

State of Florida



# Public Service Commission

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## -M-E-M-O-R-A-N-D-U-M-

**DATE:** September 6, 2012

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economics (King, Draper) *W* *ED* *OR* *J.W.D.*  
Office of the General Counsel (Barrera) *WGA*

**RE:** Docket No. 120073-EI – Petition for approval of revised tariffs for underground residential distribution and contribution-in-aid-of-construction, by Tampa Electric Company.

RECEIVED-FPSC  
12 SEP - 6 PM 12: 33  
COMMISSION  
CLERK

**AGENDA:** 09/18/12 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 12/02/12 (8-Month Effective Date)

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECO\WP\120073.RCM.DOC

### Case Background

Rule 25-6.078, Florida Administrative Code (F.A.C.), delineates investor-owned utilities' (IOU) responsibilities for filing updated underground residential distribution (URD) tariffs. The URD tariffs provide standard charges for underground service in new residential subdivisions and represent the additional costs the utility incurs to provide underground service in place of overhead service. The rule requires IOUs to file updated 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.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Docket No. 120073-EI  
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Tampa Electric Company's (TECO) current URD charges were approved in Order No. PSC-09-0784-TRF-EI.<sup>1</sup> To comply with the 3-year filing requirement of Rule 25-6.078, F.A.C., TECO filed its petition for approval of revisions to its URD tariff sheets and the associated charges on April 2, 2012. On June 7, 2012 a meeting was held to obtain additional information regarding the filing and a follow-up data request was sent on June 18. On June 26, 2012, TECO filed two revised tariff sheets after discovering some inconsistencies in its application of labor costs and on July 2, 2012, TECO filed responses to staff's data request.

The Commission suspended TECO's proposed tariffs in Order No. PSC-12-0293-PCO-EI and has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

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<sup>1</sup> Order No. PSC-09-0784-TRF-EI, issued November 19, 2009, in Docket No. 090164-EI, In re: Petition for approval of revised tariff sheets for underground residential distribution service, by Tampa Electric Company.

**Discussion of Issues**

**Issue 1:** Should the Commission approve TECO's URD tariffs and associated charges?

**Recommendation:** Yes, the proposed URD tariffs and associated charges should be approved.  
(King, Draper)

**Staff Analysis:** The URD charges represent the difference in costs TECO incurs to provide underground (UG) distribution facilities in place of overhead (OH) facilities. The cost of standard overhead construction is recovered through base rates from all ratepayers. In lieu of overhead construction, customers have the option of requesting underground facilities. Costs for underground construction have historically been higher than for standard overhead construction and recovered from the customer as a contribution-in-aid-of-construction (CIAC). Typically the URD customer is the developer of the subdivision.

TECO's URD charges are based on two standard model subdivisions: (1) a 210-lot low density subdivision; and (2) a 176-lot high density subdivision. While actual construction may differ, the model subdivisions are designed to reflect typical OH and UG facility placement. The subdivision designs are the same as those used by the company in its 2009 filing.

The table below shows TECO's current and proposed URD charges.

Table 1 - Current and Proposed URD Charges			
	Current URD differential per lot	Proposed URD differential per lot	Percent Change
210-lot low density	\$573	\$440 <sup>2</sup>	-23.2%
176-lot high density	\$347	\$104	-70%

The primary reason for the decreases in the proposed differential charges for both the low and high density subdivision is the impact of the Net Present Value (NPV) life-cycle operational costs. The operational costs are increasing at a much higher percentage for the OH system than the UG system. In addition, the proposed charges capture updated labor and material costs. These specific items and their impacts are addressed below.

**Updated labor and material costs**

The installation costs of both underground and overhead facilities include the material and labor costs to provide primary, secondary, and service distribution lines, and transformers. The cost to provide overhead service also includes poles. The cost to provide underground service includes the cost of trenching and backfilling.

<sup>2</sup> \$440 is calculated as follows: \$470 (Table 2) + \$374 (Table 3) - \$404 (Table 4) = \$440.

Labor Costs

TECO's proposed charges reflect current labor costs for its employees and its contract workers. Table 2 shows current and proposed per lot OH and UG labor costs.

Table 2 - Changes in Labor Costs			
Low Density/Per Lot			
	Current	Proposed	Difference
Total UG Costs	\$1,030	\$1,101	\$71
Total OH Costs	\$846	\$631	-\$215
Difference	\$184	\$470	\$286
High Density/Per Lot			
	Current	Proposed	Difference
Total UG Costs	\$869	\$909	\$40
Total OH Costs	\$668	\$500	-\$168
Difference	\$201	\$409	\$208

As can be seen in Table 2, UG labor costs increased slightly, while OH labor costs decreased significantly, resulting in an increase in the differential. This is mainly a result of changes in the allocation of labor adders between TECO labor and contract labor, to reflect the actual work done by TECO and by contract workers. By way of background, the labor adder for TECO labor includes several cost components such as supervision/administrative/engineering (SAE), and fringe benefits (i.e., vacation, sick time, time spent on meetings).

Increase in UG labor costs. In its 2009 filing, TECO did not include an adder for contract labor. TECO has since determined that the SAE component of the TECO labor adder should be allocated between TECO labor and contractors, to reflect the fact that work done by contractors is being supervised by TECO engineers. Contractors perform a significant amount of underground construction, such as trenching or preparing the transformer pad site. Therefore, the addition of the SAE adder to contractor labor costs, resulted in a slight increase in total UG labor costs.

Decrease in OH labor costs. In its 2009 URD filing, TECO calculated total overhead labor costs based on the assumption that all overhead construction work was done by TECO labor. TECO states that in reality TECO no longer does all the overhead construction work, and some of the overhead work is done by contract labor. Specifically, TECO states that its workers perform 60 percent of the overhead construction work, while contractors perform 40 percent of the overhead construction. By applying the TECO labor adder to only 60 percent of overhead labor, overhead labor costs decreased.

Material Costs

Changes in material costs did not significantly impact the differential. Since 2009 some materials have increased in costs (transformers and poles) while others have decreased (service, primary, and secondary); however, overall material costs have decreased slightly as shown in the table below.

Table 3 - Changes in Material Costs			
Low Density/Per Lot			
	Current	Proposed	Difference
Total UG Costs	\$965	\$948	\$-17
Total OH Costs	\$589	\$574	\$-15
Difference	\$376	\$374	-\$2
High Density/Per Lot			
	Current	Proposed	Difference
Total UG Costs	\$742	\$710	-\$32
Total OH Costs	\$461	\$447	-\$14
Difference	\$281	\$263	-\$18

Operational Costs

Subsection (4) of Rule 25-6.078, F.A.C., prescribes that the differences in Net Present Value (NPV) of operational costs, including average historical storm restoration costs over the life of the facilities, between underground and overhead systems, be included in the URD charge. The inclusion of the operational cost is intended to capture longer term costs and benefits of undergrounding. Operational costs include operations and maintenance (O&M) costs and capital costs. Table 4 shows the per lot differential for the current and proposed NPV of operational costs and storm operational costs.

Table 4 – NPV of Operational Costs			
Low Density/Per Lot			
	Current	Proposed	Difference
Operational Cost (excl. storm)	\$224	-\$159	-\$383
Storm	-\$211	-\$245	-\$34
Total Operational Cost	\$13	-\$404	-\$417
High Density/Per Lot			
	Current	Proposed	Difference
Operational Cost (excl. storm)	\$3	-\$383	-\$386
Storm	-\$138	-\$185	-\$47
Total Operational Cost	-\$135	-\$567	-\$432

TECO's application of its Net Present Value (NPV) life-cycle operational costs was the primary reason for the decreases in the differential costs for both the low and high density subdivisions. This is because the NPV life-cycle operational costs are increasing at a much higher percentage for the OH system than the UG system. Specifically, the three-year average annual operational cost for the OH system increased by 51 percent due to pole strengthening and

replacement activities which are designed to harden the electric system. The three-year average annual line clearance costs also increased by 28 percent for the OH system.

The impact of the NPV operational cost (\$/ft.) is greater for the high density charge than for the low density charge because the ratio of UG primary footage to OH primary footage in the high density subdivision design is nearly 1:1; whereas, the ratio is 1.5:1 for the low density subdivision design. These are the same ratios that were used in the 2009 filing.

#### Conclusion

After reviewing TECO's filing and the supporting documentation, staff believes the proposed URD tariffs and associated charges are reasonable and should be approved.

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**Issue 2:** Should this docket be closed?

**Recommendation:** Yes. If Issue 1 is approved, this tariff should become effective on September 18, 2012. If a protest is filed within 21 days of the issuance of the order, this tariff 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. (Barrera)

**Staff Analysis:** If Issue 1 is approved, this tariff should become effective on September 18, 2012. If a protest is filed within 21 days of the issuance of the order, this tariff 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.