

State of Florida



Public Service Commission

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DATE: September 21, 2006

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

FROM: Division of Economic Regulation (Draper) *EDD OK MD*
Office of the General Counsel (Brown) *MCB/SS JAR/MAH TJD CL*

RE: Docket No. 060572-EC – Request for approval of increase in rates by Central Florida Electric Cooperative, Inc.

AGENDA: 10/03/06 – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060572.RCM.DOC

Case Background

On April 17, 2006, Central Florida Electric Cooperative, Inc. (Central Florida) filed a request with supporting documentation to increase its rates. The proposed rates went into effect on June 1, 2006. In addition to an increase in rates, Central Florida proposed a minimum monthly charge of \$20 for residential customers. A minimum monthly charge for residential customers has not been previously approved for Central Florida or any other Florida electric utility.

The Commission has rate structure jurisdiction over cooperatives pursuant to Section 366.04(2)(b), Florida Statutes. Rule 25-9.051(7), Florida Administrative Code, defines *rate structure* as the rate relationship between various customer classes, as well as the rate relationship between members of a customer class. Cooperatives are required to file tariffs with

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the Commission in accordance with Rule 25-9.053(1), Florida Administrative Code. The Commission has delegated the authority to staff to administratively approve tariff filings by cooperatives as long as: (1) there is no change in the rate structure previously approved for that utility; (2) the change results in the rate relationships moving closer to those approved for the investor-owned electric utilities; or (3) the proposal does not contain new pricing concepts.¹ Because Central Florida's filing involves a new pricing concept, Commission approval is required. This recommendation addresses only the minimum monthly charge for residential customers. The Commission has jurisdiction pursuant to Section 366.04(2)(b), Florida Statutes.

¹ See Administrative Procedures Manual Section 2.07.C.5.a(10).

Discussion of Issues

Issue 1: Should the Commission approve Central Florida's monthly minimum \$20 charge for residential customers?

Recommendation: Yes. (Draper)

Staff Analysis: Central Florida is a member owned, not-for-profit cooperative that purchases and distributes electricity to its customers and serves approximately 30,000 customers in Dixie, Levy, and Gilchrist county. Central Florida has proposed to modify its rates to generate additional revenues. In addition, the utility has proposed a minimum monthly \$20 charge for residential customers. This charge only affects customers who use less than 100 kilowatt-hours (kWh) per month. Staff notes that usage of less than 100 kWh is likely to only occur if the premises is vacant.

Central Florida performed a cost of service study to allocate the revenue increase to the rate classes. The study shows that the customer-related cost to serve residential customers is \$18.72. In rate design, to the extent practicable, the customer charges should be set to reflect the customer costs developed in the cost of service study. However, Central Florida believes that increasing the residential customer charge to \$18.72 would result in an excessive increase to low-use customers. Instead of raising the customer charge to all customers to reflect the cost supported by the cost of service study, Central Florida proposed a minimum \$20 charge to recover its investment from accounts that have no or very low usage.

Central Florida states that it has two unique characteristics that justify the use of a minimum charge for residential customers. First, Central Florida has a high percentage of seasonal customers who own a vacation home that is vacant for several months. Central Florida states that 20 percent of its accounts use less than 100 kWh per month.

Second, Central Florida serves a rural service territory that includes providing service to barns or pumps, which customers frequently have separately metered. These types of customers consume small amounts of electricity during the course of the year, and their usage is sporadic. Since the customer charge does not usually cover the cost of having the separate account, these low-usage accounts are being subsidized by the other ratepayers.

Central Florida states that it has received five customer complaints since the minimum charge became effective on June 1, 2006. Two of the complaints involved customers that own a vacation home. One complaint came from a farm that had separate accounts for a well and for a cow farm, whose only usage came from a branding iron. Both those accounts have been disconnected. Another complaint came from a customer with an account to serve a pole that could connect to an RV. The pole's usage is 3-4 kWhs per year. The final complaint came from a customer that has a residential account for a well pump.

The minimum charge is designed to send an appropriate price signal to residential accounts with 0-100 kWh usage for which the utility does not recover the costs of its investment

in customer facilities. Staff believes the proposed minimum charge for residential customers is fair and reasonable based on the unique circumstances that confront Central Florida.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the Commission's order in this docket files a protest within 21 days of the issuance of the order, this docket should be closed. If a protest is timely filed, the tariff should remain in effect, pending resolution of the protest. (Brown)

Staff Analysis: If no person whose substantial interests are affected by the Commission's order in this docket files a protest within 21 days of the issuance of the order, this docket should be closed. If a protest is timely filed, the tariff should remain in effect, pending resolution of the protest.