



July 7, 2005

Blanca Bayo
Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shamard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Ms. Bayo,

Enclosed please find a revised line extension policy for Choctawhatchee Electric Cooperative Inc. ("CHELCO"). CHELCO is modifying its line extension policy to better reflect the costs contained in its base rates. The policy is designed to give customers an allowance that is supported by CHELCO's base rates while ensuring that new customers also make some contribution to the fixed, or "backbone", costs of the distribution system. Therefore, we are proposing that customers receive a line extension allowance that represents a portion, but not all, of the distribution costs supported through base rates. If the allowance represents *all* of the distribution costs supported by base rates, then the marginal revenue received from the customer through base rates would only cover the line extension costs and would make no contribution to other fixed costs. Under this scenario, current customers on CHELCO's system would receive no benefit, and perhaps could be harmed, from growth on the system.

CHELCO's new line extension policy will help ensure that new customers receive a reasonable line extension allowance without being subsidized by current customers. Our proposed policy will also help mitigate upward pressure on base rates due to growth on the system. Because the new policy ensures that the revenue received from new customers also make some contribution to CHELCO's fixed costs, all ratepayers receive some benefit from growth.

Cost Support for the New Line Extension Policy

CHELCO's new line extension policy provides each customer with an allowance toward the cost of a line extension that is based on 2.5 times the customer's expected net revenue (total revenue less purchased power). The cost of a line extension is the total cost of extending facilities to serve a customer excluding the cost of a standard meter, service line, and transformer. A standard meter, service line, and transformer will be provided by CHELCO at no additional charge to the customer. If a portion of the cost of the line extension is for system upgrade purposes, those costs will also be excluded when determining the amount of the customer's contribution.

For small general service and residential customers the 2.5 times net revenue allowance was converted to a dollar amount to make the administration of the policy

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A Touchstone Energy Cooperative

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manageable for these customers. These customers will receive \$625.00 per customer toward the cost of a line extension. The customer will make a contribution toward any costs above \$625.00.

The policy for large customers and developments will use the straight 2.5 times net revenue test to determine the customer allowance. We chose not to convert the revenue test to a dollar amount for these customers because of the diversity seen within this group. Large customers and developments can vary significantly with respect to the size of their load and the cost of extending distribution facilities to provide service.

The 2.5 times net revenue used in the policy was determined through a revenue requirement analysis, which is shown in Attachment A. The revenue requirement analysis is used to determine the amount of investment that can be supported through base rates. The analysis indicates that CHELCO's base rates would support an investment up to 4.54 times a customer's annual net revenue. In order to ensure that the revenue from a new customer makes a contribution to CHELCO's fixed costs, or "backbone" system, an allowance of 2.5 times net revenue was selected. This will help ensure that current customers are not subsidizing new customers.

Attachment B shows how the 2.5 times revenue was converted to a dollar amount for use in the line extension policies applicable to small general service and residential customers. In the analysis, we calculated net revenue per customer for small general service and residential customers. From that revenue we removed the cost of meter reading, billing, and the carrying cost associated with the meter, service line, and transformer. The remainder is revenue that would be available to cover the cost of a line extension. We applied the 2.5 times revenue amount to the remaining revenue to calculate the equivalent dollar amount of construction allowance that is supported by base rates, resulting in a allowance of \$625.00 per customer.

CHELCO's Board of Directors approved the line extension policy contained in this filing at its board meeting on May 26, 2005. CHELCO's new policy will ensure that new customers receive a reasonable line extension allowance without being subsidized by current customers, will help mitigate upward pressure on base rates due to growth on the system, and will ensure that the revenue received from new customers also make some contribution to CHELCO's fixed costs. We believe that the proposed policy is fair, just and reasonable and is in the public interest. CHELCO, therefore, respectfully requests that the Commission approve the policy included in this filing and make it effective September 1, 2005.

Respectfully submitted,

J. E. Smith
CEO and General Manager

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Attachment A

CHELCO
Present Value
Revenue Requirement Analysis

Capital Structure:

	Amount	Percent	Rate	Weighted COC	Tax Rate	Adjusted Rate
Debt	\$ 18,444,444	39.47%	7.00%	2.76%	0.00%	2.76%
Preferred Equity	0	0.00%	0.00%	0.00%		0.00%
Common Equity	\$ 28,286,190	60.53%	7.00%	4.24%		4.24%
	\$ 46,730,634			7.00%		7.00%

CHELCO
Present Value
Revenue Requirement Analysis

Year	Investment	Book Depreciation	Residual Plant	Tax Depreciation	Residual Plant	Deferred Income Tax	Accumulated Deferred Income Tax	Rate Base	Interest	Equity	O&M	Property Taxes	Income Taxes	Annual Revenue Requirement	Present Value Interest Factor	Present Value Revenue Requirement	Cumulative Present Value Revenue Requirement	Annual Carrying Charge Rate
0	\$ 1,000,000							\$ -		\$ -				\$ -	1.00000	\$ -	\$ -	-
1		\$ 33,333	\$ 966,667	\$ 37,500	\$ 962,500	\$ -	\$ -	\$ 966,667	26,707.83	\$ 40,959	\$ 96,000	\$ 7,637		\$ 204,637	0.93458	\$ 191,249	\$ 191,249	20.46%
2		33,333	933,333	72,190	890,310	-	-	933,333	25,786.87	39,546	99,360	7,373		205,400	0.87344	179,404	370,654	20.54%
3		33,333	900,000	66,770	823,540	-	-	900,000	24,865.91	38,134	102,838	7,110		206,281	0.81630	168,387	539,040	20.63%
4		33,333	866,667	61,770	761,770	-	-	866,667	23,944.96	36,722	106,437	6,847		207,284	0.76290	158,136	697,176	20.73%
5		33,333	833,333	57,130	704,640	-	-	833,333	23,024.00	35,309	110,162	6,583		208,412	0.71299	148,595	845,771	20.84%
6		33,333	800,000	52,850	651,790	-	-	800,000	22,103.04	33,897	114,018	6,320		209,671	0.66634	139,713	985,484	20.97%
7		33,333	766,667	48,880	602,910	-	-	766,667	21,182.08	32,485	118,009	6,057		211,065	0.62275	131,441	1,116,924	21.11%
8		33,333	733,333	45,220	557,690	-	-	733,333	20,261.12	31,072	122,139	5,793		212,569	0.58201	123,734	1,240,659	21.26%
9		33,333	700,000	44,620	513,070	-	-	700,000	19,340.16	29,660	126,414	5,530		214,277	0.54393	116,552	1,357,211	21.43%
10		33,333	666,667	44,610	468,460	-	-	666,667	18,419.20	28,247	130,838	5,267		216,105	0.50835	109,857	1,467,068	21.61%
11		33,333	633,333	44,620	423,840	-	-	633,333	17,498.24	26,835	135,417	5,003		218,087	0.47509	103,612	1,570,680	21.81%
12		33,333	600,000	44,610	379,230	-	-	600,000	16,577.28	25,423	140,157	4,740		220,230	0.44401	97,785	1,668,465	22.02%
13		33,333	566,667	44,620	334,610	-	-	566,667	15,656.32	24,010	145,063	4,477		222,539	0.41496	92,346	1,760,811	22.25%
14		33,333	533,333	44,610	290,000	-	-	533,333	14,735.36	22,598	150,140	4,213		225,020	0.38782	87,267	1,848,077	22.50%
15		33,333	500,000	44,620	245,380	-	-	500,000	13,814.40	21,186	155,395	3,950		227,678	0.36245	82,521	1,930,598	22.77%
16		33,333	466,667	44,610	200,770	-	-	466,667	12,893.44	19,773	160,833	3,687		230,520	0.33873	78,085	2,008,683	23.05%
17		33,333	433,333	44,620	156,150	-	-	433,333	11,972.48	18,361	166,463	3,423		233,553	0.31657	73,937	2,082,620	23.36%
18		33,333	400,000	44,610	111,540	-	-	400,000	11,051.52	16,948	172,289	3,160		236,782	0.29586	70,055	2,152,676	23.68%
19		33,333	366,667	44,620	66,920	-	-	366,667	10,130.56	15,536	178,319	2,897		240,216	0.27651	66,422	2,219,097	24.02%
20		33,333	333,333	44,610	22,310	-	-	333,333	9,209.60	14,124	184,560	2,633		243,860	0.25842	63,018	2,282,115	24.39%
21		33,333	300,000	22,310	-	-	-	300,000	8,288.64	12,711	191,020	2,370		247,723	0.24151	59,828	2,341,944	24.77%
22		33,333	266,667	-	-	-	-	266,667	7,367.68	11,299	197,705	2,107		251,812	0.22571	56,837	2,398,781	25.18%
23		33,333	233,333	-	-	-	-	233,333	6,446.72	9,887	204,625	1,843		256,135	0.21095	54,031	2,452,812	25.61%
24		33,333	200,000	-	-	-	-	200,000	5,525.76	8,474	211,787	1,580		260,700	0.19715	51,396	2,504,208	26.07%
25		33,333	166,667	-	-	-	-	166,667	4,604.80	7,062	219,200	1,317		265,516	0.18425	48,921	2,553,129	26.55%
26		33,333	133,333	-	-	-	-	133,333	3,683.84	5,649	226,872	1,053		270,592	0.17220	46,595	2,599,724	27.06%
27		33,333	100,000	-	-	-	-	100,000	2,762.88	4,237	234,812	790		275,935	0.16093	44,406	2,644,130	27.59%
28		33,333	66,667	-	-	-	-	66,667	1,841.92	2,825	243,030	527		281,557	0.15040	42,347	2,686,477	28.16%
29		33,333	33,333	-	-	-	-	33,333	920.96	1,412	251,537	263		287,467	0.14056	40,407	2,726,884	28.75%
30		33,333	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		33,333	0.13137	4,378	2,731,263	3.33%
31		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.12277	(0)	2,731,263	0.00%
32		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.11474	(0)	2,731,263	0.00%
33		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.10723	(0)	2,731,263	0.00%
34		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.10022	(0)	2,731,263	0.00%
35		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.09366	(0)	2,731,263	0.00%
36		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.08754	(0)	2,731,263	0.00%
37		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.08181	(0)	2,731,263	0.00%
38		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.07646	(0)	2,731,263	0.00%
39		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.07146	(0)	2,731,263	0.00%
40		-	(0)	-	-	-	-	(0)	(0.00)	(0)	(0)	(0)		(0)	0.06678	(0)	2,731,263	0.00%
41																\$ 2,731,263		

Attachment B

CHELCO

Determination of Line Extension Amount
Provided Without Contribution From Customer
Residential and General Service

	Residential	General Service	Combined
Estimated Residential Revenue From Proposed Rates	\$ 34,319,039.15	\$ 4,704,795.48	\$ 39,023,835
Less: Purchase Power Cost	<u>\$ 21,409,202.19</u>	<u>\$ 3,172,450.62</u>	<u>\$ 24,581,653</u>
Net Revenue	\$ 12,909,836.96	\$ 1,532,344.86	\$ 14,442,182
Average Number of Customers	<u>28,246</u>	<u>3,273</u>	<u>31,519</u>
Average Non-Fuel Revenue Per Customer	\$ 457.05	\$ 468.18	\$ 458.20
Less: Average Annual Meter Reading and Billing Cost	\$ 39.98	\$ 39.98	\$ 39.98
Carrying Cost on Meter, Service, & Transformer	<u>\$ 167.52</u>	<u>\$ 170.65</u>	<u>\$ 167.85</u>
Average Net Revenue Per Customer	\$ 249.54	\$ 257.55	\$ 250.37
Amount Times Net Revenue Rate will Support	4.54	4.54	4.54
Amount Times Net Revenue Selected to Ensure Contribution to Fixed Cost	2.50	2.50	2.50
Cost of Line Extension Provided With No Contribution	<u><u>\$ 623.85</u></u>	<u><u>\$ 643.87</u></u>	<u><u>\$ 625.93</u></u>

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Determination of Average Residential Meter Reading & Billing Expenses

902 Meter Reading Expenses	\$	301,289
903 Records and Collections	\$	<u>970,167</u>
Total	\$	1,271,455
Cost-of-service Allocation to Residential		<u>0.88824</u>
Residential Allocation	\$	1,129,358
Average Number of Customers		<u>28,246</u>
Annual Cost of Meter Reading and Billing	\$	39.98

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Determination of Carrying Costs on
Meter, Service, and Transformer
Residential and General Service

		Res Allocator	Residential Allocation	Gen Ser Allocator	General Service Allocation	Combined
368 Line Transformers Demand	\$ 6,398,706	0.81461	\$ 5,212,450	0.10478	\$ 670,456	\$ 5,882,906
368 Line Transformers Customer	\$ 6,475,954	0.89299	\$ 5,782,962	0.10346	\$ 670,002	\$ 6,452,964
369 Services	\$ 9,805,448	0.88162	\$ 8,644,679	0.11238	\$ 1,101,936	\$ 9,746,615
370 Meters	\$ 1,980,022	0.9388	\$ 1,858,844	0.04809	\$ 95,219	\$ 1,954,064
Total	\$ 24,660,130		\$ 21,498,935		\$ 2,537,614	\$ 24,036,549
Average Number of Customers			<u>28,246</u>		<u>3,273</u>	<u>31,519</u>
Average Cost of Tranformer, Service, and Meter			\$ 761.13		\$ 775.32	\$ 762.60
Annual Carrying Charge Rate (From Levelized Calc)			22.01%		22.01%	22.01%
Annual Revenue Requirement			\$ 167.52		\$ 170.65	\$ 167.85