ORIGINAL

MEMORANDUM

August 24, 2006

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: OFFICE OF THE GENERAL COUNSEL (GERVASI) pgs

RE: DOCKET NO. 060150-EI - Petition for approval of revisions to contribution-in-aid-of-construction definition in Section 12.1 of First Revised Tariff Sheet No. 6.300, by Florida Power & Light Company.

Attached are e-mail communications regarding discovery/Staff Data Requests, to be filed in the above-referenced docket.

DATE DOCUMENT SENT TO CCA 8/24/06

RG
Attachment
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Rosanne Gervasi

From: Lynne_Adams@fpl.com
Sent: Thursday, August 17, 2006 7:46 AM
To: Elisabeth Draper; Rosanne Gervasi
Subject: FPL Responses to Staff Second Data Request - Docket No 060150

Attachments: 060150 - Responses to 2nd Staff Data Request.doc; Attachment A - GAF Macro Economic Evaluation.xls


060150 - Attachment
onses to 2nd SAF Macro Eco

Elisabeth & Rosanne,

Attached please find FPL's responses to Staff's Second Data Request in Docket No. 060150-EI. Please call me if you have any questions.

Lynne
521-3904

Responses -->(See attached file: 060150 - Responses to 2nd Staff Data Request.doc)
Attachment A -->(See attached file: Attachment A - GAF Macro Economic Evaluation.xls)

Docket 060150-EI – 2nd Staff Data Request

1. **Please provide in electronic format the analysis discussed in FPL's response to staffs June 9, 2006, data request No. 3.**

   See Attachment A.

2. **In its response to staffs data request No. 3, FPL states that a restoration benefit would only be produced by undergrounding generally contiguous facilities. Has FPL determined a minimum size area that would be necessary for undergrounding to provide benefits to the general body of ratepayers? If no objective size criterion has been set, please describe the methodology FPL will use to determine if a specific requested project would be eligible for the discount.**

   FPL plans to provide Staff the proposed revisions to its GAF Tariff for preliminary review in the near future. These revisions will address the eligibility criteria.

3. **Please explain why FPL's proposed tariff is only available to local governments, as opposed to, for example, homeowners associations. Please explain how limiting the proposed tariff to local governments is not unduly discriminatory to other entities that may wish to avail themselves of such a program under the proposed tariff.**

   The goal of the GAF tariff is to lower storm restoration costs to all customers by providing an incentive for community-wide conversions. Local governments are in the best position to fulfill the GAF requirements. For example, they are best able to guarantee the needed 100% customer conversion participation, while other entities face significant logistical, and potentially legal, obstacles to ensuring such compliance. In order to deliver the storm restoration cost reductions as quickly as possible, FPL wants to pursue projects in the near-term that have the highest chance for successful completion. Local governments are also best positioned to facilitate the construction through managing permitting, securing locations for the underground facilities, and the negotiations with other utility providers. In the future, as FPL and customers gain more experience in underground conversion construction, the opportunity for extending incentives to other customer groups may present itself. In the meantime, entities such as homeowners associations may request sponsorship from their local government to gain access to the GAF.

4. **Please clarify whether FPL proposes to set the government adjustment factor (GAF) at 25% in every instance, or whether the GAF will vary among local governments requesting conversion, up to 25% as a maximum GAF. If FPL proposes to vary the GAF, please explain how FPL will determine the appropriate GAF for each local government.**

   FPL proposes to set the GAF at 25% for all eligible Local Government Applicants.

Docket 060150-EI – 2nd Staff Data Request

5. **The following questions refer to Attachment A included with FPL's responses to staffs June 9, 2006 data request.**
   a. **Please explain how FPL developed the ball park cost estimates for all the local governments listed in the attachment.**

      The ballpark estimates are high-level figures designed to provide order-of-magnitude guidance to help the applicant decide whether to pursue a given conversion before committing substantial resources. They are calculated by multiplying a count of the affected existing devices (e.g., conductor feet, switches, transformers, etc) times unit costs per device. The unit costs are based on engineering estimates for converting a "typical" overhead line incorporating all the various CIAC components – new underground, hypothetical new overhead, existing overhead net book value, and existing overhead removal and salvage. Of course, all of these components can be subject to significant variation due to actual physical conditions, age or design factors.

   b. **The attachment shows that certain local governments received a binding cost estimate (Deerfield Beach, Flagler Beach, Daytona Beach, Martin County, St. Johns County). Please explain why in every instance the binding cost estimate is lower than the ballpark cost estimate.**

      First, as noted in the response to Request 5.a., at the time ballpark estimates are developed, numerous critical factors for any given project – such as subsurface obstructions, the ability to secure locations for above ground equipment, and the like – will be unknown. Therefore, it is appropriate in the ballpark estimate to allow for the likelihood of unforeseen circumstances that can affect these types of projects. In addition, the binding estimates can be affected by various factors that cause it to be lower than the ballpark estimate. For example, applicants may reduce the project scope after receiving the ballpark estimate. Additionally, applicants may choose to contract some of the work to a third-party. Typical types of such activities are the installation of the conduit and the associated trenching or directional boring. This lowers the CIAC payment to FPL, though it may or may not significantly change the total project cost for the applicant. Finally, FPL may, through negotiating the exact project specifics with the applicant, identify efficiencies and construction alternatives that result in lower costs.

   c. **Assume all local governments listed pursue the conversion and the ballpark cost estimates shown equal the actual conversion costs. Please state the total conversion costs for all local governments listed and the impact on the 1,000 kWh residential bill if FPL were to put**

25% of the conversion costs in rate base at the end of 2006 (assuming no base rate stipulation is in effect).

FPL has performed the requested calculation, which is described below. At the outset, however, FPL would like to point out that the inherent assumption in this question – that such a large volume of conversions can and will be implemented in one year – appears unrealistic. 80% of the aggregate total estimated conversion costs are from only 11 cities, which have requested ballpark cost estimates for undergrounding their entire infrastructures (e.g., $115 million for the City of Coral Gables). After seeing the costs, most subsequently requested ballpark estimates for subsets of their municipalities. At this point, only two have indicated a desire to move forward with full conversion, and both will be doing so in multiple phases (e.g., Town of Palm Beach's tentative plans call for about 13 phases over 10 years beginning in 2007).

The estimated cost of the listed conversions is approximately $700 million. Please note that in cases where a binding cost estimate had also been provided, those estimates were used in lieu of the ballpark estimate. Additionally, if an estimate for the entire municipality had been provided, the estimates for the smaller segments were not included in the calculations to avoid double counting. Further, this figure significantly exceeds FPL's current total annual distribution plant additions.

The associated amount of the GAF at a 25% rate would be approximately $175 million. The impact on the 1st year 1,000 kWh residential bill would be an approximate increase of only 0.2% (this excludes any future year effects of depreciation, etc). Of course, FPL would expect an offset against this increase over time due to reduced storm restoration costs. Moreover, given the more likely scenario that the aggregate expenditures will be much lower and spread out over a number of years, it is reasonable to expect that any residential customer rate impact from reflecting the GAF amount in rate base will probably be de minimis.

Attachment A **Government Adjustment Factor v. Storm Restoration Costs**

I. Low Density Subdivision (LDS):

			CIAC Scenarios	
			20-Year OH Vintage	10-Year OH Vintage
1		New Underground Facilities - Conversion	537,000	537,000
2	+	Existing Overhead Facilities Net Book Value	10,000	110,000
3	+	Overhead Removal Cost	104,000	104,000
5	-	Overhead Salvage Value	-	-
4	-	New Hypothetical Overhead Facilities	(334,000)	(334,000)
6		**Subtotal CIAC**	**317,000**	**417,000**

II. Avoided Storm Restoration Costs:

			2004			2005			
		Base Case 2-Yr Total	Charley	Frances	Jeanne	Dennis	Katrina	Rita	Wilma
7	**Total Distribution Cost (000s)**	**1,448,308**	207,457	237,402	246,256	9,024	135,427	10,487	602,255
8	**Overhead Distribution Cost (000s)**	**1,303,477**	186,711	213,662	221,630	8,122	121,884	9,438	542,030
9	**Customers Affected**	**10,740,000**	874,000	2,786,000	1,737,000	509,000	1,453,000	140,000	3,241,000
10	**Average Cost / Customer**	**121**	**214**	**77**	**128**	**16**	**84**	**67**	**167**
11	**Average Cost / LDS**	**25,487**	**44,862**	**16,105**	**26,795**	**3,351**	**17,616**	**14,157**	**35,121**

III. 30-Year NPV of LDS Costs (line 11):

		Base Case 2-Yr Total
12	**Base Case - Average 1 Storm Every 3 Years**	**129,269**
13	**Sensitivity - 100-Year Average (1 Every 5 Yrs)**	**82,120**

IV. NPV of LDS as Effective % of CIAC (line 6):

		Base Case 2-Yr Total
14	**Base Case - Average 1 Storm Every 3 Years**	
15	20-Year Overhead Converted	**41%**
16	10-Year Overhead Converted	**31%**
17	**Sensitivity - 100-Year Average (1 Every 5 Yrs)**	
18	20-Year Overhead Converted	**26%**
19	10-Year Overhead Converted	**20%**