate the rider, and direct the Company to expense future costs on an annual basis, without the use of any accrual accounting orders. Any refund based on the amount of overcollection from the riders that exists as of December 31, 1995, shall then be credited to the ratepayers.

Therefore, the Commission will not approve the use of any rider for new programs during the three-year IRP period, nor will the Commission approve accrual accounting order treatment for any such programs. Any cost of such programs shall be expensed on an annual basis.

H. DSM Reward/Penalty Mechanism.

Savannah Electric is directed to include with any future DSM certification applications a DSM incentive mechanism that is revised and simplified. Any incentive mechanism for future programs will, be addressed by the Commission in subsequent proceedings applicable to such programs.

I. DSM program cost allocation among customer classes.

Any issues of allocations of DSM program costs among customer classes shall be resolved in the certification proceedings for any such programs that are filed, consistent with the policies and terms adopted in this Order on Reconsideration.

V. ORDERING PARAGRAPHS

A. Savannah Electric and Power Company's load forecast is adopted as shown in Appendix A attached hereto and incorporated herein by reference.

B. The supply-side portion of Savannah Electric and Power Company's IRP is adopted as filed, a summary of which is attached hereto as Appendix B and incorporated herein by reference.

C. The appropriate cost-benefit test that shall be used for any new Savannah Electric DSM programs shall be the Rate Impact Measure ("RIM") test.

D. The demand-side portion of Savannah Electric's IRP and regulatory treatment for demand-side programs, shall be as discussed in this Order on Reconsideration. Any refund based on the amount of overcollection from the riders that exists as of December 31, 1995, shall then be credited to the ratepayers.

E. The Commission reauthorizes Savannah Electric's existing DSM programs through the end of 1995 consistent with the terms of this Order on Reconsideration.

F. All findings of fact and conclusions of law contained within the preceding sections of this Order are hereby adopted as findings and conclusions of this Commission.

G. A motion for reconsideration, rehearing or oral argument or any other motion shall not stay the effective date of this Order, unless otherwise ordered by the Commission.

H. Jurisdiction over this matter is expressly, retained for the purpose of entering such further Order or Orders as this Commission may deem just and proper.

The above by action of the Commission in Administrative Session on the 15th day of August, 1995.

Terri M. Lyndall /s

Terri M. Lyndall
Executive Secretary

Bob Durden /s

Bob Durden
Chairman

August 15, 1995 /s

Date

August 15, 1995 /s

Date