BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of revised underground residential distribution tariffs, by Progress Energy Florida, Inc.	DOCKET NO. 060017-EI ORDER NO. PSC-06-0479-TRF-EI ISSUED: June 5, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
J. TERRY DEASON
ISILIO ARRIAGA
MATTHEW M. CARTER II
KATRINA J. TEW

ORDER APPROVING REVISED UNDERGROUND RESIDENTIAL DISTRIBUTION TARIFFS

BY THE COMMISSION:

BACKGROUND

Rule 25-6.078, Florida Administrative Code, requires investor-owned electric utilities to file updated underground residential distribution (URD) 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. Progress Energy Florida's (PEF) current URD charges were approved in Order No. PSC-04-0519-TRF-EI, issued on May 24, 2004, in Docket No. 031122-EI, In re: Petition for approval of revised underground residential distribution tariffs by Progress Energy Florida, Inc.

On January 6, 2006, to comply with the 3-year filing requirement of the rule, PEF filed this petition for approval of revisions to its URD tariffs and associated charges. We suspended the tariff by Order No. PSC-06-0206-PCO-EI, issued March 14, 2006, in order to conduct a careful review of PEF's proposed revisions. Thereafter, at our May 16, 2006, Agenda Conference we approved PEF's petition. The reasons for our decision are set out in detail below. We have jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

DECISION

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.

As provided in Rule 25-6.115, Florida Administrative Code, 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	$350	$428	+22%
176-lot high density	$224	$256	+14%
Grouped meter pedestals	$130	$165	+27%

PEF cited three reasons for the increase in the differential: the use of more conduit, higher labor rates, and removal of the tree trimming costs from the differential calculation.

Conduit. The primary factor driving the increase in the URD differentials is the increased use of conduit by PEF in the installation of its underground primary cables. The term "conduit" as used by PEF refers to three types of PVC tubing (2 inches, 2.5 inches, and 4 inches) that are used to shield cables buried in the ground. In its last URD filing, PEF notified the Commission that the company had adopted a new set of engineering standards regarding when and where conduit should be used. PEF now uses conduit in soil with sharp objects such as rocks or shells (if clean fill dirt is unavailable), under pavement, landfills, septic fields, wetlands, creek crossings, retaining walls used for elevation changes, railroad crossings, areas where other underground buried utilities cross PEF's lines (as required by code and regulation), between side and back lot lines in medium and high density subdivisions, and in congested areas where repair access to the underground cable is not readily available. According to PEF, the benefits of increased use of conduit are: a reduction in the number of outages and replacements required, a reduction in the service time for those cables that do have to be repaired and replaced, and protection of the cable from certain types of excavations.

The increased use of conduit has a larger impact on low-density subdivisions than high-density subdivisions. Low-density subdivisions tend to have higher conduit and material costs since their lighter housing density requires more material on a relative per-house basis. For example, a 100 foot trench with conduit dug to serve a low-density subdivision, where there are typically 1-6 homes per acre, might serve only one home. In a high-density subdivision, where there are six or more homes per acre, that trench might serve 1-3 homes.

Grouped-meter pedestal subdivisions have also been affected by increased transformer, conduit, and trenching costs. Although this group shows the largest percentage increase, modest increases in material and labor costs can translate into disproportionately large percentage increases to the grouped-meter subdivision differential because of the lower initial URD.

<u>Labor</u>. PEF hires outside contractors to do its underground service work while overhead service work is done primarily by company employees. PEF stated that underground contract labor rates rose by 3.39% in 2005. The increase in labor costs was driven by escalator clauses in long term labor contracts PEF had signed, a tightening in the labor market, and the increased use of conduit. Placing conduit around cable increases the amount of labor needed because the conduit must be laid in the trench and a machine must be set up to pull the bulk feeder and primary cables through the conduit. PEF asserted that even with the increases in labor costs, it was still more cost efficient to use outside contractors, because the amount of additional company employees required to perform the underground work throughout PEF's service territory would cause significant increases in personnel and benefits costs.

<u>Tree Trimming</u>. A final factor driving the increase in URD differentials for all three subdivisions was the Commission's decision in Order No. PSC-04-0187-TRF-EI to eliminate the costs for the initial clearing of trees from the calculation of contribution-in-aid-of construction for the extension of overhead distribution facilities. PEF proposed and the Commission approved these tariff changes so that the rules governing provision of overhead distribution would be consistent with the rules for provision of underground distribution, where customers are responsible for clearing their property. The tariff changes also afford customers the option to have the work done by a third party at a potentially lower cost.

In addition to the proposed changes for the three standard subdivisions, PEF proposed increases to the credits they offer to customers who choose to do their own trenching and backfilling. The proposed increase in the credits reflects PEF's avoided increased material and labor costs to perform those services. PEF has proposed to increase the trenching and backfilling credit from $1.36 per foot of service lateral, secondary, and primary cable to $1.40 per foot.

PEF also proposed changes to various miscellaneous and contribution in aid of construction charges for provision of underground service. The increases are driven by rising labor and material costs. If feeder mains have to be provided for underground service to a subdivision (either at the request of the customer or due to local regulation), PEF proposed to increase the three-phase primary main or feeder charge per trench-foot within a subdivision from $4.37 to $5.34 per foot for a #1/0 AWG underground vs. #1/0 AWG overhead, from $14.23 to $15.84 per foot for a 500 MCM (measurement of cable size) underground vs. 336 MCM overhead, and from $18.08 to $18.62 per foot for a 1000 MCM underground vs. 795 MCM overhead. For new underground service laterals from overhead distribution systems, the contribution provided by the applicant would increase from $355.00 to $364.50 for service laterals up to 80 feet, and from $.60 to $1.20 per foot for service laterals from 81-300 feet. For underground service laterals replacing existing residential overhead services, the contribution provided by the applicant would increase from $257.20 to $258.30 for service laterals up to 80 feet, and decrease from $.96 to $.82 per foot for service laterals from 81-300 feet.

Upon review of the petition and supporting information PEF has provided, we believe that the proposed charges are reasonable, and we approve them, effective May 16, 2006.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Petition for approval of revised underground residential distribution tariffs by Progress Energy Florida, Inc. is approved, effective May 16, 2006. It is further

ORDERED that if a protest is filed within 21 days of issuance of the Order, the tariff shall remain in effect with any charges held subject to refund pending resolution of the protest. It is further

ORDERED that if no timely protest is filed, this docket shall be closed upon the issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 5th day of June, 2006.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Hong Wang
Hong Wang, Supervisor
Case Management Review Section

(S E A L)

MCB

NOTICE OF FURTHER PROCEEDINGS

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 26, 2006.

In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.