

State of Florida



Public Service Commission

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DATE: October 12, 2006

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

FROM: Division of Economic Regulation (Baxter) *CSM PS*
Office of the General Counsel (Brown) *MCB NAT*

RE: Docket No. 060616-EM -- Petition for approval of revised rate schedules by City of Blountstown

AGENDA: 10/24/06 – Regular Agenda – 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\060616.RCM.DOC

Case Background

The City of Blountstown filed revised residential service (RS) and commercial service (CS) tariff sheets on March 16, 2006. This recommendation is to approve the tariffs as filed, effective November 1, 2006. The Commission has jurisdiction pursuant to Section 366.04(2), Florida Statutes to review the rate structure of municipal utilities to determine if the increase is collected fairly from all rate classes.

DOCUMENT NUMBER-DATE

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Discussion of Issues

Issue 1: Should the Commission approve the revised residential and commercial service tariffs filed by the City of Blountstown Municipal Utility?

Recommendation: Yes, the tariffs should be approved effective November 1, 2006. (Baxter)

Staff Analysis: Under section 366.04(2), Florida Statutes, the Commission has jurisdiction over the rate structure of municipal electric utilities. "Rate structure," as defined in Rule 25-9.051(7), Florida Administrative Code; "...refers to the classification system used in justifying different rates, and, more specifically, to the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." Rate structure determines how the total revenues are collected from each rate class. The goal is to see that each customer class pays a fair share of the total cost of providing service. Absent a cost study, staff uses a standard ratio analysis to assess rate structure. This ratio analysis compares the CS and RS rates, in cents per kilowatt hour (kWh), to those found in a neighboring investor-owned electric utility. For IOU's, CS rates are generally equal to or less than residential rates based on a full cost of service study. If a municipal utility's rates show the CS rate significantly higher than residential, or if the proposed change to rates moves this ratio in the wrong direction, staff will contact the utility to discuss the matter. If the discrepancy cannot be resolved, APM 2.07.C.5(10) requires that the filing be brought before the Commission.

On March 16, 2006, the City of Blountstown filed new Residential Service (RS) and Commercial Service (CS) tariff sheets. The City of Blountstown is a small municipal utility with approximately 1,006 RS and 328 CS customers as of 2006. Residential Service is available to single-family dwelling units occupied by one family or household. Commercial service is available to all buildings other than single-family dwelling units. The City does not generate any of its own power; instead, it buys electricity from Gulf Power Company. The new RS tariff sheet raises the energy charge from \$.06518 per kWh to \$.07528 per kWh. The new CS tariff sheet raises the energy charge from \$.07301 per kWh to \$.08816 per kWh. The rate became effective on October 1, 2005.

No supporting workpapers or spreadsheets were filed with the new tariff pages. Under Chapter 25-9.053(1), Florida Administrative Code, a municipal utility submitting "proposed documentation in which any change in rate structure is proposed shall be accompanied by supporting information in sufficient detail as to allow the Commission to determine the derivation of all rate structure modifications. The supporting data shall consist of either a utility-specific cost study or an analysis of utility-specific cost and operating data prepared using a methodology previously approved by the Commission for any comparable utility."

After several contacts with the City of Blountstown and the assistance of the Florida Municipal Power Agency (FMPA), the City submitted workpapers and spreadsheets. The information provided shows that the RS class accounts for 34.6% of projected kWh sales and 32.52% of current revenues. The CS class accounts for 65.4% of projected kWh sales and 66.56% of current revenues. At current rates, the RS class showed a projected 13.49% deficiency after current revenues were subtracted from the class revenue requirement. The CS class showed a 12.72% deficiency after revenues were subtracted from the revenue requirement.

The new rates slightly worsen the relationship between the classes, with the RS class dropping to 31.5% of current revenues and the CS class increasing to 67.6% of current revenues. Queried as to why the City allocated the increases to the rate classes as it did, Blountstown replied that its small size and the fact that the RS class used just 34.6% of the kWh projected to be consumed made a higher increase assigned to the CS class the only feasible choice.

Staff discussed with the City the inequity of loading costs on commercial customers and the need to more fairly allocate costs to all rate classes. FMPA also noted that the City had only recently begun using FMPA rate design services and that FMPA recognized the need to address the issue. The City noted that while the overall revenue increase addressed in this filing is relatively small, it will be facing significantly higher purchased power costs in January 2007 due to the expiration of a favorable purchased power contract, which will require more rate adjustments. The City submitted a letter committing to improving the rate structure when rate changes associated with the new purchased power contract are filed.

Under Rule 25-9.052, Florida Administrative Code, the procedure to take issue with a municipal or cooperative rate structure is to recommend that the Commission issue a comment letter, formally asking the utility to justify the proposed rates. The utility is then given some time period, usually 60 days to respond, and the matter is taken back to Agenda with a recommendation on the response to either approve or set the matter for hearing. Staff has had numerous conversations with the City over the last several months and we do not believe further requests for justification will yield any new information. Staff also notes that no customer complaints about the new rates have been received by the PSC. Therefore, in lieu of issuing a comment letter on this filing, staff is recommending approval of the proposed rates, even though rate structure is worsened, based on the City's assurance that it will address the issue in January 2007.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If the tariffs are approved, there is no further action necessary at this time. (Brown)

Staff Analysis: If the tariffs are approved, there is no further action necessary at this time.