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M E M O R A N D U M

OCTOBER 23, 1997

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

FROM: DIVISION OF ELECTRIC & GAS (GOAD) RVE JOJ
DIVISION OF LEGAL SERVICES (JAYE)

RE: DOCKET NO. 971216-EI - REQUEST TO ADD A LUMP SUM PAYMENT OPTION TO ITS FACILITIES RENTAL PROVISION AND ITS FACILITIES RENTAL AGREEMENT BY FLORIDA POWER & LIGHT COMPANY.

AGENDA: NOVEMBER 4, 1997 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 8-MONTH EFFECTIVE DATE: APRIL 21, 1998

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\971216EI.RCM

CASE BACKGROUND

On August 20, 1997, Florida Power & Light (FP&L) filed a petition to add a lump sum payment option to its Facilities Rental Provision and Facilities Rental Agreement tariff, Tariff Sheet Nos. 9.750, 9.751, and 10.010. It is FP&L's intention to add a one-time payment option for rental facilities in conjunction with its current monthly rental fee. FP&L has proposed methodology to be used to determine the amount of the one-time payment.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve FP&L's petition to add a lump sum payment option to its Facilities Rental Provision and its Facilities Rental Agreement (Tariff Sheet Nos. 9.750, 9.751 and 10.010)?

RECOMMENDATION: Yes. The addition of a lump sum payment option will add a convenient option for customers renting facilities from FP&L without impacting the general body of ratepayers.

STAFF ANALYSIS: FP&L indicated that several of its commercial/industrial customers who rent additional facilities from the utility have requested the option to pay for rentals in one lump sum as opposed to paying a monthly rental payment. In response to these requests, FP&L filed a petition to modify its rental facilities tariff, sheet nos. 9.750, 9.751, and 10.010, to allow for a lump sum payment option. Discussions, between staff and FP&L, on the proposed tariff changes raised some questions on the impact of the option on other ratepayers. Staff's primary concern was that the lump sum payments be revenue neutral with FP&L's present payment arrangement so as not to disadvantage customers who preferred to continue the monthly payment option. The tariff was suspended at the October 7, Agenda Conference to allow staff and the company to work out differences in interpretation on the calculation of the lump sum payment. Agreement on the appropriate method of calculation has been reached.

Currently, FP&L's tariff allows a customer to rent equipment such as transformers and meters which exceed what the utility determines is necessary to provide standard service in accordance with its tariff. For example, a customer may request an additional transformer to protect sensitive equipment, or a special meter that provides information which the customer's internal energy management system uses. Customers commit to a five year agreement for the use of such facilities and are billed monthly according to a formula stated in the tariff. The monthly charge is based on one-twelfth of the annual fixed percentage of 30% times the installed cost of the facilities requested by the customer. The 30% is comprised of FP&L's cost of capital, adjusted for taxes at the time of its last rate case (19.46% in 1983), plus adders for depreciation and maintenance.

The proposed changes will provide an option for the customer to pay FP&L a one-time payment for the life of the facilities. The customer is still required to sign a five year renewable contract for the use of the facilities as long as they intend on retaining them. In addition to the lump sum payment, the customer will pay FP&L for maintenance of the facilities. The maintenance charge will be paid on either a monthly basis or every five years, commensurate with the rental contract. The maintenance charge will be based on trouble call data for the type of installed equipment.

FP&L will maintain the rental equipment under both payment options. In the event the rental equipment must be replaced due to mechanical and/or electrical failure, the in-place value will be increased by the installed cost of the replacement facilities and reduced by the previously established in-place value of the original equipment. This provision is currently applicable and will not change.

FP&L has agreed to determine the lump sum payment by calculating the present value of the revenue requirement of the installed cost of facilities. The revenue requirement will be determined based on FP&L's cost of capital adjusted for taxes, established in its last rate case and the average length of time customers rent facilities. FP&L has determined that the average length of time customers are renting facilities is 14 years, 4 months. Staff believes it is necessary to use the cost of capital adjusted for taxes which is included in the 30% fixed percentage and currently used to calculate the monthly facilities charge. By using this amount and the average length of time customers rent facilities to determine the one-time rental payment, FP&L will receive the same amount of revenues that it would have collected by billing monthly payments. The proposed changes are intended to provide a convenient option to FP&L's customers, as such, it would be inappropriate to change the amount of revenue collected. Because the revenue received by FP&L will be the same under both payment options, there will be no significant impact to its general body of ratepayers. Therefore, since the addition of the lump sum payment option will not create any undue burden on FP&L's general body of ratepayers and it provides a desired alternative, staff recommends the proposed changes be approved.

ISSUE 2: On what date should the proposed changes become effective?

RECOMMENDATION: The proposed changes should become effective November 4, 1997.

STAFF ANALYSIS: If Issue 1 is approved, the tariff may go into effect upon Commission approval.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes, if Issue 1 is approved the tariff should remain in effect. If a protest is filed within 21 days of the issuance date of the Order, the tariff should remain in effect, with any increase in revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed.

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed.