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August 23, 1996

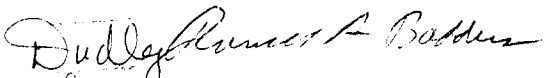
Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 930885-EU

Enclosed are an original and fifteen copies of Gulf Power Company's Reply to Gulf Coast Electric Cooperative's Response to Gulf Power Company's Motion to Dismiss in the above docket.

Sincerely,



Russell A. Badders, Esquire
For the firm

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Enclosure

cc: Gulf Power Company
Susan D. Cranmer

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to resolve territorial dispute)
with Gulf Coast Electrical Cooperative, Inc.)
by Gulf Power Company.)
_____)

Docket No. 930885-EU
Filed: August 23, 1996

**GULF POWER COMPANY'S REPLY TO
GULF COAST ELECTRIC COOPERATIVE'S RESPONSE TO
GULF POWER COMPANY'S MOTION TO DISMISS**

GULF POWER COMPANY ("Gulf Power," "Gulf," or "the Company"), by and through its undersigned attorneys, files the following reply to Gulf Coast Electric Cooperative's ("GCEC") Response to Gulf's Motion to Dismiss.

In its response, GCEC argues that Gulf's reading of Gulf Coast Electric Cooperative, Inc., v. Susan F. Clark, etc., et al., 674 So.2d 120 (Fla. 1996) ("Gulf Coast") is in error. Gulf contends that a plain reading of the aforementioned case can only lead to the conclusion that the Florida Supreme Court found that there are instances where the duplication of facilities cannot be deemed by the Florida Public Service Commission ("FPSC" or "Commission") to be uneconomic. Gulf Power agrees with GCEC that a determination of what constitutes the uneconomic duplication of facilities is fact based. In the case at bar, \$14,583 was found not to be an uneconomic duplication of facilities. Although the level or amount of duplication that cannot, as a matter of law, be deemed uneconomic by the Commission was not specifically identified by the Florida Supreme Court's holding, the precedent has clearly been set that there is some level of duplication which is not uneconomic. The absence of a definitive bright-line test in no way alters the Supreme Court's holding that a certain amount of duplication cannot, as a matter of law, be found to be uneconomic by the Florida Public Service Commission. Moreover, the

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inability of the Commission to say what is uneconomic vs. economic with regard to unbuilt facilities is precisely what makes it impractical if not impossible for the Commission to impose a territorial boundary that would be consistent with the essential requirements of the law. No such boundary could adequately account for the possible factual circumstances that would not constitute an “uneconomic duplication of facilities.” The Supreme Court's holding in Gulf Coast recognizes that the statutory language granting the Commission the authority to prevent further duplication of facilities is prefaced by the term “uneconomic.” The Commission is only authorized by statute to adopt remedies that are designed to prevent the further uneconomic duplication of facilities; instances of duplication that cannot be deemed “uneconomic” are outside the Commission's authority.

The practical application of the Supreme Court's holding to the proposed "drawing of lines" in this proceeding is obvious. The Commission staff has requested, and the parties have produced maps indicating those areas where "distribution lines" of the parties may be in close proximity. It is apparently the Staff's assumption that these lines constitute uneconomic duplication as that term is defined in Fla. Stat. §388.04(5). There has been no determination that such is the case, and Gulf would submit that in most cases the contrary is in fact the case, i.e., that any duplication which has occurred is "economic" in nature. Even if uneconomic at the time, any such duplication has already occurred and the Commission's jurisdiction extends only to the "avoidance of further uneconomic duplication of generation, transmission, and distribution facilities." Fla. Stat. §366.04(5) (emphasis added). Given that such duplication, albeit economic or otherwise, has already occurred, it is extremely unlikely in these areas that service by either

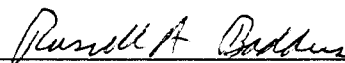
utility would constitute "further uneconomic duplication." Either utility could and should be able to serve the customer, at the customer's preference, without uneconomically duplicating the facilities of the other. Any differential in these areas would likely be in the words of the Supreme Court, "*de minimis*". In those rare circumstances where the differential is not *de minimis*, the Commission's jurisdiction would be invoked and the system which has worked extremely well for over twenty years would resolve the matter. See Fla. St. U. L. Rev. 19:407 (Attached hereto as Appendix A)

In summary, the amount of the duplication in the present case is not greatly important to the overall impact of the Court's holding. The Supreme Court of Florida has stated through Gulf Coast that not all duplication of facilities can be deemed uneconomic and that those that are not uneconomic may be decided through customer choice. Whatever remedy that is ultimately adopted by the Commission in this case must conform to the essential requirements of the law. Involuntary imposition of "lines on the ground" as a territorial boundary between the two utilities in this case would not be consistent with the state of the law as it exists following the holding in Gulf Coast.

WHEREFORE, Gulf Power Company respectfully requests that the Florida Public Service Commission issue an order dismissing the current proceedings in this docket. In the alternative, Gulf Power Company respectfully requests that the Commission issue an order acknowledging that any resolution of this matter must allow for the economic expansion of utility facilities as set forth in Gulf Coast Electric Cooperative, Inc., v. Susan F. Clark, etc., et al. and

therefore, of necessity, will not involve the involuntary imposition of a territorial boundary between the two utilities.

Respectfully submitted this 16th day of August, 1996.



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APPENDIX A

DRAWING THE LINES: STATEWIDE TERRITORIAL BOUNDARIES FOR PUBLIC UTILITIES IN FLORIDA

RICHARD C. BELLAK* AND MARTHA CARTER BROWN**

I. INTRODUCTION

OVER the past four decades, the State of Florida has grown dramatically from a predominantly rural and relatively unpopulated state to an urban and densely populated one.¹ To meet the increasing demand for utility service accompanying this growth, Florida's public utilities have also grown remarkably. Today, five investor-owned electric utilities—along with thirty-five municipal electric utilities and eighteen rural electric cooperatives—serve 6,736,858 residential, commercial, and industrial customers.² Sixty natural gas utilities, including municipal gas systems and gas districts, as well as 13 local exchange telephone companies, 123 interexchange telephone companies, and 244 water and sewer utilities operate in Florida.³

Growth has driven regulatory authorities to require, and utilities to implement, increased quality and efficiency in the provision of utility service. But growth has also led to conflict and competition between utilities as they have expanded their service areas to meet growing needs and raced to serve new customers in surrounding areas. In the

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Before she was appointed to the Florida Public Service Commission, Susan Forbes Clark researched and drafted the legislative history narratives included in this Article. The authors gratefully acknowledge her important contribution.

This Article reflects the analyses of the authors and does not necessarily reflect the opinions of the Commission or individual Commissioners.

1. In 1950, Florida was home to 2,771,305 people and had only three major urban areas, all located along its coasts. By 1990, Florida's population had grown to 12,671,000 (estimated) and was increasing at a rate of 1,000 new residents a day. BUREAU OF ECON. AND BUS. RESEARCH, UNIV. OF FLA., 1990 FLORIDA STATISTICAL ABSTRACT 3-4 (1990).

2. See generally FLA. PUB. SERV. COMM'N, MASTER COMMISSION DIRECTORY (1991) [hereinafter MASTER COMMISSION DIRECTORY]. (This source is an electronic data base maintained by and accessible at Fla. Pub. Serv. Comm'n, Div. of Records & Reporting, Tallahassee, Florida.); FLA. ELEC. POWER COORDINATING GROUP, INC., 1991 TEN-YEAR PLAN—STATE OF FLORIDA 8 (1991).

3. MASTER COMMISSION DIRECTORY, *supra* note 2.

field of electric service, for example, growth has created a contest for service territory between utilities serving expanding urban areas and cooperatives serving rural areas. Growth has also pitted rural electric cooperatives and investor-owned utilities against municipally-owned utilities that seek to extend their territory and to increase municipal revenues as municipal boundaries expand.

The effort of governmental authorities to respond appropriately to the extensive demographic changes in the State is a persistent theme in the history of utility regulation in Florida, particularly in the regulation of electric utility service territories. The Florida Public Service Commission has considered numerous cases and issues on that subject since 1951, when the Commission was given regulatory authority over investor-owned electric utilities (public utilities).⁴ The Florida Supreme Court has reviewed thirteen electric utility territorial cases since 1950,⁵ and the Florida Legislature has considered legislation on the subject five times since 1974.

The Legislature considered a bill concerning electric service territories most recently during its 1991 session.⁶ The bill proposed a method to divide service territories between electric utilities by establishing territorial boundaries on a statewide basis. While the legislation was not adopted, the controversy the bill engendered demonstrates the importance of the issue in public utility regulation. It is likely to reappear on a future legislative agenda.

This Article presents an overview of Florida's regulation of utility service territories and a review of the history of territorial legislation since 1974.⁷ The Article then analyzes the legal and regulatory issues

4. Since 1985, the Commission has considered 62 cases involving the service territories of electric utilities, not including declaratory statement petitions on territorial issues. FLA. PUB. SERV. COMM'N, CASE MANAGEMENT REPORT, DOCKET INDEX LISTING, June 25, 1991. (This source is an electronic data base maintained by and accessible at Fla. Pub. Serv. Comm'n, Div. of Records & Reporting, Tallahassee, Fla.)

5. Florida Pub. Serv. Comm'n v. Bryson, 569 So. 2d 1253 (Fla. 1990); Public Serv. Comm'n v. Fuller, 551 So. 2d 1210 (Fla. 1989); Lee County Elec. Coop. v. Marks, 501 So. 2d 585 (Fla. 1987); City Gas Co. v. Florida Pub. Serv. Comm'n, 501 So. 2d 580 (Fla. 1987); Gulf Power Co. v. Florida Pub. Serv. Comm'n, 480 So. 2d 97 (Fla. 1985); Utilities Comm'n v. Florida Pub. Serv. Comm'n, 469 So. 2d 731 (Fla. 1985); Gulf Coast Elec. Coop. v. Florida Pub. Serv. Comm'n, 462 So. 2d 1092 (Fla. 1985); Escambia River Elec. Coop. v. Florida Pub. Serv. Comm'n, 421 So. 2d 1384 (Fla. 1982); Gulf Power Co. v. Hawkins, 375 So. 2d 854 (Fla. 1979); Gainesville-Alachua County Regional Elec., Water & Sewer Utils. Bd. v. Clay Elec. Coop., 340 So. 2d 1159 (Fla. 1976); Storey v. Mayo, 217 So. 2d 304 (Fla. 1968); City Gas Co. v. Peoples Gas Sys., 182 So. 2d 429 (Fla. 1965); Tampa Elec. Co. v. Withlacoochee River Elec. Coop., 122 So. 2d 471 (Fla. 1960).

6. Fla. HB 1863 (1991); Fla. SB 1808 (1991).

7. This Article includes allocation of service territories for gas utilities, because the nature and source of the regulation is the same. Both electric utilities and gas utilities are regulated under the provisions of chapter 366, Florida Statutes.

surrounding House Bill 1863, the 1991 territorial bill, and includes a brief discussion of federal antitrust challenges to utility territorial agreements in Florida. The Article concludes with a brief discussion of the relative merits of the present regulatory system and proposed systems that would create permanent territorial boundary lines for electric utilities.

II. HISTORICAL DEVELOPMENT OF UTILITY RETAIL SERVICE TERRITORIES

In this section, the Article traces the evolution of service territory regulation from before the Public Service Commission's creation in 1951, through the establishment of the Commission's authority to approve territorial agreements and resolve territorial disputes, and through territorial legislation since the enactment of the "Grid Bill" in 1974.

A. *The Commission and the Courts*

Before 1951, electric utilities and gas utilities were regulated on a piecemeal basis by local governments, usually municipalities. Private utilities would obtain franchises from municipalities to provide service within all or part of the municipalities' respective jurisdictions. The utilities' rates and quality of service were regulated by the municipalities in whose jurisdictions the services were provided. It was, therefore, not unusual for a single utility to have different rates in different localities for the same service.⁸

In 1951, to create uniform rate and service regulation of investor-owned public utilities throughout the State, the Florida Legislature vested regulatory jurisdiction in the Florida Railroad and Public Utilities Commission, the predecessor to the present Florida Public Service Commission (hereinafter Commission or PSC).⁹ The authority given to the Commission over those utilities was exclusive and plenary. Indeed, the Florida Supreme Court described the Commission's authority as "omnipotent within the confines of the statute and the limits of organic law."¹⁰

1. *Territorial Agreements*

The Commission's power to review and approve territorial agreements involving investor-owned utilities was implicit in the Legisla-

8. STAFF OF FLA. S. COMM. ON COM., A REVIEW OF CHAPTER 366, FLORIDA STATUTES, PUBLIC UTILITIES, PREPARED PURSUANT TO THE REGULATORY REFORM ACT, SECTION 11.61, FLORIDA STATUTES (Jan. 1980).

9. Ch. 26545, 1951 Fla. Laws 123.

10. Storey v. Mayo, 217 So. 2d 304, 307 (Fla. 1968).

ture's pervasive grant of authority to the Commission and was part and parcel of the extensive regulatory scheme developed for public utilities.¹¹ The Commission itself had recognized its authority over electric service territories as early as 1958, when it approved an administrative agreement between Florida Power Corporation and the Orlando Utilities Commission that divided territory to prevent duplication of electric facilities.¹²

That same year the Commission approved a territorial agreement between City Gas Company and Peoples Gas System. In its order approving the agreement, the Commission articulated the rationale behind encouraging such agreements dividing service territories between public utilities:

It is our opinion that territorial agreements which will minimize, and perhaps even eliminate, unnecessary and uneconomical duplication of plant and facilities which invariably accompany expansions into areas already served by a competing utility, are definitely in the public interest and should be encouraged and approved by an agency such as this, which is charged with the duty of regulating public utilities in the public interest. Duplication of public utility facilities is an economic waste and results in higher rates which the public must pay for essential services. Reasonable and realistic regulation, in such cases, is better than, and takes the place of competition. A public utility is entitled under the law to earn a reasonable return on its investment. If two similar utilities enter the same territory and compete for the limited business of the area, each will have fewer customers, but there inevitably will be excess facilities which must earn a reasonable return. The rates in such a situation will be higher than the service is worth, or customers in more remote areas will bear some of the unjustified expense necessary to support such economic waste.¹³

Two years after the Commission approved the territorial agreement between City Gas and Peoples, Peoples filed a complaint charging that City Gas had violated the agreement.¹⁴ City Gas answered, *inter alia*, that the agreement was void and unenforceable under state and

11. *Id.*; *City Gas Co. v. Peoples Gas Sys.*, 182 So. 2d 429, 436 (Fla. 1965).

12. *In re Application of Fla. Power Corp. for Approval of an Admin. Agreement Between Said Co. and the Orlando Util. Comm'n*, Docket No. 5256-EU, Order No. 2595 (Fla. Pub. Serv. Comm'n, Mar. 28, 1958).

13. *In re Territorial Agreement Between Peoples Gas Sys., Inc. and City Gas Co. of Fla.*, Docket No. 6231-GU, Order No. 3051, at 1 (Fla. Pub. Serv. Comm'n, Nov. 9, 1960).

14. 182 So. 2d 429 (Fla. 1965).

federal antitrust laws.¹⁵ In *City Gas*, the Florida Supreme Court concluded that, in view of the regulatory authority of the Commission over the parties to the agreement pursuant to chapter 366, Florida Statutes, the Commission could prevent the agreement from resulting in the "monopolistic control over price, production, or quality of service" that was the true object of antitrust enforcement.¹⁶ Therefore, the territorial agreement did not violate Florida's antitrust law. The court determined that the Commission had adequate implied authority to approve the agreement, which would have been invalid without such approval. The court's opinion recognized that regulation of natural-monopoly public utilities is consistent with the public interest.¹⁷

The *City Gas* opinion provided precedent for the legality of Commission-approved territorial agreements. First, the court recognized that regulated monopoly public utilities are complementary to, and consistent with, the free market competition envisioned by the antitrust laws, rather than opposed to it, because both are in the public interest in their respective spheres.¹⁸

Second, the court recognized the Commission's implied authority to approve territorial agreements: "The powers of this and similar agencies include both those expressly given and those given by clear and necessary implication from the provisions of the statute. Neither category is possessed of greater dignity or effect."¹⁹

Thus, with the approval of the Florida Supreme Court, by 1965 the Commission had effectively implemented the State's policy to replace competition between utilities with regulation in the public interest. Moreover, it had also established the premise that without Commission approval, territorial agreements between utilities were invalid.

In the exercise of [its] jurisdiction the Commission is specifically authorized to require repairs, improvements, additions and

15. *Id.*

16. *Id.* at 434.

17. *Id.*

18. To this end, the court cited *California v. Federal Power Comm'n*, 296 F.2d 348, 353-54 (D.C. Cir. 1961), *rev'd on other grounds*, 369 U.S. 482 (1962).

The antitrust laws and the regulatory laws are not in conflict; they are complementary. Both have as their objective the public interest. They deal with different subject matters. . . . [One] . . . is not required to—and indeed should not—begin with a general premise that competition is always and under all circumstances in the public interest. [One's] premise should be that the antitrust laws in certain areas of our economy and the regulatory laws in other areas are supplementary enactments and each must be given full effect in its area, recognizing always its concomitant body of law in the other area.

City Gas Co., 182 So. 2d at 433-34.

19. *Id.* at 436-37 (citation omitted).

extensions to the plant and equipment of any public utility reasonably necessary to promote the convenience and welfare of the public and secure adequate service or facilities for those reasonably entitled thereto. Obviously, any agreement between two gas utilities which has for its purpose the establishing of service areas between the utilities will, in effect, limit to some extent the Commission's power to require additions and extensions to plant and equipment reasonably necessary to secure adequate service to those reasonably entitled thereto. In our opinion, such a limitation can have no validity without the approval of this Commission.²⁰

The Legislature and the Commission continue to espouse this rationale in approving territorial agreements.²¹ Commission-approved territorial agreements have become the preferred method for allocating electric and gas utility service territories in Florida.²²

2. *Regulatory Schemes*

While the method for establishing service areas for electric and gas utilities differs from the method prescribed for water and sewer utilities and for telephone companies, the purpose and the result are the same. Territorial agreements displace competition among utility service providers with the goal of eliminating uneconomic duplication of utility facilities. The regulatory scheme for water and sewer utilities and for telephone companies requires the utility or company to request issuance of a certificate covering the entire territory that it may serve. The Commission reviews the application and may or may not grant the certificate for the area requested.²³

In the electric and gas industries, utilities submit agreements with other utilities that propose boundaries between their respective service territories.²⁴ The Commission reviews each agreement and may or may not approve the allocation of territory.²⁵ Where disputes arise between electric or gas utilities, the service territories are allocated through

20. *Id.* at 436.

21. *Public Serv. Comm'n v. Fuller*, 551 So. 2d 1210 (Fla. 1989).

22. *See, e.g., In re Territorial Agreement between Peoples Gas Sys. & City Gas Co.*, Docket No. 6231-GU, Order No. 3051, at 1 (Fla. Pub. Serv. Comm'n, Nov. 9, 1960); *In re Application of Fla. Power Corp. for Approval of Territorial Agreement with City of Ocala*, Docket No. 7061-EU, Order No. 3799, at 3-4 (Fla. Pub. Serv. Comm'n, Apr. 28, 1965); *Utilities Comm'n v. Florida Pub. Serv. Comm'n*, 469 So. 2d 731, 732 (Fla. 1985).

23. *See* FLA. STAT. §§ 364.335(4), 367.045(5)(a) (1989).

24. FLA. ADMIN. CODE ANN. r. 25-6.0439-.0442 (1991) (pertaining to electric utility territorial agreements and disputes); FLA. ADMIN. CODE ANN. r. 25-7.047-.0473 (1991) (pertaining to natural gas utility territorial agreements and disputes).

25. FLA. ADMIN. CODE ANN. r. 25-6.0439-.0442 (1991); FLA. ADMIN. CODE ANN. r. 25-7.047-.0473 (1991).

Commission resolution of the dispute.²⁶ In this manner, exclusive service territories are established incrementally, following patterns of growth and development. As a particular area of the State begins to develop, electric and gas utilities that desire to serve the area are expected to anticipate potential problems of duplication of facilities; they are expected to present the Commission with a proposed agreement dividing the new territory and resolving the problems.²⁷ The exclusive service area of a particular utility, be it an investor-owned, municipal, or rural cooperative utility system, thus develops over time, in response to the growth patterns of the area. It is defined by territorial agreements or dispute resolutions between the utility and adjacent utilities over a number of years.

Agreements are encouraged because they provide for the orderly and economical expansion of facilities in a manner responsive to the growth patterns of a rapidly developing state.²⁸ Expensive and time-consuming litigation is thus avoided. In several cases, the Commission has recognized this principle and suspended territorial dispute proceedings to allow utilities the opportunity to reach agreement.²⁹

Since 1965, the Florida Supreme Court has affirmed the Commission's implied authority to approve territorial agreements, acknowledged the necessity of Commission approval for those agreements to be valid, and supported the Commission's implementation of the State's policy to replace competition with regulation in the public interest. The court has repeatedly held that territorial agreements are sanctioned and actively encouraged by the State, both as a means to avoid the harms incident to competitive practices and as a means of resolving disputes between utilities.³⁰

26. *Id.*

27. *In re* Application of Florida Power Corp. for Approval of Territorial Agreement with City of Ocala, Docket No. 7061-EU, Order No. 3799, at 3 (Fla. Pub. Serv. Comm'n, Apr. 28, 1965).

28. *See, e.g., In re* Joint Petition of Florida Power Corp. and Withlacoochee River Elec. Coop. for Approval of Territorial Agreement, 88 Fla. Pub. Serv. Comm'n Rep. 6:215 (Order No. 19480, June 10, 1988).

29. *See, e.g., In re* Petition by Sumter Elec. Coop. to Resolve Territorial Dispute with the City of Ocala, 87 Fla. Pub. Serv. Comm'n Rep. 10:331 (Order No. 18324, Oct. 21, 1987); and *In re* Territorial Dispute Between Peace River Elec. Coop. & City of Wauchula, 84 Fla. Pub. Serv. Comm'n Rep. 10:14 (Order No. 13726, Oct. 10, 1984).

30. *See* Utilities Comm'n v. Florida Pub. Serv. Comm'n, 469 So. 2d 731 (Fla. 1985); Gainesville-Alachua County Regional Elec., Water & Sewer Utils. Bd. v. Clay Elec. Coop., 340 So. 2d 1159 (Fla. 1976). In *Utilities Commission*, the Florida Supreme Court said: "The legal system favors the settlement of disputes by mutual agreement between the contending parties. This general rule applies with equal force in utility service agreements." 469 So. 2d at 732. *See also* Lee County Elec. Coop. v. Marks, 501 So. 2d 585 (Fla. 1987). The cooperative had alleged that one of its retail industrial customers had constructed a transmission line into the service

B. Legislative Milestones

The first specific statutory reference to territorial agreements between electric utilities was added to chapter 366 by the 1974 Legislature, as part of an act commonly known as the Grid Bill.³¹ The amendments were part of a package that granted the Commission jurisdiction over municipal utilities and rural electric cooperatives for certain specific purposes.³²

While the Commission's authority to review and approve territorial agreements involving investor-owned electric utilities was implicit in the plenary authority it enjoyed over those utilities, the Commission lacked such all-encompassing authority over rural electric cooperatives and municipal electric utilities.³³ In fact, before 1974, the Commission did not have jurisdiction over municipal utilities or rural electric cooperatives for any purpose. Thus, explicit legislation was necessary to establish that jurisdiction.³⁴

1. The Grid Bill

The Grid Bill was introduced by the Senate Committee on Governmental Operations; discussion at the committee meeting indicated that the bill resulted from a study of the energy problems of the State.³⁵ The study concluded that a coordinated energy grid, to include investor-owned utilities, municipally-owned utilities, and rural electric cooperatives, would use energy more efficiently and would help control the dramatic rise in the cost of electricity.³⁶ Thus, the Grid Bill gave the Commission expanded authority over all electric utilities regarding "the planning, development and maintenance of a coordinated electric power grid throughout Florida to assure an adequate and reliable source of energy for operational and emergency purposes

territory of another electric utility in violation of their territorial agreement. The court noted that it had "repeatedly approved the PSC's efforts to end the economic waste and inefficiency resulting from utilities 'racing to serve' . . . and we cannot find that the transparent device of constructing a line into another utility's service area may suffice to avoid the effect of a territorial agreement." *Id.* at 587.

31. Ch. 74-196, 1974 Fla. Laws 538 (codified at FLA. STAT. §§ 366.04(2), .05(7)-(8) (1989)).

32. *Id.*

33. See FLA. STAT. § 366.11 (1974).

34. The purpose of rural electric cooperatives is "supplying electric energy and promoting and extending the use thereof in rural areas." FLA. STAT. § 425.02 (1989). In fulfilling this purpose, rural electric cooperatives extend electric power service to sparsely populated areas that may lack sufficient revenue potential to attract investor-owned utilities to serve them.

35. Fla. S. Comm. on Govtl. Ops., tape recording of proceedings (May 20-21, 1974) (on file with comm.).

36. *Id.*

in Florida and the avoidance of further uneconomic duplication of generation, transmission, and distribution facilities."³⁷

Under the Grid Bill, the Commission's jurisdiction to ensure the adequacy of the grid and to prevent uneconomic duplication of facilities included the following authority: to require reports from all electric utilities;³⁸ to require installation or repair of necessary facilities, including generating plants and transmission facilities when necessary to remedy inadequacies in the grid;³⁹ and to review and approve territorial agreements and resolve disputes involving all types of utilities, not just investor-owned utilities.⁴⁰ The primary objective of the 1974 legislation was to give the Commission expanded authority over the planning, development, and coordination of electric facilities throughout the state.⁴¹ Extending Commission authority over municipal and rural cooperatives was a necessary prerequisite to achieving that objective.

The debate before the Senate Committee on Governmental Operations, and the parliamentary maneuvering on the floor of the House and Senate, indicate that significant controversy surrounded the proposed legislation. Gulf Power Company was opposed to the notion of a coordinated grid in Florida, because Gulf Power was already part of the Southern Company's energy grid.⁴² The municipal electric utilities resisted any extension of Commission authority over their operations, and attempts were made to exclude municipal utilities operating exclusively within municipal limits.⁴³

The bill did pass both houses, however, and it provided a powerful policy direction for the regulation of electric utilities in the State. The Grid Bill's primary purpose was to provide for the establishment and maintenance of a coordinated energy grid for the State; established utility service territories are an essential part of a coordinated energy grid. Thus, since its passage in 1974, the Grid Bill has become the focus of the Commission's regulatory authority over retail service territories of electric utilities in the State. Every Florida Supreme Court opinion that has considered electric and gas territorial matters since

37. FLA. STAT. § 366.04(3) (1974).

38. *Id.* § 366.05(7).

39. *Id.* § 366.05(8).

40. *Id.* § 366.04(2).

41. *See* FLA. STAT. §§ 366.04(2)(c), .05(7)-(8) (1989).

42. Fla. S. Comm. on Govtl. Ops., tape recording of proceedings (May 21, 1974) (on file with comm.).

43. Attempts were also made to exclude specific municipal utilities from the bill. *See* FLA. S. JOUR. 747 (Reg. Sess. 1974).

1974 has acknowledged the Commission's authority and responsibility under the Grid Bill to prevent uneconomic duplication of electric facilities by the orderly establishment of service territories.⁴⁴

2. *Legislation in the 1980s*

In the following decade, no further legislation on territorial matters was considered by either the House or the Senate. Then in 1984, a bill was introduced at the request of the Florida PSC that proposed regulatory action to prescribe territorial boundaries for all electric utilities on a statewide basis.⁴⁵

The Commission had initiated an investigation of electric service areas in 1981 because of its concern that Florida's burgeoning population growth had increased the conflict between utilities seeking to serve the same areas. The Commission recognized that the convergence of territories increased the potential for uneconomic duplication of facilities and the need to establish territorial agreements and to resolve territorial disputes.⁴⁶

The Commission's proposed legislation sought to encourage utilities to reach agreements setting territorial boundaries as the most efficient and economical means for establishing territories. The resolution of territorial disputes often involved substantial expenditures of both time and money. Also, absent a territorial agreement or Commission order allocating territory, utilities would rush to serve an area in order to establish a claim to the territory, resulting in rival utilities building duplicative facilities to serve the same customers.⁴⁷

The 1984 bill would have given the Commission explicit authority to modify territorial agreements that had been submitted for approval.⁴⁸

44. Florida Pub. Serv. Comm'n v. Bryson, 569 So. 2d 1253 (Fla. 1990); Public Serv. Comm'n v. Fuller, 551 So. 2d 1210 (Fla. 1989); Lee County Elec. Coop. v. Marks, 501 So. 2d 585 (Fla. 1987); City Gas Co. v. Florida Pub. Serv. Comm'n, 501 So. 2d 580 (Fla. 1987); Gulf Power Co. v. Florida Pub. Serv. Comm'n, 480 So. 2d 97 (Fla. 1985); Utilities Comm'n v. Florida Pub. Serv. Comm'n, 469 So. 2d 731 (Fla. 1985); Gulf Coast Elec. Coop. v. Florida Pub. Serv. Comm'n, 462 So. 2d 1092 (Fla. 1985); Escambia River Elec. Coop. v. Florida Pub. Serv. Comm'n, 421 So. 2d 1384 (Fla. 1982); Gulf Power Co. v. Hawkins, 375 So. 2d 854 (Fla. 1979); Gainesville-Alachua County Regional Elec., Water & Sewer Utils. Bd. v. Clay Elec. Coop., 340 So. 2d 1159 (Fla. 1976).

45. Letter from Fla. Pub. Serv. Comm'n Chair Gerald L. Gunter to H. Lee Moffit, H.R. Speaker (Feb. 21, 1984) (on file at Fla. Dep't of State, Div. of Archives, Tallahassee, Fla.).

46. Fla. Pub. Serv. Comm'n, tape recordings of Internal Affairs conference (Sept. 20, 1983) (on file with Fla. Pub. Serv. Comm'n Dir. of Records and Reporting).

47. Fla. Pub. Serv. Comm'n, tape recordings of Internal Affairs conference (Sept. 20, 1983) (on file with Fla. Pub. Serv. Comm'n Dir. of Records and Reporting).

48. See Fla. SB 464 (1984).

The authority to modify agreements with the concurrence of the participating utilities was described as a means of simplifying legal proceedings involving approval of territorial agreements.⁴⁹ Rather than denying approval of an agreement because a particular aspect of the agreement was unsatisfactory, the Commission could modify the agreement with the concurrence of the utilities.⁵⁰ Under the bill's provisions, the Commission would have retained authority to disapprove the agreement outright if it did not approve of the agreement as a whole, or if the utilities did not concur.⁵¹ The bill would also have authorized the Commission to "prescribe territorial boundaries for any utility, which, by January 1, 1986, [had] not filed with the Commission territorial agreements reflecting its service territory."⁵²

The bill was referred to the Senate Committee on Economic, Community and Consumer Affairs and to the Committee on Commerce. No action was taken, and the measure died in committee.⁵³

The following year, the Public Service Commission again recommended legislation regarding territorial boundaries. The bill was filed in both the Senate and the House, and it was identical to the 1984 bill in all significant respects.⁵⁴ The House bill was referred to the Committee on Regulated Industries and Licensing, which proposed a committee substitute that substantially revised the Commission's version of the bill. This bill, Committee Substitute for House Bill 650 (1985), reiterated previous court declarations that "inefficient and uneconomic duplication of electric service facilities" was contrary to the public interest.⁵⁵ It also proposed more detailed provisions for setting utility boundaries. The bill would still have required utilities to file agreements by January 1, 1987, but the bill would also have required the Commission to adopt rules establishing the criteria it would use in prescribing territorial boundaries should the utilities fail to file agreements. The Commission's rules were to be submitted to the Legislature for review and approval. The bill went on to provide that if the rules were not approved by the Legislature, they would not become effective, and the statutory criteria, court decisions, and Commission orders then in effect would govern Commission prescription of terri-

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.*

53. FLA. LEGIS., HISTORY OF LEGISLATION, 1984 REGULAR SESSION, HISTORY OF SENATE BILLS at 160-61, SB 464.

54. The date for utilities to file territorial agreements was extended one year to January 1, 1987.

55. Fla. H.R. Comm. on Reg'd Indus. & Licensing, CS for HB 650 (1985).

torial boundaries. The Commission would have been given explicit authority to require the transfer of facilities and property from one electric supplier to another in connection with the allocation of service territories, and the legislation proposed a method for determining compensation for the sale or transfer of facilities.⁵⁶

Finally, the bill provided that any gain or loss from a sale or transfer "ordered or approved by the Commission, or resulting from a sale or transfer of electric facilities or property which has been or is otherwise compelled by force of law, shall inure to the stockholders of such electric public utility."⁵⁷ This provision drew opposition from the Commission and ultimately resulted in the demise of the proposed legislation. The Commission was concerned that utility property, the investment in which had been recovered in rates and which had appreciated in value, would be sold at a profit with no opportunity for that profit to benefit the ratepayers. Throughout the 1985 session, legislators, utility representatives, and the Commission unsuccessfully attempted to draft a compromise acceptable to all.⁵⁸ The House and Senate bills died in the Senate Committee on Commerce.⁵⁹

At several internal affairs meetings in the fall of 1985, the Commission again considered recommending legislation to establish territorial boundaries.⁶⁰ Representatives for investor-owned utilities, rural electric cooperatives, and municipal electric utilities participated in these discussions.⁶¹ A reassessment of its existing authority under the Grid Bill led the Commission to conclude that it had not yet used that authority to its fullest extent.⁶² The Commission concluded that the Legislature had already provided it with the necessary tools to take interdictory measures to prevent uneconomic duplication of facilities.⁶³ The Commission directed its staff to develop rules under its existing statutory authority to accomplish the same purposes it had previously advocated through proposed legislation: to encourage

56. *Id.*

57. *Id.*

58. Fla. Pub. Serv. Comm'n, tape recordings of Internal Affairs conference (Apr. 30 and May 7, 1985) (discussion of proposed legislation on territorial boundaries) (on file with Fla. Pub. Serv. Comm'n Dir. of Records & Reporting).

59. FLA. LEGIS., HISTORY OF LEGISLATION, 1985 REGULAR SESSION, HISTORY OF HOUSE BILLS at 94, HB 650.

60. Fla. Pub. Serv. Comm'n, minutes of Internal Affairs conference (Oct. 1, 1985, Oct. 7, 1985, and Nov. 12, 1985) (on file with Fla. Pub. Serv. Comm'n Dir. of Records & Reporting).

61. Fla. Pub. Serv. Comm'n, tape recording of Internal Affairs conference (discussion of proposed territorial legislation) (Nov. 12, 1985) (on file with Fla. Pub. Serv. Comm'n Dir. of Records & Reporting).

62. *Id.*

63. *Id.*

agreements and to otherwise establish boundaries in areas where there was a significant likelihood of duplication of facilities and of territorial disputes.⁶⁴

64. The Commission opened a rulemaking docket in April of 1987, *In re Adoption of Rules 25-6.0439 through 6.0442, Territorial Agreements & Disputes*, Docket No. 870372-EU. After several false starts, considerable controversy, and delay, territorial rules for electric utilities were adopted in March of 1990. These rules, codified at Florida Administrative Code rules 25-6.0439-.0442, provide:

25-6.0439 Territorial Agreements and Disputes for Electric Utilities - Definitions.

(1) For the purpose of Rules 25-6.0440, 25-6.0441, and 25-6.0442, the following terms shall have the following meaning:

(a) "Territorial agreement" means a written agreement between two or more electric utilities which identifies the geographical areas to be served by each electric utility party to the agreement, the terms and conditions pertaining to implementation of the agreement, and any other terms and conditions pertinent to the agreement;

(b) "Territorial dispute" means a disagreement as to which utility has the right and the obligation to serve a particular geographical area.

25-6.0440 Territorial Agreements for Electric Utilities.

(1) All territorial agreements between electric utilities shall be submitted to the Commission for approval. Each territorial agreement shall clearly identify the geographical area to be served by each utility. The submission shall include: (a) a map and a written description of the area, (b) the terms and conditions pertaining to implementation of the agreement, and any other terms and conditions pertaining to the agreement, (c) the number and class of customers to be transferred, (d) assurance that the affected customers have been contacted and the difference in rates explained, and (e) information with respect to the degree of acceptance by affected customers, i.e., the number in favor of and those opposed to the transfer. Upon approval of the agreement, any modification, changes, or corrections to this agreement must be approved by this Commission.

(2) Standards for Approval. In approving territorial agreements, the Commission may consider, but not be limited to consideration of:

(a) the reasonableness of the purchase price of any facilities being transferred;

(b) the reasonable likelihood that the agreement, in and of itself, will not cause a decrease in the reliability of electrical service to the existing or future ratepayers of any utility party to the agreement; and

(c) the reasonable likelihood that the agreement will eliminate existing or potential uneconomic duplication of facilities.

(3) The Commission may require additional relevant information from the parties of the agreement, if so warranted.

25-6.0411 Territorial Disputes for Electric Utilities.

(1) A territorial dispute proceeding may be initiated by a petition from an electric utility requesting the Commission to resolve the dispute. Additionally the Commission may, on its own motion, identify the existence of a dispute and order the affected parties to participate in a proceeding to resolve it. Each utility which is a party to a territorial dispute shall provide a map and a written description of the disputed area along with the conditions that caused the dispute. Each utility party shall also provide a description of the existing and planned load to be served in the area of dispute and a description of the type, additional cost, and reliability of electrical facilities and other utility services to be provided within the disputed area.

(2) In resolving territorial disputes, the Commission may consider, but not be limited to consideration of:

(a) the capability of each utility to provide reliable electric service within the disputed

The issue of territorial boundaries surfaced again in the 1989 Regular Session. In that session, the Legislature conducted a review of the Commission's electric and gas utility regulatory statute,⁶⁵ pursuant to the Regulatory Sunset Act.⁶⁶ The House Committee on Science, Industry and Technology prepared House Bill 1805, which contained the House's proposed revisions to chapter 366. The bill contained language for establishing approved retail electric service territories. The bill would have established the utilities' initial boundaries as either: (1) those established by a territorial agreement or Commission order in effect before July 1, 1990, or (2) those established by drawing a line "substantially equidistant between an electric utility's distribution line and the nearest existing distribution lines of any other electric utility."⁶⁷ The initial boundary lines could be protested within 120 days after the Commission issued a map delineating the boundary lines.⁶⁸ Additionally, after the initial establishment of lines, joint petitions by electric utilities to adjust the lines were also permitted, and the Commission could reassign a customer from one utility to another if the service from the original utility was inadequate.⁶⁹ Changes in municipal boundaries would not affect the right of a utility to serve custom-

area with its existing facilities and the extent to which additional facilities are needed;
 (b) the nature of the disputed area including population and the type of utilities seeking to serve it, and degree of urbanization of the area and its proximity to other urban areas, and the present and reasonably foreseeable future requirements of the area for other utility services;

(c) the cost of each utility to provide distribution and subtransmission facilities to the disputed area presently and in the future; and

(d) customer preference if all other factors are substantially equal.

(3) The Commission may require additional relevant information from the parties of the dispute if so warranted.

25-6.0442 Customer Participation.

(1) Any customer located within the geographic area in question shall have an opportunity to present oral or written communications in commission proceedings to approve territorial agreements or resolve territorial disputes. If the commission proposes to consider such material, then all parties shall be given a reasonable opportunity to cross-examine or challenge or rebut it.

(2) Any substantially affected customer shall have the right to intervene in such proceedings.

(3) In any Commission proceeding to approve a territorial agreement or resolve a territorial dispute, the Commission shall give notice of the proceeding in the manner provided by Rule 25-22.0405, F.A.C.

Territorial rules for natural gas utilities were adopted on February 25, 1991. FLA. ADMIN. CODE ANN. r. 25-17.047-.0473 (1991).

65. FLA. STAT. §§ 366.01-.85 (1989 & Supp. 1990).

66. FLA. STAT. § 11.61 (1989).

67. Fla. HB 1805 (1989).

68. *Id.*

69. *Id.*

ers in its assigned territory.⁷⁰ In its deliberations, the House Committee on Science, Industry and Technology voted down an attempt to remove the language drawing territorial boundaries.⁷¹

The Senate Committee on Economic, Professional and Utility Regulation proposed a separate bill, Senate Bill 1224. The Committee staff's report addressed the question whether service territories for electric and gas utilities should be established.⁷² Among the issues covered by the staff report was the argument that statewide territorial boundaries would more adequately protect utilities from the threat of federal antitrust litigation over territorial agreements.⁷³ Although only two federal antitrust cases have arisen involving utility territorial agreements approved by the Florida Public Service Commission, both have occurred since 1986, and both raised questions concerning the antitrust status of territorial agreements between Florida utilities.⁷⁴

The staff's report also discussed the potential cost to ratepayers when two utilities compete for previously unallocated territory.⁷⁵ The report recommended that the statute be amended to allow the Commission to modify agreements and to specifically enunciate the Commission's authority to declare a dispute. Language to this effect was included in Senate Bill 1224.⁷⁶ The early versions of the Committee's bill contained language to make it clear that the Commission should continue to develop territorial boundaries for utilities through agreements and dispute resolution, rather than through certification of territories.⁷⁷ An amendment to incorporate language similar to that in House Bill 1805, proposing to establish territorial boundaries by line drawing, was offered on the floor of the Senate. It was defeated by the full Senate by a vote of twenty-two to eighteen.⁷⁸

The revised version of Chapter 366 ultimately enacted in 1989 did not provide for statewide establishment of territorial boundaries for electric and gas utilities.⁷⁹ Instead, the Commission's authority to resolve disputes on its own motion was specifically recognized, and the

70. Fla. HB 1805 (1989).

71. Fla. H.R. Comm. on Science, Indus. & Tech'y, Committee Secretary's Record of Vote on Amendment No. 13 to PCB 89-01 (May 2, 1989) (on file with comm.).

72. STAFF OF FLA. S. COMM. ON ECONOMIC, PROFESSIONAL AND UTILITY REGULATION, A REVIEW OF CHAPTER 366, FLORIDA STATUTES, RELATING TO PUBLIC UTILITIES 34-38 (Apr. 1989) (on file with comm.) [hereinafter CHAPTER 366 REVIEW].

73. *Id.*

74. These two cases are discussed in detail in Part III, *infra*.

75. CHAPTER 366 REVIEW, *supra* note 72, at 34-38.

76. Fla. SB 1224 (1989).

77. Fla. CS for SB 1224 (1989).

78. FLA. S. JOUR. 629 (Reg. Sess. May 31, 1989).

79. Ch. 89-292, 1989 Fla. Laws 1796-1812.

Commission's authority to approve agreements and resolve disputes for natural gas utilities was specifically set forth in a new subsection.⁸⁰

C. *The 1991 Session: House Bill 1863*

A draft bill addressing territorial boundaries for electric utilities first surfaced in the regulatory community several weeks before the 1991 Legislature convened, and this bill was introduced in the House on the first day of the Regular Session.⁸¹ The bill was referred to the Committee on Regulated Services and Technology and to the Committee on Appropriations. The Regulated Services and Technology Committee referred the bill to its subcommittee on Public Utilities, which heard a long and complex debate on the bill on March 13, 1991.⁸²

The proposed legislation provided for the division of all electric utility territories in the State into "certified approved retail service areas" by January 1, 1993.⁸³ The lines delineating the service territory of a particular utility would be established by Commission-approved territorial agreements and by Commission orders resolving territorial disputes. Where boundaries could not be set by agreement or by dispute resolution, the proposed bill directed the Commission to set the boundaries by "a line or lines approximately equidistant between an electric utility's existing distribution line and the nearest existing distribution lines of any other electric utility in every direction on the effective date of this act."⁸⁴

The bill also provided that any party aggrieved by the equidistant method could, within six months of passage of the Act, petition the Commission to set the boundaries in accordance with other criteria set out in the bill.⁸⁵ Specifically, those criteria were: the nature and proximity of existing distribution lines to the area in question and the types of load to be served in the area; the degree to which the distribution lines and facilities would provide reasonably sufficient, adequate, and efficient retail electric service; the elimination and prevention of uneconomic duplication of facilities; and the facilitation of a coordinated electric grid.⁸⁶

80. *Id.* at 1799 (codified at FLA. STAT. §§ 366.04(2)(e), .04(3)(1989)).

81. Fla. HB 1863 (1991). A similar bill, Senate Bill 1808, was introduced in the Senate, but the House measure was pursued as the vehicle for passage of territorial legislation.

82. Fla. H.R. Comm. on Reg'd Serv. & Tech'y, Subcomm. on Public Utilities, tape recordings of proceedings (Mar. 13, 1989) (on file with comm.).

83. Fla. HB 1863 (1991).

84. *Id.*

85. *Id.*

86. *Id.*

The proposed bill directed the Commission to encourage utilities to enter into territorial agreements before the 1993 deadline.⁸⁷ The proposal reiterated that service areas thus established would be exclusive, but that facilities of one utility could be extended through the territory of another if necessary to connect the utility's facilities or to serve any of the utility's customers. The bill would have given the Commission authority to modify territorial boundaries, either on its own motion, on petition of affected electric utilities, or on petition by the Public Counsel, if the modification promoted the purposes and objectives of chapter 366. In deciding to modify a territorial boundary, the Commission was to be guided by the same criteria listed above.

Perhaps most significant for the fate of the proposed legislation were two provisions that specifically concerned municipalities and local governments. The bill provided that annexation of a utility's service area into the corporate limits of a municipality would not affect the authority of that utility to provide service in its certified area.⁸⁸ The bill also eliminated the right of local governments to condemn the facilities of an electric utility in order to acquire the right to provide electric service within their governmental boundaries.⁸⁹

Florida Power & Light Company (FPL) was the only investor-owned utility that publicly supported the legislation.⁹⁰ In testimony presented to the Public Utilities subcommittee of the House Committee on Regulated Services and Technology, FPL supported the bill because it believed that growth in the electric utilities' service territories, spurred by the State's rapid population growth, had led to overlapping service territories and a demonstrable increase in the number of disputes brought to the Commission.⁹¹ Florida Power & Light argued that the time had come to certify service areas for electric utilities statewide.⁹² Statewide territorial boundaries would facilitate efficient planning for the construction and deployment of electric utility facilities.⁹³ Utilities would be certain of the territory they were obligated to

87. The bill would have permitted disputes to be filed after the 1993 deadline. The bill would have directed the Commission to resolve such disputes in accordance with the equidistant criterion or, upon petition, based on the criteria described above. *Id.*

88. Fla. HB 1863 (1991).

89. *Id.*

90. Fla. H.R. Comm. on Reg'd Indus. & Tech'y, Subcomm. on Public Utilities, tape recording of proceedings (Mar. 13, 1991) (on file with comm.). Gulf Power Company opposed the legislation, and Florida's two other major investor-owned electric utilities, Florida Power Corporation and Tampa Electric Company, did not take any public position on the bill.

91. *Id.*

92. *Id.*

93. *Id.*

serve and they would be free of the burden of planning to construct facilities to serve unallocated territory.⁹⁴

The rural electric cooperatives supported the bill for the same reasons. Their advocates also argued that permanent territorial boundaries would eliminate the need to litigate territorial disputes before the Commission—a costly and arduous activity. Costs incurred in territorial dispute litigation, the cooperatives argued, are most often borne by the utilities' ratepayers, without receipt of any significant benefit in return.⁹⁵

Gulf Power Company and the Florida Municipal Electric Association opposed the proposed legislation.⁹⁶ Gulf Power pointed out that drawing lines equidistant from current facilities did not necessarily result in the provision of electricity at the least possible cost, because generation facilities and other facilities needed to provide electric service were not considered in the determination of which utility should serve an area.⁹⁷ Depending on the type of growth and where that growth occurred, the utility chosen to serve the area might not be the least-cost provider in the future. Gulf Power explained that some distribution lines might not be able to serve the capacity demands of the new customers.⁹⁸ Moreover, these parties argued, the future growth of an area could occur closest to one utility's territory, but be allocated to another utility's territory.⁹⁹

Current Commission policies and procedures, Gulf Power argued, properly assure the allocation of territory to the utility that can provide it at the least cost.¹⁰⁰ Gulf stated that its present rates for electricity were substantially lower than the rural electric cooperatives that served nearby areas.¹⁰¹ By allocating territory to those cooperatives now, the Legislature was insuring higher rates for those customers in the future.¹⁰²

Gulf Power questioned whether the proposed legislation would eliminate territorial disputes, because even after the boundaries were

94. *Id.*

95. *Id.*

96. *Id.*

97. *Id.*

98. *Id.*

99. *Id.*

100. *Id.*

101. *Id.*

102. *Id.* Gulf also pointed out that cooperatives have virtually no regulatory body overseeing their operations to ensure that the costs they incur in providing service are reasonable.

drawn, the opportunity remained to contest those boundaries. Gulf argued that the number of territorial disputes had actually declined in recent years.¹⁰³ Gulf Power considered the legislation an exercise in futility, because the boundaries could always be changed according to least-cost criteria. If the boundaries could always be changed, there would be no improved certainty in utility planning.¹⁰⁴

Individual municipalities and the Florida Municipal Electric Association (FMEA) espoused reasoning similar to Gulf Power in their opposition to the bill. The FMEA argued that the present system worked well and that no additional legislation was needed.¹⁰⁵ Since 1974, only a small number of disputes before the Commission had involved municipal electric utilities. Most of their territorial boundaries had been established by agreements. The FMEA predicted that the equidistant criteria would be challenged as not being fair, just, and reasonable.¹⁰⁶ Also, lines would need to be modified with the passage of time, because growth patterns would make the boundaries unresponsive to the goal of providing electricity at the least possible cost.¹⁰⁷

The municipal utilities also pointed out that the Commission presently has the authority both to identify and to resolve disputes over which utilities are obligated to serve a particular area.¹⁰⁸ The Commission can establish boundaries in areas where the potential for uneconomic duplication of facilities is significant—it does not have to wait for the utilities to petition for dispute resolution.¹⁰⁹

The municipalities' primary criticism of the bill was that it would reduce:

the authority of municipalities to raise revenues . . . from: (1) the establishment, operation, and expansion of municipal electric utility systems; and (2) fees charged to other utilities for the privilege of providing electric service within municipal corporate limits.¹¹⁰

The municipal governments argued that territorial boundaries set pursuant to the bill would preclude municipal utilities from adding to

103. *Id.*

104. *Id.*

105. *Id.*

106. *Id.*

107. *Id.*

108. *Id.*

109. *Id.*

110. Memorandum of Law from Messer, Vickers, Caparello, Madsen & Lewis to Fla. Mun. Elec. Ass'n (Apr. 1, 1991) (on file at Fla. Dep't of State, Div. of Archives, Tallahassee, Fla.).

their service territories through annexation and condemnation and would take away their authority to grant franchises to other utilities.¹¹¹ Some existing territorial agreements between municipal electric utilities and other utilities provide that service territories can be modified to include newly-annexed territory in the municipality's territory. Additionally, where agreements do not provide for such modifications, municipalities can nonetheless acquire private utility property and provide service within their municipal boundaries through the exercise of their eminent domain powers.¹¹² The authority to condemn such property is based on the principle that the provision of electric service within a municipality is a governmental function that the local government may perform itself or may grant a franchise to a private company to perform.¹¹³

The bill proposed to prohibit municipalities from exercising their powers of eminent domain to acquire private electric power facilities.¹¹⁴ The exclusive right to serve an area would have been established through the procedures set out in the bill and would have been unaffected by later municipal annexations.¹¹⁵

The municipalities predicted that the bill would have a significant detrimental revenue impact on them. The powers of municipalities to provide electric service and the impact of the bill on those powers were discussed at length in a memorandum prepared for the FMEA.¹¹⁶ In it, the FMEA argued that the territorial legislation required a two-thirds vote of both the House and the Senate pursuant to the new 1990 amendment to the Florida Constitution, article VII, section 18,¹¹⁷ because the legislation would reduce the authority of municipalities to raise revenues.¹¹⁸

In contrast, a memorandum prepared for Florida Power and Light concluded that the bill was not subject to the two-thirds majority requirement.¹¹⁹ Both of these memoranda, and a follow-up memoran-

111. Memorandum of Law from Messer, Vickers, Caparello, Madsen & Lewis to Fla. Mun. Elec. Ass'n (Mar. 20, 1991) (on file at Fla. Dep't. of State, Div. of Archives, Tallahassee, Fla.) [hereinafter March 20 Memorandum].

112. *Id.* at 7; *see also* FLA. STAT. § 73.0715 (1989), which provides the procedure for valuing electric utility property taken by eminent domain.

113. March 20 Memorandum, *supra* note 111, at 7; *see* Saunders v. City of Jacksonville, 25 So. 2d 648 (Fla. 1946) (cited in March 20 Memorandum).

114. Fla. HB 1863 (1991).

115. *Id.*

116. March 20 Memorandum, *supra* note 111.

117. Fla. CS for CS for CS for CS for HJR's 139-40, (1989) (approved by voters Nov. 6, 1990).

118. March 20 Memorandum, *supra* note 111.

119. Memorandum of Law from Steel Hector & Davis to Tracy Danese, Fla. Power & Light Co. (Mar. 14, 1991) (on file at Fla. Dep't of State, Div. of Archives, Tallahassee, Fla.).

dum prepared for FMEA, were widely circulated among legislators and lobbyists during the legislative session. The revenue issue is only one indication of the level of controversy surrounding the bill.

When the constitutional issue was raised on the floor of the House, the bill was immediately referred to the Committee on Finance and Taxation and there amended to negate any adverse impact on local revenues. First, the amendments recognized the authority of municipalities to continue serving the areas they currently served. Second, the amendments specifically authorized municipalities to charge franchise fees of up to six percent of revenues received from the sale of electricity within the municipal limits, or the amount of the fee currently charged, whichever was greater.¹²⁰

A review of the discussion at the Finance and Taxation Committee meeting and the subsequent floor debate on the bill indicates that this issue was not resolved to the satisfaction of many House members. Legislators questioned whether the amendments did, in fact, negate the adverse revenue impact on local governments, and they were unconvinced that the constitutional issues with respect to article VII, section 18, could be resolved without a court challenge.¹²¹ The debate intertwined several fundamental issues of government,¹²² which will undoubtedly continue to plague any future proposed territorial boundary legislation.

Committee Substitute for Committee Substitute for House Bill 1863 passed the House by a vote of 57 to 54.¹²³ However, the bill died in the Senate Commerce Committee. The Senate Commerce Committee did consider the Senate companion to HB 1863, Senate Bill 1808. The Commerce Committee heard an abbreviated version of the debate on the bill that took place in the House. The Committee passed a Committee Substitute for SB 1808 that was substantially similar to Committee Substitute for Committee Substitute for 1863.¹²⁴ That bill, however, died in the Senate Committee on Community Affairs,¹²⁵ and with it died the proponents' hope for legislation during the 1991 session setting territorial boundaries for electric utilities.

120. Fla. CS for CS for HB 1863 (1991).

121. Fla. H.R. Comm. on Fin. & Tax'n, tape recording of proceedings (Mar. 22, 1991) (on file with comm.); Fla. H.R., tape recording of debate on House floor (Mar. 26 & 28, 1991) (on file with Clerk).

122. Fla. H.R. Comm. on Fin. & Tax'n, tape recording of proceedings (Mar. 22, 1991) (on file with comm.); Fla. H.R., tape recording of debate on House floor (Mar. 26 & 28, 1991) (on file with Clerk).

123. FLA. LEGIS., HISTORY OF LEGISLATION, 1991 REGULAR SESSION, HISTORY OF HOUSE BILLS at 315, HB 1863.

124. *Id.* HISTORY OF SENATE BILLS at 156, SB 1808.

125. *Id.*

III. RECENT FEDERAL ANTITRUST CHALLENGES TO FLORIDA UTILITY TERRITORIAL AGREEMENTS

In contrast to the legislative debates described above, the federal antitrust status of Florida utility territorial agreements recently has come closer to resolution. This section discusses two federal cases involving the antitrust status of territorial agreements: *Consolidated Gas Co. v. City Gas Co.*¹²⁶ and *Union Carbide v. Florida Power & Light Co.*¹²⁷

A. Consolidated Gas Co. v. City Gas Co.

In the 1965 antitrust case between City Gas and Peoples Gas, City Gas's counterclaim against Peoples Gas alleged that the territorial agreement between the two was void and unenforceable under state and federal antitrust laws.¹²⁸ Because federal courts have exclusive jurisdiction over federal antitrust claims, the Florida Supreme Court addressed only the issue whether the territorial agreement violated state antitrust law; the court found that it did not.¹²⁹

In 1987, some twenty-two years later, a nonparticipant in the agreement, Consolidated Gas Company of Florida, again raised the unresolved issue of the federal antitrust status of the territorial agreement between City Gas and Peoples Gas.¹³⁰

Consolidated Gas was a small distributor of liquified petroleum gas (LP) that had decided to sell natural gas because the high price of LP relative to natural gas made LP an uncompetitive energy source.¹³¹ Consolidated Gas alleged that, in the course of its attempt to enter the market and compete as a distributor of natural gas, it had been the victim of numerous anticompetitive offenses perpetrated by City Gas, the large, established distributor of natural gas in the area surrounding Consolidated's small enclave of LP distribution activities.¹³² The gravamen of Consolidated's federal antitrust claim was that City Gas's anticompetitive practices violated the Sherman Act's prohibition against monopolization.¹³³

126. 665 F. Supp. 1493 (S.D. Fla. 1987), *aff'd*, 880 F.2d 297 (11th Cir. 1989), *aff'd en banc*, 912 F.2d 1262 (11th Cir. 1990), *vacated*, 111 S. Ct. 1300 (1991).

127. No. 88-1622-CIV-T-13C (M.D. Fla. filed Oct. 14, 1988).

128. *City Gas Co. v. Peoples Gas Sys.*, 182 So. 2d 429, 431 (Fla. 1965).

129. *Id.* at 431-32.

130. 665 F. Supp. 1493 (S.D. Fla. 1987), *aff'd*, 880 F.2d 297 (11th Cir. 1989), *aff'd en banc*, 912 F.2d 1262 (11th Cir. 1990), *vacated*, 111 S. Ct. 1300 (1991).

131. *Consolidated Gas Co. v. City Gas Co.*, 880 F.2d 297, 299 (11th Cir. 1989).

132. 880 F.2d at 304; 665 F. Supp. at 1501-02.

133. 15 U.S.C. § 2 (1988).

The Eleventh Circuit summarized six acts that the district court had determined to be an abuse of City Gas's monopoly power.¹³⁴ Five of these allegations shared a common allegation of action taken by City Gas against Consolidated. That much cannot be said for the first of the acts found by the district court to be an abuse by City Gas: "agreeing in 1960 with Peoples Gas not to compete . . . in their respective territories in the sale of natural gas."¹³⁵

Thus, the 1960 City Gas-Peoples Gas territorial agreement became a tag-along to City Gas's other activities complained of by Consolidated Gas, even though the agreement did not even concern Consolidated Gas. Arguably, this issue was both irrelevant to Consolidated's substantive antitrust complaints and incorrectly decided by the district court.

As discussed below, the state action doctrine enunciated in *Parker v. Brown*¹³⁶ should have provided the means to affirm the federal antitrust immunity of the Commission-approved territorial agreement between Peoples Gas and City Gas, yet the district court—and the initial opinion of the Eleventh Circuit—rejected that conclusion. On rehearing by the Eleventh Circuit, however, the ten *en banc* judges were evenly split on the issue of the antitrust status of this territorial agreement—even though City Gas's antitrust liability on the other five monopolization issues was affirmed by a vote of seven to three.¹³⁷ Because the case was ultimately settled and the opinion vacated by the United States Supreme Court and remanded for dismissal, the Florida Supreme Court's approval of the territorial agreement in *City Gas Co. v. Peoples Gas System* remains undisturbed.¹³⁸ However, the analyses of the district court and the Eleventh Circuit are still reported, if no longer precedential; they therefore deserve comment.

134. *Consolidated Gas*, 880 F.2d at 304. Although acts two through six did not involve territorial agreements, they are listed here to give an overview of the antitrust issues in this litigation. The district court found that City Gas abused its power:

2. By refusing to sell or transport natural gas to Consolidated at a reasonable price.
3. By attempting to purchase Consolidated and eliminate it as a potential competitor.
4. By acquiring two other small competitors.
5. By intervening in and opposing Consolidated's FERC [Federal Energy Regulatory Commission] allocation proceedings seeking permission to sell natural gas.
6. By not charging Consolidated's customers the usual "contribution in aid of construction" to extend service to them in an effort to lure Consolidated's customers away.

135. *Id.*

136. 317 U.S. 341 (1943).

137. 912 F.2d 1262, 1262-1338 (opinions of Johnson & Kravitch, JJ., dissenting; Tjoflat, C.J., dissenting; Anderson, J., dissenting in part; Edmondson, J., dissenting in part).

138. See *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950).

In *Parker v. Brown*, the United States Supreme Court held that federal antitrust laws were not intended to reach state-regulated anticompetitive activities.¹³⁹ That holding came to be known as the state action doctrine. In *California Retail Liquor Dealers Association v. Midcal Aluminum, Inc.*, the Court established a two-pronged test for private party anticompetitive conduct to warrant state action immunity from antitrust liability: (1) the conduct had to be performed pursuant to a clearly articulated policy of the state to displace competition with regulation, and (2) the conduct had to be closely supervised by the state.¹⁴⁰

As to the first prong of the *Midcal* test, *Southern Motor Carriers Rate Conference, Inc. v. United States* in turn established that:

[a] private party acting pursuant to an anticompetitive regulatory program need not "point to a specific, detailed legislative authorization" for its challenged conduct. As long as the State as sovereign clearly intends to displace competition in a particular field with a regulatory structure, the first prong of the *Midcal* test is satisfied.¹⁴¹

Applying the foregoing authority, the territorial agreement between City Gas and Peoples Gas met the first prong of the *Midcal* test for state action immunity. Section 366.04(1), Florida Statutes, gave the Commission jurisdiction to "regulate and supervise each public utility with respect to its rates and service." The Commission, in its order approving the territorial agreement, explicitly relied on this clearly articulated policy of the Legislature to displace competition with regulation:

It is our opinion that territorial agreements which will minimize, and perhaps even eliminate unnecessary and uneconomical duplication of plant and facilities which always accompany expansions into areas already served by competing utilities are definitely in the public interest and should be encouraged and approved by an agency such as this, which is charged with the duty of regulating public utilities in the public interest.¹⁴²

139. 317 U.S. at 350-52. In discussing the question of the Sherman Act's applicability to California's agricultural marketing program, which regulated the handling, disposition, and prices of raisins, the Court stated: "There is no suggestion of a purpose to restrain state action in the [Sherman] Act's legislative history." *Id.* at 351.

140. 445 U.S. 97, 105 (1980).

141. *Southern Motor Carriers Rate Conference, Inc. v. United States*, 471 U.S. 48, 64 (1985) (quoting *City of Lafayette v. Louisiana Power & Light Co.*, 435 U.S. 389, 415 (1978)).

142. *In re Territorial Agreement Between Peoples Gas Sys. and City Gas Co.*, Docket No. 6231-GU, Order No. 3051, at 1 (Fla. Pub. Serv. Comm'n Nov. 9, 1960).

As discussed earlier, the Florida Supreme Court addressed the question of whether the Commission's approval of the City Gas-Peoples Gas territorial agreement was authorized by the Legislature's grant of regulatory authority. The Court answered in the affirmative, based on an extensive and detailed statutory construction of chapter 366: "[W]e also conclude that the commission has adequate implied authority under Ch. 366 to validate such agreements as the one before us."¹⁴³

That should have been found by the lower federal courts to satisfy the first prong of the *Midcal* test. As stated in *Cotton States Mutual Insurance Co. v. Anderson*, "'state courts have the right to construe their own statutes,' and *federal courts are bound* by that state interpretation."¹⁴⁴

As to the second prong of the *Midcal* test, the Eleventh Circuit noted: "Active supervision requires that state officials have and exercise power to review particular anticompetitive acts of private parties and disapprove those that fail to accord with state policy."¹⁴⁵ In its order reviewing and approving the City Gas-Peoples Gas territorial agreement, the Public Service Commission stated that the agreement "can have no validity without the approval of this Commission."¹⁴⁶

Obviously, the active supervision test of *Midcal* was met. The Commission reviewed the territorial agreement and disapproved as invalid *ab initio* any such agreements not receiving Commission approval.¹⁴⁷ As recently stated by the United States Court of Appeals for the First Circuit in *New England Motor Rate Bureau, Inc. v. Federal Trade Commission*:

Where as here the state's program is in place, is staffed and funded, grants to state officials ample power and the duty to regulate pursuant to declared standards of state policy, is enforceable in the state's courts, and demonstrates some basic level of activity directed towards seeing that the private actors carry out the state's policy and not simply their own policy, more need not be established [as to the active supervision prong of *Midcal*]. Otherwise, the state action doctrine would be turned on its head. Instead of being a doctrine of preemption, allowing room for the state's own action, it would

143. *City Gas Co. v. Peoples Gas Sys.*, 182 So. 2d 429, 436 (Fla. 1965).

144. 749 F.2d 663, 667 (11th Cir. 1984) (quoting *Bank of Heflin v. Miles*, 621 F.2d 108, 113 (5th Cir. 1980) (emphasis added)).

145. *Consolidated Gas Co. v. City Gas Co.*, 880 F.2d 297, 303 (11th Cir. 1989).

146. *In re Territorial Agreement Between Peoples Gas Sys. and City Gas Co.*, Docket No. 6231-GU, Order No. 3051, at 1 (Fla. Pub. Serv. Comm'n Nov. 9, 1960).

147. *Id.*

become a means for federal oversight of state officials and their programs.¹⁴⁸

The now-vacated Eleventh Circuit opinion obviously conflicts with the First Circuit analysis. Florida's regulatory program providing for Commission-approved utility territorial agreements has been closely supervised—as well as clearly articulated—for thirty years.¹⁴⁹ For *Mid-cal* purposes, the relevant questions were whether, as a matter of law, the state policy to replace competition with regulation was clearly articulated, and whether activity engaged in pursuant to that policy was closely supervised. As a matter of law, the relevant Florida Supreme Court holdings and Public Service Commission orders answered those questions in the affirmative. Had the case not settled, the United States Supreme Court would have had the opportunity to correct the errors of the lower federal courts on these issues. Indeed, Judges Johnson and Kravitch had already dissented on that very point:

The [Eleventh Circuit] concludes that the Florida Supreme Court should not have the last word on the proper interpretation of chapter 366 and endorses the district court's critique of the Florida Supreme Court's analysis of the Florida statute. . . . Because *the Florida Supreme Court is the final authority on the meaning of chapter 366*, we should not endorse such a critique.¹⁵⁰

The Supreme Court's order vacating the Eleventh Circuit's opinion has nullified *Consolidated Gas* as precedent. Thus, the state action antitrust immunity of the Peoples Gas-City Gas territorial agreement remains undisturbed.

B. Union Carbide v. Florida Power & Light Co.

Only one antitrust case involving a Florida utility territorial agreement has been filed since *Consolidated Gas: Union Carbide v. Florida Power & Light Co.*¹⁵¹ Union Carbide claimed that it was damaged because FPL's charges for electricity to Union Carbide's plant at Mims, Florida, were higher than the rates that Florida Power Corporation (FPC) would charge were FPC not precluded by a Commission-ap-

148. 908 F.2d 1064, 1071 (1st Cir. 1990).

149. *In re Territorial Agreement Between Peoples Gas Sys. and City Gas Co.*, Docket No. 6231-GU, Order No. 3051 (Fla. Pub. Serv. Comm'n Nov. 9, 1960); *City Gas Co. v. Peoples Gas Sys.*, 182 So. 2d 429 (Fla. 1965).

150. *Consolidated Gas*, 912 F.2d 1262, 1265 (11th Cir. 1990) (Johnson and Kravitch, JJ., dissenting) (emphasis added).

151. No. 88-1622-CIV-T-13C (M.D. Fla. filed Oct. 14, 1988).

proved territorial agreement with FPL from supplying electricity to the Mims plant. Because *Union Carbide* is ongoing, no extensive comment on it is in order, except to note that the Supreme Court's order vacating the *Consolidated Gas* decision¹⁵² has nullified that opinion as authority for the proposition that the territorial agreement between FPL and FPC lacks antitrust immunity under the state action doctrine.¹⁵³

Interested observers should well note that the *Consolidated Gas* scenario is capable of repetition each time a nonregulated distributor of LP or propane decides to enter the regulated natural gas market. Potential participants in similar "range wars," "racing to serve" activities, and other accoutrements to territorial disputes should carefully note the Commission's policy that such disputes be anticipated and resolved through "some reasonable territorial agreement."¹⁵⁴ Racing to serve is not condoned.¹⁵⁵ The Florida Supreme Court has condemned range wars between utilities and has "repeatedly approved the PSC's efforts to end the economic waste and inefficiency resulting from utilities racing to serve."¹⁵⁶

Antitrust cases are fact-intensive.¹⁵⁷ Therefore, it is difficult to predict what effect—if any—legislation like the utility territorial boundary bills discussed above might have on future antitrust litigation. The impetus behind that legislation, as well as the history of such legislation as set out in this Article, appears to reflect concerns other than avoiding antitrust litigation. That territorial legislation should be driven by concerns other than potential antitrust ramifications makes sense, particularly because only two Commission-approved territorial agreements have been the subject of antitrust challenges in Florida during the last three decades.

IV. CONCLUSION

To this point in its development, Florida's preferred method of allocating electric and gas utility territories has responded effectively to

152. 111 S. Ct. 1300 (1991).

153. *Id.*

154. *In re* Application of Fla. Power Corp. for Approval of Territorial Agreement with City of Ocala, Docket No. 7061-EU, Order No. 3799, at 3 (Fla. Pub. Serv. Comm'n Apr. 28, 1965).

155. *In re* Petition of Gulf Power Co. Involving a Territorial Dispute with Gulf Coast Elec. Coop., 84 Fla. Pub. Serv. Comm'n Rep. 146 (Order No. 12858, Jan. 10, 1984).

156. *See* Lee County Elec. Coop. v. Marks, 501 So. 2d 585, 587 (Fla. 1987) (citing Gulf Power Co. v. Public Serv. Comm'n, 480 So. 2d 97 (Fla. 1985); Gulf Coast Elec. Coop. v. Florida Pub. Serv. Comm'n, 462 So. 2d 1092 (Fla. 1985)).

157. *In Consolidated Gas Co. v. City Gas Co.*, for example, the district court's findings of fact require thirteen pages. 665 F. Supp. 1493, 1502-15 (S.D. Fla. 1987). In contrast, the applicable substantive law, section 2 of the Sherman Act, is a mere one-sentence prohibition against monopolization, attempts to monopolize, or combinations or conspiracies to monopolize.

the pressures of rapid and unpredictable growth by combining sensitivity to market forces with appropriate regulatory oversight. The current methods of assigning electric utility service areas have recognized the benefits of market-based efficiencies in energy production in responding to the actual growth and development patterns of Florida's unique evolution. Those efficiencies might have been lost through a more heavy-handed command and control approach.

The Public Service Commission's involvement in each agreement and each dispute has ensured that the utilities' response to Florida's expanding energy requirements reflects the fundamental public interest in safe, efficient, nondiscriminatory utility service at the least possible cost. The Florida Supreme Court has long validated this approach, and although a federal antitrust challenge to its underlying assumptions recently loomed, that challenge has substantially receded.

While growth has driven the State's regulatory response to the development of electric utilities' service territories in the past, the near-passage of the 1991 territorial boundary legislation indicates that the effects of growth will drive the State's response in the future. There appears to be a concern that the State's present method of allocating utility territory by agreements and dispute resolutions no longer promotes the public interest. The needs of a mature, highly developed state may, it is argued, require other means of allocating or assigning service territories. The question, of course, is what these other means and mechanisms would be, and the failure of the 1991 legislation shows that there is as yet no clear consensus on the answer to that question.

The utilities' positions supporting or opposing the 1991 bill were likely determined by their perception of whether they would gain, preserve, or lose territory—and thus revenues—when the Public Service Commission set territorial boundaries statewide. Rural electric cooperatives, experiencing the encroachment of urbanization on their territory, sought to draw the lines to protect against further intrusion. Utilities operating primarily in highly developed areas of the State also perceived a benefit from a permanent delineation of municipal service territories. Municipalities, on the other hand, did not perceive that they would benefit from territorial boundary legislation that would prevent expansion of their utility systems and partly preempt their right of eminent domain in the process. Utilities still operating in predominantly rural and undeveloped areas of the State opposed the bill as an unnecessary encumbrance on their ability to expand. All of the utilities represented their respective proposed solutions as being most in the public interest.

The ongoing legislative debate may well be about the degree to which perceptions accord with reality. Although Florida's current system of allocating utility service territories may be perceived initially as less than optimally certain, in practice it has worked well and has survived many challenges. Conversely, although the imposition of statewide line drawing may be perceived initially as conferring absolute certainty, provision for a reconsideration process for any lines that are drawn might well vitiate that certainty. In fact, the reconsideration provisions of the 1991 proposed legislation clearly recognized the continuing need for flexibility in the process of allocating utility service territories.

While the system Florida presently uses to allocate utility territory is dynamic and thus somewhat stressful, the system is not broken. The flexibility inherent in a dynamic system, rather than the stability inherent in a static system, may well be needed to effectively resolve the territorial issues of the future, just as it has been needed in the past. The present system provides continuity, without imposing any single, rigid model statewide. Paradoxically, the most innovative system among the alternatives currently being debated may be the one already in place.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to resolve)
territorial dispute with Gulf)
Coast Electric Cooperative, Inc.) Docket No. 930885-EU
by Gulf Power Company)
_____)

Certificate of Service

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