State of Florida

Public Service Commission

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COMMISSION CLERK

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

DATE: April 21, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Draper, Breman) JDJ
Division of Competitive Markets & Enforcement (Yambor)
Office of the General Counsel (Brown) WCB MAH RLT

RE: Docket No. 031122-EI – Petition for approval of revised underground residential distribution tariffs by Progress Energy Florida, Inc.

AGENDA: 05/03/04 – Regular Agenda – Tariff Filing – Interested Persons May Participate

CRITICAL DATES: 8-Month Effective Date: 08/19/04

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\031122.RCM.DOC

Case Background

On December 22, 2003, Progress Energy Florida (PEF) filed a petition for Commission approval of revisions to its Underground Residential Distribution (URD) tariffs and their associated charges. PEF waived the 60-day suspension date by letter on January 27, 2004. On March 16, 2004, PEF filed an amended petition that contained clarifications and additional documentation.

Rule 25-6.078, Florida Administrative Code, requires investor-owned electric utilities to file updated underground residential distribution charges for Commission approval at least every three years, or sooner if a utility's underground cost differential for the standard low-density subdivision varies from the last approved charge by 10 percent or more. PEF's current URD charges were approved in Order No. 01-1489-TRF-EI, issued on July 18, 2001, in Docket No. 010384-EI, in Re: Petition of Florida Power Corporation for approval of revised tariffs containing updated underground residential distribution charges. To comply with the 3-year filing requirement of the rule, PEF filed the instant petition.

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05 and 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve PEF's revised Underground Residential Distribution tariffs and their associated charges?

Recommendation: Yes. (Draper, Breman, Yambor)

Staff Analysis: The URD charges represent the additional costs PEF incurs to provide underground distribution service in place of overhead service, and are calculated as differentials between the cost of underground and overhead service. Costs for underground service have historically been higher than for standard overhead construction. The URD differential is paid by the customer as a contribution-in-aid-of-construction. The URD tariffs provide standard charges for certain types of underground service, and apply to new residential developments such as subdivisions and townhouses.

PEF developed URD charges based on three model subdivisions: (1) a 210-lot low-density subdivision with a density of one or more, but less than six, dwelling units per acre; (2) a 176-lot high-density subdivision with a density of six or more dwelling units per acre; and (3) a high-density subdivision where service is provided using grouped meter pedestals. Examples of the grouped meter pedestals subdivision type include mobile home and R.V. parks. All four major investor-owned electric utilities use the same standardized model subdivisions to develop their URD charges.

The URD differential is developed by estimating the cost per lot of both underground service and overhead service, and is based on the utility's standard engineering and design practices. The difference between these numbers is the per-lot charge that customers must pay when they request underground service in lieu of standard overhead service. The costs of both underground and overhead service include the material and labor costs to provide primary, secondary, and service distribution lines, and transformers. The cost to provide underground service also includes the cost of trenching and backfilling. The utilities are required to use current cost data.

The following table shows PEF's current and proposed URD differentials:

Type of Subdivision	Current URD differential per lot	Proposed URD differential per lot	Percent Change
210-lot low density	$289	$350	+21%
176-lot high density	$267	$224	-16%
Grouped meter pedestals	$117	$130	+11%

A combination of factors affect the proposed URD differential for the three subdivision types. Labor and material costs vary from year to year. Some costs increase while others decrease. PEF states that underground contract labor rates rose by 5.8 percent in 2003, and by 18 percent in 2004, while labor rates for overhead rose only slightly. The costs of certain materials such as primary and secondary cable have decreased. For PEF's low density and ganged meter pedestal differentials, the decrease in material costs was offset by higher underground labor rates, resulting in a net increase in the URD charge. PEF's high density differential decreased as a result of design changes and lower material costs that were greater than the increase in underground labor rates. Specifically, PEF reduced the amount of secondary wire used per lot and changed the size of its secondary poles.

PEF states that it improved its modeling of the cost of overhead and underground distribution facilities to reflect the company's updated design, engineering, and construction practices. PEF further states that in 2003 it completed a review of its wire and cable products which resulted in changes to the underground wire and cable products and standards. PEF states that it expects the new products and standards to result in greater reliability and reduced material costs. For example, PEF discontinued the use of one type of "Cable in Conduit" (CIC) cable, and substituted an improved cable. The discontinued cable has a soft coating for insulation. PEF found that recurring damage occurred to the CIC cable during and after installation, and therefore began using a cable with a more rugged insulation covering.

In addition to the proposed changes for the three subdivisions, PEF has proposed minor revisions to the credits they offer to customers who choose to do their own trenching and backfilling. PEF has proposed to increase the current credit of $1.09 per foot of service lateral, secondary, and primary cable, to $1.36 per foot. PEF has also proposed revisions to charges for other types of underground service, such as the undergrounding of existing overhead service laterals or the installation of underground service laterals from overhead distribution systems.

Staff has reviewed the proposed charges and accompanying work papers. Staff also requested additional information that supports PEF's filing. Based on a review of the information provided, staff believes that the proposed charges are reasonable, and should be approved.

Issue 2: Should this docket by closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on May 3, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Brown)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on May 3, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.