

State of Florida



Public Service Commission  
CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: OCTOBER 24, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION  
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (E. DRAPER) EAD  
OFFICE OF THE GENERAL COUNSEL (JAEGER) JDT

RE: DOCKET NO. 020883-EC - PETITION FOR APPROVAL OF NEW  
ELECTRIC RATE SCHEDULES BY GLADES ELECTRIC COOPERATIVE,  
INC.

AGENDA: 11/5/02 - REGULAR AGENDA - TARIFF FILING - INTERESTED  
PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020883.RCM

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CASE BACKGROUND

On April 29, 2002, Glades Electric Cooperative, Inc. (Glades) filed a proposal for three new rate schedules: Curtailable Aquaculture Service, Curtailable Mining Service, and Pump Rate Schedules. The new rate schedules are designed for customers in a specific industry and with specific size and usage characteristics. The proposed rates went into effect on April 29, 2002.

The Commission has rate structure jurisdiction over cooperatives pursuant to Section 366.04(2)(b), Florida Statutes. Cooperatives are required to file tariffs with the Commission in accordance with Rule 25-9.053(1), Florida Administrative Code. The Commission has delegated the authority to staff to administratively approve tariff filings by cooperatives as long as: (1) there is no

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change in the rate structure previously approved for that utility; (2) the change results in the rate relationships moving closer to those approved for the investor-owned utilities; or (3) the proposal does not contain new pricing concepts. Because Glades' filing involves new rate classes that are defined in non-traditional ways, Commission approval is required.

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DISCUSSION OF ISSUES

**ISSUE 1:** Should the Commission approve Glades' proposed Curtailable Aquaculture Service and Curtailable Mining Service?

**RECOMMENDATION:** Yes. (E. Draper)

**STAFF ANALYSIS:** Glades is a member-owned, not-for-profit, cooperative that acquires and distributes electricity to its members. Glades purchases all its power requirements from Seminole Electric Cooperative, Inc. (Seminole). Glades has proposed two new rate schedules, which are described in more detail below.

The Curtailable Aquaculture Service (AS) rate is an optional rate available to customers in the aquaculture industry. Customers must have a minimum monthly peak demand of 500 kW, and must maintain a 90 percent power factor. As a condition for taking service under the AS rate, customers must sign a contract for a minimum initial term of five years. The AS rate was designed to attract a large shrimp farm to Glades' service territory.

The customer charge is determined as a percentage of any metering and facilities investment provided by Glades. The Non-Coincident Demand Charge (\$1.43 per kW) applies to the customer's maximum demand whenever it occurs during the billing period. The Coincident Demand Charge (\$9.93 per kW) applies only during peak periods, which are determined by Seminole. If the customer curtails its load during these periods, either by shutting down its operation or employing self-generation, the customer will not be assessed a coincident demand charge. The non-fuel energy charge is 5.4 cents per kilowatt-hour.

The Curtailable Mining Service (MS) rate is available to mining operations, and is similar to the AS rate. Customers must have a minimum monthly peak demand of 500 kW, and must maintain a 90 percent power factor. The coincident demand and non-coincident demand charges are the same as those in the AS rate. The non-fuel energy charge is 5.6 cents per kwh. Customers are required to sign a contract for a minimum initial term of five years. Glades designed the MS rate for three large sand mine operations that are located in its service territory.

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During discussions with Glades, staff expressed two concerns. First, Order No. 8954, issued July 13, 1979, in Docket No. 770811-EU, states that the Commission does not approve of rate schedules to serve specific or special customers. Second, staff was concerned that a potential industrial customer that is not in the aquaculture or mining industry, could view the proposed rate schedules as discriminatory. However, staff believes that Glades has addressed staff's concerns, as discussed below.

Order No. 8954 states:

Separate or special rate schedules should be allowed only to the extent that they reflect different use and load characteristics and hence different costs associated with serving that customer. As a result, rate schedules to serve specific or special customers (cotton gins, commercial bakeries, all-electric customers, etc.) will no longer be permitted.

In the traditional ratemaking process, customers are grouped into rate classes based on their size and usage characteristics, and not based on their industry. In this case, however, staff believes that Glades has adequately demonstrated that the aquaculture and sand mine customers are distinguishable from other customers by load, consumption, or other characteristics, and that the intent behind Order No. 8954 is still met because it contemplates separate rates based on different use and load characteristics.

The shrimp farm and the sand mines are large, high load factor customers. The shrimp farm uses electricity 24 hours per day, 7 days per week to continuously pump oxygen into several 4-acre ponds. The three sand mines represent a combined load of 6 megawatts. The mines operate at a constant load for approximately 14 hours per day, 5 days per week.

The AS and MS rates are cost-based and do not represent discount rates. The coincident and non-coincident demand charges, which are the same under both rate schedules, are based on Seminole's demand charges. The AS non-fuel energy charge, which is slightly lower than the MS non-fuel energy charge, reflects the fact that the shrimp farm's cost to serve is slightly lower than the mines' cost to serve.

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Both the AS and the MS rate schedules are curtailable, and are designed to reduce Glades' coincident peak demand (i.e., Glades' demand at the time of Seminole's peak). The shrimp farm owns on-site generation, and the sand mines shut down during peak periods, as determined by Seminole. These customers therefore reduce Glades' coincident peak demand and, thus, reduce the demand charge that Glades pays to Seminole.

Finally, customers taking service under the AS or MS rate are required to sign an initial 5-year contract. The shrimp farm and the sand mine operations are large, high-load-factor customers, and therefore may in the future be subject to competition. The required long-term contracts allow Glades to retain this load and stabilize its earnings.

Staff's second concern relates to the issue of fairness. An existing or new industrial customer that is not in the aquaculture or mining industry could view the proposed rate schedules as discriminatory. In response, Glades represented to staff that should an industrial customer with similar consumption, load factor, and power factor characteristics as the shrimp farm or the sand mines request service under either the AS or MS rate, Glades will consider the request. If Glades believes that the customer qualifies, it will modify the rate to make it available to the customer.

Staff recommends that the Commission approve Glades' AS and MS contract rate schedules. The rate schedules are designed for industrial customers that exhibit unique load and usage characteristics. In addition, the proposed rate schedules allow Glades to meet the needs of its largest customers without negatively impacting its residential or small commercial customers.

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**ISSUE 2:** Should the Commission approve Glades' proposed Pump Rate Schedules?

**RECOMMENDATION:** Yes. (E. Draper)

**STAFF ANALYSIS:** Glades proposed two Pump Rate Schedules that are contained in the table below.

<u>Rate Schedule</u>	<u>Proposed Rates</u>
<i>Pump Service (PS-2) - less than 20 kw</i> Customer Charge (per month) Energy Charge (cents per kwh)	\$22.50 9.2
<i>Pump Service (PS-3) - over 20 kw</i> Customer Charge (per month) Demand Charge (per kw) Energy Charge (cents per kwh)	\$50.00 \$4.20 8.80

The pump rates are applicable to water pumps used in the agriculture sector. Glades' service territory includes many customers in the citrus and sugar industries. The pumps are used to fill or empty canals and for irrigation, and must be separately metered.

The pumps are currently taking service under Glades' existing small commercial rates. Glades analyzed its costs to serve the pumps and determined that its small commercial rates did not adequately cover the cost to serve the pumps. Glades' analysis shows that for the period September 1999 through August 2000, it realized a loss of \$309,336 to serve the pumps.

The water pumps used in the agriculture sector have two unique characteristics that justify creating a new rate class. First, the pumps are located in remote rural areas, and Glades in past years has not assessed a contribution-in-aid-of-construction to recover the cost of extending its distribution system to serve them. Thus, the significant costs of constructing and maintaining the distribution lines to serve remote pumps are spread to all small commercial customers.

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Second, the pumps consume a small amount of electricity and their usage is sporadic. Pump usage is solely dependent on the amount of rainfall received. The small commercial rate design therefore does not recover the costs of investment necessary to serve the load. The higher proposed customer charge will reduce the revenue loss Glades realizes in serving the pumps. Glades states that the proposed pump rates will generate \$199,861 in additional revenues.

Glades states that it has spent a considerable amount of time and effort in educating its members about the proposed pump rates, and that there have been no customer complaints in response to the pump rates. Staff believes that the proposed pump rate design is reasonable based on the unique circumstances that confront Glades in serving agricultural pumps. For these reasons, staff recommends that the Commission approve Glades' proposed pump rates.

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no person whose substantial interests are affected by the Commission's order in this docket files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. If a protest is timely filed, the tariff should remain in effect, pending resolution of the protest. (Jaeger)

**STAFF ANALYSIS:** If no person whose substantial interests are affected by the Commission's order in this docket files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. If a protest is timely filed, the tariff should remain in effect, pending resolution of the protest.