

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power & Light Company for approval of long-term rental agreement for distribution substation facilities.)	DOCKET NO. 890760-EI
)	ORDER NO. 21855
)	ISSUED: 9-8-89

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 THOMAS M. BEARD
 GERALD L. GUNTER
 JOHN T. HERNDON

ORDER APPROVING LONG-TERM RENTAL AGREEMENT
 FOR DISTRIBUTION SUBSTATION FACILITIES

BY THE COMMISSION:

On June 7, 1989, Florida Power & Light Company (FPL) filed a petition for approval of a long-term rental agreement for distribution substation facilities. The proposed agreement provides an opportunity for large power users to rent dedicated substation facilities from FPL for extended time periods.

In order to be eligible for service under the proposed agreement, the customer would be required to enter into a twenty-year lease with FPL. The monthly rental charge would be calculated by multiplying a monthly rental factor by the in-place value of the substation facilities, which would have been mutually agreed upon by the company and the customer. Either the customer or the company would have the option to terminate the agreement upon ninety days written notice. Should the customer exercise the termination option, the customer would be required to pay a termination fee which would vary depending on the year in which the agreement was terminated.

The factors we have considered in evaluating the reasonableness of the proposed agreement are:

1) Whether the rental agreement is fairly and reasonably designed to meet the needs of prospective customers.

DOCUMENT NUMBER-DATE

09046 SEP -8 1989

FPSC-RECORDS/REPORTING

ORDER NO. 21855
DOCKET NO.890760-EI
PAGE 2

2) Whether the rental charge is reasonably designed to recover the annual revenue requirements associated with rental of substation facilities; to wit, return on investment, maintenance, depreciation, insurance and taxes.

In evaluating whether the agreement is fairly and reasonably designed to meet the needs of the customer we note that the agreement is designed for large power users who may take service at transmission, distribution primary or distribution secondary voltage. The cost to provide service to such customers varies with the voltage level. As voltage levels are stepped down from transmission level to primary level and from primary level to secondary level, transformation costs are incurred. Basically, in a cost of service study, each rate class is allocated a portion of the transformation costs not directly assigned to specific customers. Therefore, even though a substation may serve only one customer, if that customer takes service at any voltage below transmission, he is paying only the average transformation costs per customer that were allocated to the rate class and not the cost of the transformation equipment in place to specifically serve him.

The proposed rental agreement allows the company to charge the customer for substation equipment specifically dedicated to that customer's needs. Under the terms of the agreement, a customer would take service at transmission voltage at a lower per KWH charge and would pay directly for the dedicated substation through the rental agreement. The substation equipment would transform power, as needed by the customer, to either primary or secondary level. From a rate design standpoint, any costs which are incurred to serve a customer and can be identified should be assigned to that customer. The rental charge under the proposed agreement would recognize this principle, matching costs to the cost causer.

We have also considered whether the proposed rental charge is reasonably designed to recover the annual revenue requirements associated with rental of substation facilities. Under the terms of the proposed agreement, the monthly rental charge is based upon the in-place value of the facilities multiplied by the monthly rental factor in effect at the initiation of the rental agreement. Both in-place value and rental factor determine the levelized monthly payment over 20 years. The levelized monthly payment will recover the present value of the distribution substation's 20-year revenue

ORDER NO. 21855
DOCKET NO. 890760-EI
PAGE 3

requirement over a twenty year period. This revenue requirement consists of taxes, depreciation, insurance, maintenance and return on investment. The proposed rental charge will earn a 12.27% rate of return, which is Florida Power & Light's overall cost of capital computed using the 13 month average FPSC adjusted capital structure as reported in the December 1988 surveillance report. Also, the rental charge reflects the current composite Federal and State tax rate of 37.63%.

The proposed monthly rental factor is 1.74% of the in-place value of the distribution substation (\$17.40 per \$1000 of the in-place value of the substation). Presently, of the four major investor-owned utilities (IOUs), Florida Power Corporation is the only utility which has a monthly rental charge for additional facilities stated in its tariffs. Florida Power Corporation's present monthly rental rate is 1.82% per month (\$18.20 per \$1000) of the installed cost of the additional equipment. The difference between the two utilities' rental rates may be attributed to differences in the weighted average costs of capital, depreciation rates, maintenance expenses and costs of insurance.

Under the proposed agreement, should a customer decide to terminate the rental agreement before its expiration, the customer is obligated to pay a termination fee. The amount of the termination fee is determined by applying a termination factor to the in-place value of the facilities. The termination factor varies and is dependent upon the year in which the agreement is terminated. The termination fee is equal to the foregone revenue requirement, plus interest at the company's weighted average cost of capital, that the customer would have paid to the company if the term of the lease had been the period of years the original agreement actually was in effect. Thus, the company would recover from the customer no more than the revenue requirement, plus interest, that the customer would have paid to the company under a shorter term lease.

It would thus appear that the proposed rental charge is fairly designed to recover the annual revenue requirement associated with taxes, depreciation, insurance and return on investment. In addition, as discussed above, the proposed rental agreement allows the company to charge customers for substation equipment specifically dedicated to a customer's needs.

ORDER NO. 21855
DOCKET NO.890760-EI
PAGE 4

Based on the above, it is

ORDERED by the Florida Public Service Commission that the original Tariff Sheet Nos. 9.730, 9.731, 9.732, 9.733 and 10.015, twentieth Revised Sheet No. 9.010 and sixth revised Sheet No. 10.001, which comprise Florida Power & Light Company's long-term rental agreement for distribution substation facilities are hereby approved.

By ORDER of the Florida Public Service Commission,
this 8th day of SEPTEMBER, 1989.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MAP