FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

April 2, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (GOAD) DIVISION OF LEGAL SERVICES (JOHNSON) RVE RJT

RE: DOCKET NO. 961491-EM - FORT PIERCE UTILITIES AUTHORITY - REQUEST FOR APPROVAL OF SPECIAL CONTRACT WITH INDIAN RIVER FOODS, INC.

AGENDA: 04/14/97 - REGULAR AGENDA - TARIFF FILLING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\961491EM.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the special contract between Fort Pierce Utilities Authority (FPUA) and Indian River Foods, Inc. (IRF)?

RECOMMENDATION: Yes. The Commission should approve this contract because it is in the best interests of FPUA's ratepayers.

STAFF ANALYSIS: In Order No. PSC-93-0961-FOF-EM, the Commission approved an agreement between the City of Lakeland and Publix Supermarkets for service at a discounted rate. The Commission concluded that retaining the Publix load was beneficial to the ratepayers because, even at a reduced rate, Publix would contribute to the City of Lakeland's fixed costs. The agreement reached between Fort Pierce Utilities Authority (FPUA) and Indian River Foods, Inc. (IRF) is very similar.

Prior to the end of 1996, IRF indicated to FPUA that it was researching the possibility of supplying its energy needs through co-generation. After investigating the financial feasibility of this option, IRF concluded that it could decrease its electric expense by 30 to 40 percent if it pursued this option. After considerable discussion and negotiation, FPUA and IRF arrived at an agreement that would keep IRF as a customer on FPUA's system at an average rate that is 20% lower than the average rate billed to IRF in the preceding twelve months. FPUA states that the agreement is beneficial to its other customers because of the utility's large amount of excess capacity. More specifically, FPUA's fixed demand expense will not change if IRF is served by its system or not. Therefore, any contribution towards fixed demand costs by IRF will benefit the general body of ratepayers who would otherwise pay for the entire amount of fixed demand cost.

Proposed Contract

The initial term of the agreement will be for a period of five years from the effective date of November 1, 1996. At the option of both parties and upon 60 days' written notice, the agreement may be extended for two additional periods of one year.

Currently, IRF has eleven metering points on various rate schedules. Under the proposed contract, these metering points will remain the same. FPUA will prospectively bill IRF in accordance with the rate schedules applicable to each metering point.

To arrive at the discounted rate, FPUA established IRF's average per kWh rate, for the 12-month billing period of November 1, 1995 to October 31, 1996. The average per kWh rate was calculated by taking the total dollar amount billed during the period (excluding sales tax) divided by the total billed kWh for the period. The resulting average kWh rate was $0.06959. FPUA then reduced the $0.06959 by 20%, thus establishing the discounted rate of $0.05567 per kWh.

Each month, FPUA will issue IRF a bill based on the standard applicable rate schedules. Within 15 days of the end of each monthly billing period, FPUA will refund the appropriate amount in order to achieve the established discounted rate. During the duration of the agreement, if FPUA's rates applicable to IRF are reduced by more than 10% below the rates in effect on the effective date of the agreement, both parties may renegotiate the agreement.

The proposed agreement is premised on IRF's "at risk" status and the fact that FPUA has excess capacity even with the IRF load. Since this agreement deviates from the cost of service norm, staff was concerned that the average rate established may be below FPUA's incremental cost. Because there will be a significant reduction in revenues, staff was also concerned that the general body of ratepayers would be required to make up the revenue shortfall.

FPUA forwarded staff a letter from Ben Bode, Plant Manager of IRF detailing IRF's position. Mr. Bode states in the letter that IRF was trying to reduce costs across the board in order to remain competitive. One of the options explored was co-generation. This option seems practical because IRF is also a large user of steam. FPUA representatives were able to review a co-generation proposal that estimated savings of 30 to 40 percent for IRF. The IRF account represents $1.3 million in revenues and is one of FPUA's largest electric customers.

Staff reviewed The Florida Electric Power Coordinating Group's 1996 Ten-Year Plan to determine FPUA's total available amount of capacity. According to the plan, FPUA has 126 MW of its own generating capacity and 47 MW of long term purchased power contracts with the Florida Municipal Power Agency for a total capacity of 173 MW. Compared to FPUA's estimated peak demand of 112 MW for 1997, including the IRF load, FPUA has a 54% reserve margin. For utilities of similar size, a 20% reserve margin is generally thought of as sufficient.

To determine FPUA's incremental cost, staff referred to the utility's 1996 cost of service study. In order to be conservative in determining FPUA's incremental cost, all non-demand costs were considered. Staff realizes this may not be in accordance with the true definition of incremental cost but to solidify FPUA's claims that the discounted rate will contribute to fixed demand costs, the inclusion of all non-demand costs is appropriate. The total non-demand related costs for test year 1996 were $18.5 million and the total billed kWh was 523,434,000 or $0.0353 per kWh. This amount is clearly below the established discounted rate of $0.05567 per kWh.

The final issue that concerned staff was whether any shortfall in revenues would be recovered from the general body of ratepayers. In response to this concern, FPUA has stated that it does not intend to recover any shortfall through other rates.

Based on the analysis discussed above, staff believes that all of our concerns have been addressed and that FPUA has demonstrated that this agreement is in the best interests of its ratepayers. The IRF load does appear to be "at risk" of not being served by FPUA and FPUA already has a large amount of excess capacity. By this agreement FPUA will retain IRF's load and IRF will contribute to fixed costs that otherwise would be paid by the remaining ratepayers if IRF were not on the system. Furthermore, any shortfall in revenues will not be collected from the other ratepayers. The discounted rate does vary from the Commission's normal cost of service policy, however staff believes that the agreement will reduce the need for FPUA's rates to increase.

ISSUE 2: Should this Docket be closed?

RECOMMENDATION: Yes, if no timely protest is filed this Docket should be closed.

STAFF ANALYSIS: If a protest is filed within 21 days of the Commission Order approving this contract, the contract should remain in effect pending resolution of the protest.