



May 3, 2006

Ms. Blanca S. Bayó, Director
Division of Commission Clerk and
Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Post-Workshop Comments; Docket Nos. 060172-EI and 060173-EI.

Dear Ms. Bayó:

Attached for filing on behalf of Progress Energy Florida, Inc.'s ("PEF") in the above-styled dockets are PEF's post-workshop comments from the Proposed Rule Development Workshop held on April 17, 2006.

Thank you for your assistance in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Lewis, Jr.", written over a horizontal line.

Paul Lewis, Jr.
Director, Regulatory Affairs

PLJ/lms

Cc: Larry Harris, Esq.
Mr. Craig Hewitt

Progress Energy Florida, Inc.
106 E. College Avenue
Suite 800
Tallahassee, FL 32301

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

25-6.034 Standard of Construction.

(1) Application and Scope. This rule is intended to define construction standards for all overhead and underground electrical transmission and distribution facilities to ensure the provision of adequate and reliable electric service for operational as well as emergency purposes. The facilities of each utility shall be constructed, installed, maintained and operated in accordance with generally accepted engineering practices to assure, as far as is reasonably possible, continuity of service and uniformity in the quality of service furnished. This rule applies to all electric utilities, including municipal electric utilities and rural electric cooperative utilities unless otherwise noted.

(2) The Commission adopts and incorporates by reference the 2002 edition of the National Electrical Safety Code (ANSI C-2), published August 1, 2001, as the minimum construction standards for transmission and distribution facilities built by each electric utility. Except as otherwise provided for in this rule, the standards shall be applicable to (a) new construction and (b) the expansion, rebuild, or relocation of existing facilities for which a work order number is assigned on or after the effective date of this rule. A copy of the 2002 NESC, ISBN number 0-7381-2778-7, may be obtained from the Institute of Electric and Electronic Engineers, Inc.(IEEE)

(3) Distribution and transmission facilities constructed prior to the effective date of this rule shall be governed by the applicable edition of the National Electrical Safety Code in effect at the time of the initial construction. Consistent with subsections (2), [(5)], and (6) of this Rule, however, if a pole is being replaced, that pole and its associated hardware and equipment will be brought to the current prescribed construction standards. If a section of line is being relocated requiring pole replacement or the conductor within a line section is being upgraded, then that section bounded by the pole

replacement or reconductor will be brought to the existing prescribed construction standards. If major underground components located within the flood zones prescribed herein are replaced, then the new equipment will meet the current construction standards.

(4) In addition to the requirements of Sections [(5)] and (6) of this rule, an electric utility may exceed the minimum requirements of the National Electrical Safety Code (ANSI C-2) to enhance reliability and reduce restoration costs and outage times associated with extreme weather events. Each investor-owned electric utility electing to exceed normal construction standards shall identify the effects on total system cost and reliability and shall justify any resulting increase in rates charged to rate-payers.

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[PEF recommends that Staff's proposed subsection (5) be struck in its entirety for the reasons stated in PEF's narrative comments below. In the alternative, however, PEF recommends the following edits to Staff's proposed subsection (5)]:

(5) Notwithstanding the exception contained in Section 25.250.C., Extreme Wind Loading, National Electrical Safety Code, structures of 18 meters or less may be designed to withstand extreme wind speeds as specified by Figure 250-2(d) of the 2002 edition of the National Electrical Safety Code. The extreme wind loading standard may be applicable to targeted facilities that would benefit from the extreme wind loading standard as determined by utilities through ongoing post-storm data gathering and analysis.

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(6) Each electric utility shall establish construction standards for underground electrical facilities to enhance reliability and reduce restoration costs and outage times associated with extreme weather events. Such construction standards shall assure, to the extent practicable and cost-effective, that underground and supporting overhead electrical facilities are protected from flooding and storm surges in areas designated as Category 3

Surge Zones by the Department of Community Affairs, Division of Emergency Management. Such construction standards shall be applicable to (a) new construction, (b) the expansion, rebuild, or relocation of existing facilities for which a work order is issued on or after the effective date of this rule, and (c) conversion of existing overhead facilities to underground.

(7) For initial installation, expansion, rebuild, or relocation of any investor-owned electric utility facilities, utilities are required to use easements, public streets, roads and highways which the utility has the legal right to occupy, and on public lands and private property across which the rights of way and easements satisfactory to the utility have been provided by the applicant by the time construction is required.

(8) For initial installation, expansion, rebuild, or relocation of any investor-owned electric utility facilities, including the conversions of existing overhead facilities to underground facilities, all facilities shall be placed at the front edge of the property, unless the utility demonstrates an operational need to use another location.

Narrative Comments:

Subsection (1): PEF agrees with Staff's proposed changes to subsection (1) of the current Rule 25-6.034. PEF has incorporated all of Staff's proposed changes in subsection (1) above.

Subsection (2): PEF agrees with Staff's proposed changes to subsection (2) of the current Rule 25-6.034 with the caveat that Staff's new language in this subsection should be supported by additional clarifying language that PEF has proposed in subsection (3) above. PEF has changed the word "Electric" to "Electrical" in subsection (2) to reflect the proper title of the NESC. Otherwise, PEF has incorporated all of Staff's proposed changes in subsection (2) above.

Subsection (3): PEF agrees with Staff's proposed new subsection (3) to the current Rule 25-6.034 with the caveat that Staff's new language in this subsection should be supported by additional clarifying language that PEF has proposed in subsection (3) above. The language that PEF has added in this subsection reflects the oral clarifications that Staff gave at the April 17, 2006 rule workshop, and PEF's additional language gives specific guidance regarding certain questions that may arise in the implementation of subsections (2), (5), and (6) of Staff's new proposed rule.

PEF has changed the word "Electric" to "Electrical" in subsection (3) to reflect the proper title of the NESC. Otherwise, PEF has incorporated all of Staff's proposed changes in subsection (3) above.

Subsection (4): PEF agrees with Staff's proposed addition of subsection (4) to the current Rule 25-6.034. PEF has changed the word "Electric" to "Electrical" in subsection (4) to reflect the proper title of the NESC. PEF has also changed the word "minimum" to "normal," and has deleted the words "and report" to make this rule consistent with oral modifications that Staff agreed to at the April 17, 2006 rule workshop. Otherwise, PEF has incorporated all of Staff's proposed changes in subsection (4) above.

Subsection (5): PEF's recommends that subsection (5) be struck in its entirety for several reasons. First, experts from the NESC have considered the very proposal that Staff is proposing in subsection (5) and have rejected the concept based on the fact that there is no evidence that the extreme wind standard would provide any increase in reliability or storm durability when applied to poles under 18 meters in height. Second, PEF's storm experience in 2004 and 2005, as well as that of other IOUs, showed that the extreme wind standard would not have prevented the pole failures that the utilities experienced. Finally, the estimated costs of implementing Staff's proposed subsection (5) would approach approximately two billion dollars as applied to PEF's system, and such extraordinary costs cannot be justified for measures that, as all evidence indicates, would do little or nothing to increase system reliability and performance.

PEF's recommendation is consistent with findings and conclusions reached by the NESC's Code Development Council, and by PEF and other utilities in analyzing their 2004 and 2005 storm experiences. In this regard, PEF draws Staff's attention to the

comments provided by Mr. Nelson Bingel at the April 17, 2006 rule workshop. Mr. Bingel, a Principal Member of NESC Subcommittee 5 and the Chairman of ANSI 05, provided facts showing that the NESC has recently rejected the global application of the extreme wind loading standard to poles under 18 meters in height. Mr. Bingel's comprehensive written materials presented at the workshop also provide technical detail as to why the NESC has rejected the global application of this standard—mainly for the reason that there is no evidence of demonstrable increases in system reliability if the extreme wind loading standard is applied to poles under 18 meters on a global basis.

Additionally, comments and facts presented at both the Electric Infrastructure Workshop and the April 17, 2006 rule workshop show that PEF and other IOUs in the 2004 and 2005 hurricane seasons experienced damage to their system assets due, in large part, to vegetation contact, tornadic activity, and severe hurricane "microbursts." These facts show that even if extreme wind loading standards had been in place on those assets, those assets may still have failed due to wind speeds and debris contact that would have exceeded even an extreme wind tolerance standard.

Finally, as shown by PEF's cost estimations below, the global implementation of an extreme wind standard as proposed by Staff would have an extremely high cost for what, by all accounts, appears to be a questionable, if even tangible benefit to PEF's ratepayers.

In the event that Staff does not strike subsection (5) in its entirety, PEF recommends several modifications to Staff's proposed addition of subsection (5). As discussed at the April 17, 2006 rule workshop, PEF believes that a "targeted" approach to the NESC Extreme Wind Loading Standard is more appropriate than the "global" approach recommended by Staff in its proposed rule.

In its hurricane hardening efforts, the FPSC has taken a three-tiered targeted approach consisting, in general terms, of an asset inspection phase, a data collection and analysis phase, and a targeted hardening activity phase. PEF believes that a consistent approach should be used in the implementation of any extreme wind loading standards to electric power assets.

Specifically, PEF recommends that utilities be given an opportunity to continue to inspect and analyze their systems in conjunction with data collected from past and future storms and severe weather events. If, from analyzing such data, a utility

determines that certain areas in its service territory may benefit from the application of an extreme wind loading construction standard, then that utility should be allowed, but not required, to implement such a standard in those targeted areas. Such an approach is consistent with the logic in Staff's new proposed subsection (4) which would require any utility implementing "above normal" standards to identify the effects on total system cost and reliability and to justify any resulting increase in rates charged to rate-payers.

As to the remainder of the language in proposed subsection (5), Staff's new language in this subsection should be supported by additional clarifying language that PEF has proposed in subsection (3) above. Also, PEF has changed the word "Electric" to "Electrical" in subsection (5) to reflect the proper title of the NESC.

Subsection (6): PEF agrees with Staff's proposed addition of subsection (6) to the current Rule 25-6.034 with the caveat that Staff's new language in this subsection should be supported by additional clarifying language that PEF has proposed in subsection (3) above.

Subsection (7): PEF agrees with Staff's proposed addition of subsection (7) to the current Rule 25-6.034. PEF has incorporated all of Staff's proposed changes in subsection (7) above.

Subsection (8): PEF agrees with Staff's proposed addition of subsection (8) to the current Rule 25-6.034. PEF has incorporated all of Staff's proposed changes in subsection (8) above.

Estimated Cost Impacts of Staff and PEF's Proposed Rule Changes:

Subsection (1): No estimated cost impact under Staff or PEF's proposed changes.

Subsection (2): Please see the "Subsection (2)" attachment to this document.

Subsection (3): No estimated cost impact under Staff or PEF's proposed changes.

Subsection (4): No estimated cost impact under Staff or PEF's proposed changes.

Subsection (5): Please see the "Subsection (5)" attachment to this document.

Subsection (6): PEF estimates that it would incur comparatively minor incremental costs to establish and formalize the construction standards called for in Staff's proposed subsection (6). However, PEF is unable to reasonably estimate or quantify the costs of implementing such standards at this time.

In conjunction with the FPSC's hurricane hardening directives, PEF and other utilities are researching and analyzing what new methods, equipment and technology, if any, can reasonably and effectively help to protect underground electrical assets in flood prone areas. Until such research and analysis is complete, PEF cannot effectively estimate the implementation costs of any such programs.

Additionally, in some flood prone areas, there may not be any reasonable methods, equipment or technology that can protect underground electrical assets from flooding other than the use of overhead facilities. For example, during the FPSC's Electric Infrastructure Workshop, Gulf Power Company provided facts showing that in some areas, there are simply no effective measures to protect underground equipment from flood damage where those areas are severely inundated with water. By way of Gulf's example, when entire roads are washed out to sea, nothing can be reasonably done to protect underground equipment.

In summary, PEF does anticipate that it will be able to prepare, formalize and implement enhanced construction standards for underground assets in Category 3 flood zones, but due to the facts discussed above, PEF cannot reasonably estimate what the incremental costs will be to implement those standards at this time.

Subsection (7): No estimated cost impact under Staff or PEF's proposed changes.

Subsection (8): Please see the "Subsection (8)" attachment to this document.

**25-6.034 Standard of Construction
Cost Estimates for Proposed Rules
Subsection (2)**

As PSC Proposed

Assumptions:

Estimated # of Primary Wooden Distribution Poles	473,516
Estimated % Replaced to Standard (1)	10%
Number of Years to Replace Poles (2)	10
Pole Replacement Cost for Labor & Mat'l's	3.35
Annual Pole Replacements per 50yr life	9,470
Estimated Inflation Rate	2.50%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cost to Replace Poles to Standard	182,389	16,280	16,687	17,104	17,532	17,970	18,419	18,880	19,352	19,835	20,331
Less Costs Assoc With Pre '77 Poles Expected Due To Current Upgrade Procedure	36,478	3,256	3,337	3,421	3,506	3,594	3,684	3,776	3,870	3,967	4,066
Total Impact of Rule As PSC Proposed (3)	145,911	13,024	13,349	13,683	14,025	14,376	14,735	15,104	15,481	15,868	16,265

- (1) This represents our best estimate as to the number of poles in service that were put in before 1977. These would be the only poles that don't meet ANSI C-2 standards.
(2) Based on interpreting current rule proposal to mean if replace one pole in a line it will be required to bring all poles in the line up to the new standard.
(3) This represents a timing difference in cash flows. Over time under either proposal all these poles will be replaced.

**25-6.034 Standard of Construction
Cost Estimates for Proposed Rules
Subsection (5)**

As PSC Proposed

Assumptions:

Cost to Upgrade to Wood Entire System	1,955,146
Cost to Upgrade to Concrete Entire System	2,131,825
Pole Cost Differential for New Construction	2,838
One Time Cost to Upgrade Fleet	11,200
Total # of Primary Distribution Poles < 60 ft	582,894
Number of Years to Replace all Primary Poles (1)	10
Cost Per Wood Pole to Meet Standard	3.35
Cost Per Manufactured Pole to Meet Standard	3.68
Estimated Inflation Rate	2.50%

**% Split Between Wood & Manufac. Poles Installed
(2)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Wood	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
Manufactured	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cost To Upgrade Fleet	11,480	11,480									
Cost To Upgrade Poles as Install	3,259	291	298	306	313	321	329	337	346	354	363
Cost To Upgrade All Installed Poles	2,356,775	210,363	215,622	221,012	226,538	232,201	238,006	243,956	250,055	256,307	262,714
Total Impact of Rule As PSC Proposed	2,371,514	222,134	216,920	221,318	226,851	232,522	238,335	244,294	250,401	256,661	263,078

As PEF Alternatively Proposing

Assumptions:

Cost Per Wood Pole to Meet Standard	3.35
Total # of Primary Distribution Poles < 60 ft	582,894
Maximum Potential % of Poles Target For Upgrade (4)	1%
Number of Years to Identify & Complete Targeted Hardening	10
Estimated Inflation Rate	2.50%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cost To Upgrade Fleet (3)	-	-	-	-	-	-	-	-	-	-	-
Cost To Upgrade Poles as Install	-	-	-	-	-	-	-	-	-	-	-
Cost To Upgrade Targeted Poles	22,452	2,004	2,054	2,105	2,158	2,212	2,267	2,324	2,382	2,442	2,503
Total Potential Impact of Rule As PEF Proposing	22,452	2,004	2,054	2,105	2,158	2,212	2,267	2,324	2,382	2,442	2,503

(1) Based on interpreting current rule proposal to mean if replace one pole in a line it will be required to bring all poles in the line up to the new standard.
 (2) Assumes in early years of program there will be significant supply constraints on wood poles available to meet this standard. Over time it is assumed the market would adjust to compensate for this.
 (3) Targeting specific areas is not expected to strain the supply chain & require using manufactured poles.
 (4) Assumes, for illustrative purposes only, that PEF would in fact find poles that should be upgraded to extreme wind standards.

**25-6.034 Standard of Construction
 Cost Estimates for Proposed Rules
 Subsection (8)**

As PSC Proposed

Assumptions:

Miles of Back Lot Facilities	4,500
Number of Years to Move All Back Lot Lines	10
Cost/Mile to Move From Back Lot OH to OH	117
Cost/Mile to Move From Back Lot OH to UG	507
% Moved From OH to OH	65%
% Moved From OH to UG	35%
Estimated Inflation Rate	2.50%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cost to Move Lines From Back Lot OH to OH	394,600	35,222	36,102	37,005	37,930	38,878	39,850	40,846	41,867	42,914	43,987
Cost to Move Lines From Back Lot OH to UG	917,279	81,875	83,922	86,020	88,171	90,375	92,634	94,950	97,324	99,757	102,251
Total Impact of Rule As PSC Proposed	1,311,879	117,097	120,024	123,025	126,100	129,253	132,484	135,796	139,191	142,671	146,238

PART VII – UNDERGROUND ELECTRIC DISTRIBUTION FACILITY CHARGES

25-6.115 Facility Charges for Conversion of Existing Overhead Distribution Facilities

(1) Each public ~~investor-owned electric~~ utility shall file a tariff showing the non-refundable deposit amounts for standard applications addressing the conversion of existing overhead distribution facilities to underground facilities. The tariff shall include the general provisions and terms under which the investor-owned electric utility and applicant may enter into a contract for the purpose of converting existing overhead facilities to underground facilities. The non-refundable deposit amounts shall be consistent with the engineering costs for underground facilities serving each of the following scenarios: urban commercial, urban residential, rural residential, existing low-density single family home subdivision and existing high-density single family home subdivision service areas.

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(2) For the purpose of this rule, the applicant is the person or entity seeking the undergrounding of existing overhead electric distribution facilities. In the instance when a developer requests local government development approval, the local government shall not be deemed the applicant for purposes of this rule.

(3) Nothing in the tariff shall prevent the applicant from constructing and installing all or a portion of the underground distribution facilities provided:

- (a) Such work meets the ~~investor-owned electric utility's~~ construction standards;
- (b) The ~~investor-owned electric utility~~ will own and maintain the completed distribution facilities; and
- (c) Such agreement is not expected to cause the general body of ratepayers to incur greater costs.

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(4) Nothing in the tariff shall prevent the applicant from requesting a non-binding cost estimate which shall be provided to the applicant free of any charge or fee.

(5) Upon an applicant's request and payment of the deposit amount, a public utility shall provide a binding cost estimate for providing underground electric service.

(6) An applicant shall have at least 180 days from the date the estimate is received, to enter into a contract with the public utility based on the binding cost estimate. The deposit amount shall be used to reduce the charge as indicated in subsection (7) only when the applicant enters into a contract with the public utility within 180 days from the date the estimate is received by the applicant.

(7) The charge paid by the applicant shall be the charge for the proposed underground facilities as indicated in subsection (8) minus the charge for overhead facilities as indicated in subsection (9) minus the non-refundable deposit amount. The applicant shall not be required to pay an additional amount which exceeds 10 percent of the binding cost estimate.

(8) For the purpose of this rule, the charge for the proposed underground facilities shall include:

(a) The estimated cost of construction of the underground distribution facilities including the construction cost of the underground service lateral(s) to the meter(s) of the customer(s);

(b) ~~The estimated remaining net book value of the existing facilities to be removed less the estimated net salvage value of the facilities to be removed.~~

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(9) For the purpose of this rule, the charge for overhead facilities shall be the estimated construction cost to build new overhead facilities, including the service drop(s) to the meter(s) of the customer(s).

(10) An applicant to an investor-owned electric utility for construction of underground distribution facilities may petition the Commission pursuant to Rule 25-22.032, F.A.C.

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(11) Nothing in this rule shall be construed to grant any electric utility any right, title or interest in real property owned by a local government.

Narrative Comments on Staff's Proposed Changes to Rule 25-6.115

PEF agrees with the Staff's proposed changes to Rule 25-6.115 Facility Charges for Conversion of Existing Overhead Distribution Facilities and has incorporated all of Staff's proposed changes into this document.

25-6.064 Extension of Facilities; Contribution in Aid of Construction.

(1) Purpose. The purpose of this rule is to establish a uniform procedure by which investor-owned electric utilities subject to this rule will calculate amounts due as contributions-in-aid-of-construction (CIAC) from customers who require new facilities, or facilities other than standard facilities, or for upgrades to existing facilities resulting from changes in the customer's demand on the system, in order to receive electric service, except as provided in Rule 25-6.078.

(3) Definitions. Actual or estimated job cost means the actual cost of providing the new or upgraded facilities, calculated after the installation is completed, or the estimated cost of providing the specified facilities before the installation is completed.

(4) The CIAC applicable to new overhead facilities or for upgrades to existing facilities will be calculated as follows:

$$\begin{aligned}
 &\underline{\text{CIAC Overhead - (CIAC(OH))=}} \\
 &\quad \text{Actual or estimated job cost} \\
 &\quad \text{Less } 4 * (\text{Nonfuel energy charge per kWh} * \text{incremental sales over the new facilities}) \\
 &\quad \text{Less } 4 * (\text{Nonfuel demand charge revenues} * \text{incremental sales over the new facilities}) \\
 &\quad \text{Add CIAC Gross-up for Present value of the tax cash flows on CIAC(OH)} \\
 &\quad \text{Equals CIAC(OH)} \\
 &\bullet \text{ The expected demand charge revenues and energy sales shall be based on an} \\
 &\quad \text{annual period ending not more than five years after the upgrade or new facility} \\
 &\quad \text{is placed into service.} \\
 &\bullet \text{ For purposes of calculation of the present value, the Company will establish} \\
 &\quad \text{practices and procedures for the application of this provision. The discount rate} \\
 &\quad \text{will be the company's last approved after-tax weighted cost of capital and the} \\
 &\quad \text{tax rate will be the company's applicable marginal statutory income tax rate.}
 \end{aligned}$$

(5) The CIAC applicable to new underground facilities shall be calculated as follows:

$$\begin{aligned}
 &\underline{\text{CIAC Underground - (CIAC(UG))=}} \\
 &\quad \text{Actual or estimated cost of providing underground facilities} \\
 &\quad \text{Less Actual or estimated cost of providing overhead facilities}
 \end{aligned}$$

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(a) For customers in rate classes that pay only energy charges, i.e., those that do not pay demand charges, the CIAC shall be calculated as follows:

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(c) Expected demand charge revenues and energy sales shall be based on an annual period ending not more than five years after the extension is placed ... [1]

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~~Add CIAC Gross-up for Present value of the tax cash flows on CIAC(UG)~~
~~Equals CIAC(UG)~~

- ~~For purposes of calculation of the present value, the discount rate will be the company's last approved after-tax weighted cost of capital and the tax rate will be the company's applicable marginal statutory income tax rate.~~
- ~~For purposes of calculation of the present value, the discount rate will be the company's last approved after-tax weighted cost of capital and the tax rate will be the company's applicable marginal statutory income tax rate.~~

~~(6) Nothing in this rule shall be construed as prohibiting a utility from collecting from a customer the total difference in cost for providing underground service instead of overhead service to that customer.~~

~~(8) Each utility shall apply the above formulas uniformly to residential, commercial and industrial customers requesting new or upgraded facilities.~~

~~(9) Each utility shall calculate an appropriate CIAC for new or upgraded facilities constructed to serve customers who receive service at the primary distribution voltage level and the transmission voltage level. This CIAC shall be based on the actual or estimated cost of providing the extension less an appropriate credit.~~

~~(10) The utility shall use its best judgment in estimating the total amount of revenues and sales which the new or upgraded facilities are expected to produce in a four year time frame.~~

~~(11) The utility may elect to waive CIAC for customers, even when a CIAC is found to be applicable. However, if the utility waives the CIAC, the Commission will reduce the utility's net plant in service by an equal amount for ratemaking purposes, as though the CIAC had been collected, except when the company's annual revenues from a customer are sufficient to offset the unpaid CIAC under subsection (4) or (5). Each utility shall maintain records of amounts waived and any subsequent changes that served to offset the CIAC.~~

~~(12) In cases where larger developments are expected to be served by the new or upgraded facilities, the utility may elect to prorate the total costs and CIAC's owed over the number of customers the investor-owned utility expects to be served by the new or upgraded facilities in any four of the first five-year period the facilities are in service.~~

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CIACoh = (Actual or estimated job cost - (4 × nonfuel energy for new poles and conductors charge per KWH and appropriate fixtures × expected annual KWH required to provide service, sales over the new line) excluding transformers, service drops, and meters)¶

¶

CIACoh = (Actual or estimated - (4 × nonfuel energy - (4 × expected annual job cost for new charge per KWH × demand charge poles and conductors expected annual KWH revenues from sales and appropriate sales over the new line) over the new line) fixtures required to provide service, excluding transformers, service drops, and meters)¶

¶

CIACug = (Estimated difference between + CIACoh (as above) the cost of providing the distribution line extension including not only the distribution line extension itself but also the transformer, the service drop, and other necessary fixtures, with underground facilities vs. the cost of providing service using overhead facilities)¶

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(6)

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(13) A detailed statement of its standard for new or upgraded facilities, policy shall be filed by each utility as part of its tariffs. The tariffs shall have uniform application and shall be nondiscriminatory.

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(14) If a utility and applicant are unable to agree, on the CIAC amount, either party may appeal to the Commission for a review.

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Narrative Comments on Proposed Changes to Rule 25.6064

Section (1) and generally throughout the rule – PEF agrees with Staff's proposed change to expand the application of this rule from only line extensions to new facilities, other than standard installations, or for upgrades to existing facilities resulting from changes in the customer's demand on the system and has incorporated this change throughout the document.

Section (2) – PEF agrees that this section can be deleted.

Section (4) –

- PEF agrees with Staff's proposal to simplify and streamline the language in this document regarding the calculation of the overhead and underground CIAC amounts and has incorporated changes to facilitate this objective. Except as noted in the following bullet point, there is no intent by PEF to change the method of calculation.
- PEF proposes language to gross-up and collect from the contributor the applicable federal and state income taxes on the CIAC based on the present value of the tax cash flows on the CIAC. In instances where CIAC is taxable, the CIAC is treated as revenue for income tax purposes and the company will pay income taxes in the year that it is collected. Over the life of the asset, the CIAC will generate a tax deduction through tax depreciation. PEF proposes that the present value of the tax cash flows on CIAC that is taxable for income tax purposes should be collected upfront from the CIAC contributor. The purpose of this change is to shift the burden of the carrying cost of the income taxes paid by the company on the CIAC contributions to the CIAC contributor rather than to the general body of

ratepayers through base rates as it is today. The rate used to calculate the present value would be the company's last approved after-tax weighted average cost of capital and the taxes would be calculated based on the current marginal tax rates.

Section (7) – PEF agrees with Staff's proposal to strike this section as the CIAC contributor is responsible for full payment of the CIAC upfront and the purpose of the underground differential tariff is only to provide a mechanism to collect from the customers benefiting from the installation of the facilities and to reimburse the CIAC contributor.

Section (8) – PEF agrees with Staff's proposed changes.

Section (10) – PEF does not agree with the following proposed language by Staff – “In any dispute over the amount of the estimated CIAC, the utility shall true-up the CIAC collected using actual costs and revenues for a period not to exceed the four years used to develop the estimate.” This provision would be overly burdensome to apply and would keep every CIAC payment open for dispute for several years into the future.

Section (11) – PEF does not agree with the changes proposed by Staff. The new language is not as specific as the language in the old rule as to how CIAC that is waived should be treated for ratemaking and surveillance purposes. As there is no intent here to change the treatment of CIAC that is waived, PEF suggests that the language should not be changed.

Section (12) – PEF does not agree with the language proposed by staff (“the utility **shall** prorate the total costs and CIAC's over the **largest** number of customers expected to be served by the new or upgraded facilities in any four of the first five-year period the facilities are in service”). PEF specifically takes exception to the words “shall” and

"largest." As there is often a great deal of uncertainty surrounding the expected number of customers who will benefit from these facilities in the future and it is not possible to anticipate the circumstances of each situation that might arise in this rulemaking process, the prororation of CIAC should be decided on a case by case basis and should not be mandated in the rule. Therefore, PEF suggests that the word "shall" should be changed back to "may" as it is currently stated in the rule. PEF also specifically takes exception to the word "largest" number of customers expected to be served by the new or upgraded facilities. The application to the "largest" number of customers unfairly puts the Company at risk of collection as there will always be a great deal of dispute over the largest number of customers. PEF suggests changing the word "largest" to "estimated."

Section (13) – PEF agrees with Staff's proposed changes and has incorporated them into the language in this document.

Section (14) – PEF agrees with Staff's proposed changes and has incorporated them into the language in this document.

25-6.064 Extension of Facilities: Contribution in Aid of Construction

Cost Estimates for Proposed Rules

Subsection (all)

Intended to quantify the impact of a lower OH to UG differential due to new req's under 25-6.034

As PSC Proposed

Assumptions:

Total CIAC PEF Collected in 2005 (000's)	43,800
Less CIAC for Flat Fee URD (000's)	10,600
Non Flat Fee URD CIAC (000's)	33,200
Less CIAC for Streetlights (000's)	3,000
CIAC Impacted By Reduced Differential Under This Rule (000's)	30,200
Estimated % CIAC Reduction Due to Increased OH Costs	25%
Estimated Annual \$ Reduction in CIAC Collected Due to Increased OH Costs (000's)	7,550
Estimated Inflation Rate	2.50%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cost to Upgrade Poles Not Meeting Standard	86,700	7,739	7,932	8,131	8,334	8,542	8,756	8,975	9,199	9,429	9,665
Total Impact of Rule As PSC Proposed (1)	86,700	7,739	7,932	8,131	8,334	8,542	8,756	8,975	9,199	9,429	9,665

(1) Impact shifts from Utility to Ratepayer after 2009 due to being included in new rate base.

25-6.064 Extension of Facilities: Contribution in Aid of Construction

Cost Estimates for Proposed Rules

Subsection (all)

Intended to quantify the impact of new true-up provision and use of the word "largest" in proposed PSC rule.

As PSC Proposed

Assumptions:

Total CIAC PEF Collected in 2005 (000's)	43,800
Less CIAC for Flat Fee URD (000's)	<u>10,600</u>
Non Flat Fee URD CIAC (000's)	33,200
Less CIAC for Streetlights (000's)	<u>3,000</u>
CIAC Exposed to Collection Risk (000's)	30,200
Estimated % CIAC Collection Shortfall	<u>5%</u>
Estimated CIAC Collection Shortfall (000's)	<u><u>1,510</u></u>

New FTE's Required to Track True-up	6
Estimated Per Employee Salary (000's)	<u>63</u>
Annual Cost to Track True-up (000's)	<u><u>378</u></u>

Estimated Inflation Rate 2.50%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CIAC Collection Shortfall (1)	17,340	1,548	1,586	1,626	1,667	1,708	1,751	1,795	1,840	1,886	1,933
Estimated Cost of True-up (2)	4,341	387	397	407	417	428	438	449	461	472	484
Total Impact of Rule As PSC Proposed	21,681	1,935	1,984	2,033	2,084	2,136	2,190	2,244	2,300	2,358	2,417

(1) These costs will be born by the Utility with no recovery mechanism.

(2) These costs will be socialized to all ratepayers.

PART V -- RULES FOR RESIDENTIAL ELECTRIC UNDERGROUND EXTENSIONS

25-6.078

(1) Each utility shall file with the Commission a written policy that shall become a part of the utility's tariff rules and regulations on the installation of underground facilities in new subdivisions. Such policy shall be subject to review and approval of the Commission and shall include an Estimated Average Cost Differential, if any, and shall state the basis upon which the utility will provide underground service and its method for recovering the difference in cost of an underground system and an equivalent overhead system from the applicant at the time service is extended. The charges to the applicant shall not be more than the estimated difference in cost of an underground system and an equivalent overhead system.

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(2) On or before October 15th of each year each utility shall file with the Commission's Division of Economic Regulation Form PSC/ECR 13-E, Schedule 1, using current material and labor costs. If the cost differential as calculated in Schedule 1 varies from the Commission-approved differential by plus or minus 10 percent or more, the utility shall file a written policy and supporting data and analyses as prescribed in subsections (1), (3) and (4) of this rule on or before April 1 of the following year; however, each utility shall file a written policy and supporting data and analyses at least once every three years.

(3) Differences in operating and maintenance costs between underground and overhead systems, if any, may be taken into consideration in determining the overall Estimated Average Cost Differential.

(4) Detailed supporting data and analyses used to determine the Estimated Average Cost Differential for underground and overhead distribution systems shall be concurrently filed by the utility with the Commission and shall be updated using cost data developed from the most recent 12-month period. The utility shall record these data and analyses on Form PSC/ECR 13-E (10/97). Form PSC/ECR 13-E, entitled "Overhead/Underground Residential Differential Cost Data" is incorporated by reference into this rule and may be obtained from the Division of Economic Regulation, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, (850) 413-6900.

(5) Service for a new multiple-occupancy building shall be constructed underground within the property to be served to the point of delivery at or near the building by the utility. The applicant for such service shall be responsible for the difference in cost as determined by the utility between the installation of underground facilities versus overhead facilities.

Deleted: Service for a new

Deleted: at no charge to the applicant, provided the utility is free to construct its service extension or extensions in the most economical manner

(6) The recovery of the cost differential as filed by the utility and approved by the Commission may not be waived or refunded unless it is mutually agreed by the applicant and the utility that the applicant will perform certain work as defined in the utility's tariff, in which case the applicant shall receive a credit.

Provision for the credit shall be set forth in the utility's tariff rules and regulations, and shall be no more in amount than the total charges applicable.

(7) The difference in cost as determined by the utility in accordance with its tariff shall be based on full use of the subdivision for building lots or multiple-occupancy buildings. If any given subdivision is designed to include large open areas, the utility or the applicant may refer the matter to the Commission for a special ruling as provided under Rule 25-6.083, F.A.C.

(8) The utility shall not be obligated to install any facilities within a subdivision until satisfactory arrangements for the construction of facilities and payment of applicable charges, if any, have been completed between the applicant and the utility by written agreement. A standard agreement form shall be filed with the company's tariff.

(9) Nothing herein contained shall be construed to prevent any utility from assuming all cost differential of providing underground distribution systems, provided, however, that such assumed cost differential shall not be chargeable to the general body of rate payers, and any such policy adopted by a utility shall have uniform application throughout its service area.

*Specific Authority 366.04(2)(f), 366.05(1) FS. Law Implemented 366.03, 366.04(1), (4), 366.04(2)(f), 366.06(1) FS.
History—New 4-10-71,
Amended 4-13-80, 2-12-84, Formerly 25-6.78, Amended 10-29-97.*

SUMMARY OF PROPOSED CHANGES TO RULE 25-6.078

Section (1) – PEF agrees with Staff's proposal to restrict the applicability of this rule to new subdivisions.

Section (3) – The Staff has proposed changing the word “may” to “shall” in the following sentence in this rule: “Differences in operating and maintenance costs between underground and overhead systems, if any, may be taken in consideration in determining the overall Estimated Average Cost Differential.” PEF does not agree with this proposed change because while it is possible that the operating and maintenance cost of maintaining service with underground facilities may be less than the operating and maintenance cost for overhead facilities, the utility often incurs more capital cost to maintain the underground facilities over the life of the assets and the average life of the underground facilities is generally shorter than the average life for overhead facilities. The differential between the capital cost of underground and overhead only takes this factor into account at the time of initial installation. There is no CIAC collected at the time that these assets are replaced, therefore the higher capital costs are included in rate base and are socialized among the general body of ratepayers.

Section (5) – PEF proposes that multiple occupancy properties should also be responsible for the payment of CIAC for the difference in the cost of providing underground versus overhead service. As the rule is currently written, these customers are exempt from paying CIAC. This unfairly shifts the burden of these incremental costs to the other ratepayers.

**25-6.078 Standard of Construction
Rules For Residential Electric Underground Extensions
Subsection (4)**

As PSC Proposed

Assumptions:

OH O&M Expense in 2005	53,164
UG O&M Expense in 2005	10,931
PEF Circuit Miles of OH	18,194
PEF Circuit Miles of UG	11,300
OH to UG Per Mile O&M Differential	1.95
New Customer Cost Per Circuit Mile OH	107
New Customer Cost Per Circuit Mile UG	152
 New OH Customer Circuit Miles Added in 2005 - OH	 286
 New UG Customer Circuit Miles Added in 2005 - UG	 529
Estimated Inflation Rate	2.50%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
O&M Differential For New Miles Added	(67,726)	(1,060)	(2,173)	(3,341)	(4,566)	(5,850)	(7,195)	(8,604)	(10,079)	(11,623)	(13,237)
Total Impact of Rule As PSC Proposed	(67,726)	(1,060)	(2,173)	(3,341)	(4,566)	(5,850)	(7,195)	(8,604)	(10,079)	(11,623)	(13,237)

Calculation Justifying PEF Proposal

Assumptions:

OH O&M Expense in 2005	53,164
UG O&M Expense in 2005	10,931
PEF Circuit Miles of OH	18,194
PEF Circuit Miles of UG	11,300
OH to UG Per Mile O&M Differential	1.95
New Customer Cost Per Circuit Mile OH	107
New Customer Cost Per Circuit Mile UG	152
OH Depreciable Life in Yrs	40
UG Depreciable Life in Yrs	25
OH to UG Per Mile Depreciation Differential (1)	-1.61
 New OH Customer Circuit Miles Added in 2005 - OH	 286
 New UG Customer Circuit Miles Added in 2005 - UG	 529
Estimated Inflation Rate	2.50%

(000's)	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
O&M Differential For New Miles Added	(67,726)	(1,060)	(2,173)	(3,341)	(4,566)	(5,850)	(7,195)	(8,604)	(10,079)	(11,623)	(13,237)
Depreciation Differential For New Miles Added (2)	51,771	872	1,767	2,683	3,623	4,586	5,573	6,585	7,622	8,685	9,774
Impact Considering O&M & Capital Differentials	(15,956)	(187)	(406)	(657)	(943)	(1,264)	(1,622)	(2,019)	(2,457)	(2,938)	(3,462)

(1) Assumes amount capitalized and in base rates after applying CIAC would be equal to the amount for an OH installation.

(2) When the UG is replaced at end of life, the amount in base rates will be the full cost of the new UG. This will have the impact of increasing the depreciation differential between OH and UG in later years.