State of Florida

Public Service Commission

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DATE: August 19, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Draper, A. Roberts)
Office of the General Counsel (Jaeger)

RE: Docket No. 100166-EI – Petition for approval of revised underground residential and commercial differential tariffs, by Florida Power & Light Company.

AGENDA: 08/31/10 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 12/01/10 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100166.RCM.DOC

Case Background

Rule 25-6.078, Florida Administrative Code, (F.A.C), sets forth the responsibilities of electric investor-owned utilities' (IOU) for filing updated underground residential distribution (URD) tariffs for new subdivisions. This rule requires each IOU to file updated URD charges for Commission approval at least every three years, or sooner if its underground cost differential for the standard low-density subdivision varies from the last approved charge by 10 percent or more. The rule requires IOUs to annually file, on or before October 15, a schedule showing the increase or decrease in the differential for the standard low-density subdivision.

On October 15, 2009, Florida Power & Light Company (FPL) notified the Commission, pursuant to Rule 25-6.078, F.A.C., that its underground cost differential for the standard low density subdivision decreased from the last approved differential by 46 percent. Accordingly, FPL was required to file updated URD charges by April 1, 2010. The last approved differential was approved in Order No. PSC-08-0774-TRF-EI and the tariff went into effect on November 13, 2008 (2008 tariff).[1] The 2008 tariff for the first time incorporated the difference in the net present value of operational costs, including non-storm and average historical storm restoration costs over the life of the facilities, between underground and overhead system as required by Rule 26.6.078(4), F.A.C. The rule was amended in February 2007 to require the inclusion of the operational costs in the URD calculation.

By way of background, Order No. PSC-08-0774-TRF-EI, was protested by the Municipal Utilities Underground Consortium and the City of South Daytona, and the matter was set for hearing. In accordance with Order No. PSC-08-0774-TRF-EI, the 2008 tariff remained in effect with any charges held subject to refund pending resolution of the protest. The parties were able to reach a settlement, and the Commission approved the settlement agreement and its associated tariff sheets (settlement tariff).[2] The settlement tariff went into effect on April 6, 2010.

To comply with the 10 percent filing requirement of the rule and the changes approved in the settlement, FPL filed on April 1, 2010, a petition for Commission approval of revisions to its Underground Residential Distribution (URD) Tariff Sheet Nos. 6.090, 6.095, 6.100, 6.110, 6.115, 6.120, 6.125, 6.130, and 9.715 and their associated charges. FPL is also petitioning the Commission for approval of its Underground Commercial/Industrial Distribution (UCD) Tariff Sheets No. 6.510, 6.520, 6.530, and 6.540 and their associated charges. By Order No. PSC-10-0353-PCO-EI, issued on June 4, 2010, the Commission suspended FPL's proposed tariffs.

This recommendation addresses FPL's revised URD and UCD tariffs and the associated charges. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

[1] Order No. PSC-08-0774-TRF-EI, issued November 24, 2008, Docket No. 070231-EI, In re: Petition for approval of 2007 revisions to underground residential and commercial distribution tariff, by Florida Power and Lights Company.
[2] Order No. PSC-10-0247-FOF-EI, issued April 22, 2010, Docket No. 070231-EI, In re: Petition for approval of 2007 revisions to underground residential and commercial distribution tariff, by Florida Power and Lights Company.

Discussion of Issues

Issue 1: Should the Commission approve FPL's revised Underground Residential Distribution (URD) tariffs and their associated charges?

Recommendation: Yes. The proposed URD charges are reasonable and staff recommends approval. (Draper, A. Roberts)

Staff Analysis: The URD charges represent the additional cost FPL incurs to provide underground distribution service in place of overhead service, and are calculated as the differential between the costs of underground versus overhead service. Costs for underground service have historically been higher than standard overhead construction. The URD differential is paid by the customer (usually the developer) as a contribution in aid of construction (CIAC). The URD tariffs provide standard charges for certain types of underground service, and apply to new residential developments such as subdivisions and townhouses.

FPL's URD charges are developed based on three model subdivisions: (1) a 210-lot low density subdivision, (2) a 176-lot high density subdivision, and (3) mobile homes. All four of the largest investor-owned electric utilities use the same standardized model subdivisions to develop their URD charges.

For clarity, Table 1-1 shows the per lot URD charges approved in the 2008 tariff, the settlement tariff, and FPL's proposed charges.

Table 1-1

Type of Subdivision	Number of Service Laterals in Subdivision	2008 Tariff	Settlement Tariff	Proposed URD Charges
Low Density	1 – 200 or more	$424.23	$179.23	$12.39
	2 – 85 - 199	$654.23	$409.23	$242.39
	3 – less than 85	$731.23	$486.23	$319.39
High Density	1 – 300 or more	$0	$0	$0
	2 – 100 - 299	$203.19	$0	$0
	3 – less than 100	$280.19	$63.19	$5.63
Mobile Homes	1 – 300 or more	$0	$0	$0
	2 – 100 - 299	$19.15	$0	$0
	3 – less than 100	$96.15	$0	$0

Components of URD charges

The URD charges consist of three components: (1) pre-operational costs, (2) non-storm operational costs, and (3) avoided storm restoration costs. FPL proposes only to revise the pre-operational costs based on updated material and labor costs, as the non-storm and avoided storm costs were approved in Order Nos. PSC-10-0247-FOF-EI and PSC-08-0774-TRF-EI, respectively. The three components are discussed below.

The pre-operational costs represent the material and labor costs to install a distribution system. FPL used 2009 material and labor cost data in its URD calculations. The cost of both underground and overhead service include the material and labor costs to provide primary, secondary, service distribution lines, and transformers. The costs for poles are included in providing overhead service. The costs for trenching and backfilling are included in providing underground service.

The pre-operational costs have decreased as shown in Table 1-2, resulting in the overall decrease of the URD charges.

Table 1-2

Type of Subdivision	Current Pre-operational Costs (2008 tariff)	Proposed Pre-operational Costs	Percent Change
210-lot low density	$563.23	$396.39	-29.62%
176-lot high density	$140.19	$82.63	-41.06%
Mobile Homes[3]	$0	$0	0%

FPL explains that several factors contributed to the decrease in the pre-operational costs. Unit prices for overhead transformers and poles increased significantly. In order to mitigate the increasing cost of the overhead transformers and poles, FPL revised the equivalent overhead design, reducing the number of transformers, which also required an increase in secondary conductor footage. In contrast, decreases in the metals and plastics markets have reduced unit costs for underground cable and conduits. The net effect of the increasing overhead costs and decreasing underground costs results in a decrease in the pre-operational costs. Both underground and overhead labor rates have increased, however the underground labor rates have increased slightly more than the overhead labor rates.

FPL's proposed URD tariff also provides for updated charges to reflect current labor and material costs for additional customer-requested equipment such as feeder mains or switch package. Finally, FPL's tariff provides for credits if the customer installs certain equipment.

[3] The calculated pre-operational cost differential is ($189.86) compared to ($43.85) in 2008. Since the differential is a negative amount, the charge is set at $0.

Rule 25.6-078(4), F.A.C., requires URD calculations to also address operational costs and storm restoration costs. Pursuant to the settlement, the non-storm operational component of the URD calculation is set at $0 for the three subdivisions until January 1, 2013. The non-storm operational costs represent the cost differential between maintaining and operating an underground versus an overhead system over the life of the facilities.

Finally, the storm cost component of the URD charge represents avoided storm restoration costs when an area is undergrounded, and is subtracted from the pre-operational costs, thus reducing the URD charge. FPL's URD tariff provides for three separate charges for each subdivision model based on the number of service laterals in the project being undergrounded. FPL's experience with the savings from avoided storm restoration costs has varied based on the size of the subdivision which has underground distribution. Larger subdivisions provide the greatest benefit from having their service underground, and thus reflect larger avoided storm restoration costs than smaller subdivisions. The Commission approved the three-tier application of the avoided storm restoration costs and the level of the avoided storm costs in Order No. PSC-08-0774-TRF-EI. No significant storms have occurred in recent years to warrant FPL to update its storm restoration data.

Table 1-3 shows the three components of the URD charges discussed above. All three components, when added together, result in the proposed URD charges.

Table 1-3

Type of Subdivision	Number of Service Laterals in Subdivision	Pre-Operational Costs (A)	Non-storm Operational Costs (B)	Avoided Storm Costs (C)	Proposed URD Charges (A)+(B)+(C)
Low Density	1 – 200 or more	$396.39	$0	($384)	**$12.39**
	2 – 85 - 199		$0	($154)	**$242.39**
	3 – less than 85		$0	($77)	**$319.39**
High Density	1 – 300 or more	$82.63	$0	($384)	**$0**
	2 – 100 - 299		$0	($154)	**$0**
	3 – less than 100		$0	($77)	**$5.63**
Mobile Homes	1 – 300 or more	$0	$0	($384)	**$0**
	2 – 100 - 299		$0	($154)	**$0**
	3 – less than 100		$0	($77)	**$0**

The above per lot charges apply if FPL supplies and installs all equipment and materials. FPL's URD tariff also provides for reduced URD charges if the customer chooses to provide the trench and installation of the conduit. Staff notes that Rule 25-6.078(7), F.A.C., provides that any credit shall be no more in amount than the total charges applicable.

Conclusion

Staff has reviewed FPL's proposed URD charges and associated tariffs, and their accompanying work papers, and believes the proposed URD charges are reasonable and recommends approval.

Issue 2: Should the Commission approve FPL's revised Underground Commercial Distribution (UCD) tariffs and their associated charges?

Recommendation: Yes. The proposed UCD charges are reasonable and staff recommends approval. (A. Roberts, Draper)

Staff Analysis: The UCD charges represent the additional costs FPL incurs to provide commercial and industrial customers underground distribution service in place of overhead service. Generally, the UCD charges are tailored to specific equipment and materials that are utilized to provide underground service to a single or limited number of commercial buildings in distinct and widely varying circumstances. The UCD tariffs are not governed by Rule 25-6.078, F.A.C., however, FPL has incorporated the cost effects of hardening into its overhead system in the calculations of its UCD charges.

The UCD tariff contains charges for commercial underground distribution facilities such as laterals, risers, pad-mounted transformers, and hand-holes. In addition, the UCD tariff provides for credits that apply if the applicant provides trenching and backfilling. The UCD charges are derived from cost estimates of underground commercial facilities and their equivalent overhead designs. These cost estimates are based on FPL's standard design, estimating practices, and the system costs, which were in use at the end of 2009.

Staff has reviewed the UCD proposed tariff charges and their accompanying work papers, and believes the charges are reasonable. Unlike the URD tariffs, the UCD tariffs are not governed by Rule 25-6.078, F.A.C., and the utilities are not required to file them; however, staff believes the filing of the standard charges promotes transparency, efficiency, and reduces any controversy regarding UCD charges. Staff believes the proposed UCD charges are reasonable and recommends approval.

Issue 3: Should this docket be closed?

Recommendation: Yes. If issues 1 and 2 are approved, the tariffs should become effective on September 30, 2010. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Jaeger)

Staff Analysis: If issues 1 and 2 are approved, the tariffs should become effective on September 30, 2010. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.