FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

JULY 2, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (DRAPER) EJD esc RLT
DIVISION OF LEGAL SERVICES (JOHNSON) RVE For VJJ

RE: DOCKET NO. 960680-EM - PETITION FOR APPROVAL OF OPTIONAL LARGE HIGH LOAD FACTOR POWER SERVICE BY CITY OF LAKELAND

AGENDA: JULY 16, 1996 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960680EM.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the City of Lakeland's Large High Load Factor Power Service, rate schedule GSX-6?

RECOMMENDATION: Yes.

STAFF ANALYSIS: On May 2, 1996, the City of Lakeland (Lakeland) filed a Large High Load Factor Power Service tariff, rate schedule GSX-6.

This optional rate schedule allows Lakeland to offer a reduced rate to any commercial customer, existing or new, with a demand that exceeds 1,000 KW and with twelve month average load factor of at least 60%.

This new rate schedule consists of three charges: an energy charge, a demand charge, and a reservation charge. In addition, the customer will pay any fuel cost and all applicable taxes. The customer charge will be included in the reservation charge. The customer will enter into a written agreement with Lakeland, after approval by the City Commission, for a minimum initial period of ten years. The agreement can be continued after the initial term until terminated by either party with twelve months' written notice.

The energy charge and the demand charge are established at the same level as Lakeland's interruptible rate. Customers under this optional rate, however, will not be subject to interruptions. In order not to interrupt the customer taking service under this rate, Lakeland entered into a long term contract to buy firm capacity to supply the customer in the event Lakeland experiences a capacity shortage. The cost of purchasing capacity will be recovered from the customer through the reservation charge. According to Lakeland, capacity purchased on the market is cheaper than Lakeland's average embedded capacity costs, therefore, a customer on this rate will pay less than the standard tariffed firm rate, but more than the interruptible rate.

To purchase firm capacity, Lakeland issued a Request for Proposal on February 26, 1996, to purchase about 60 MW and received several bids from various utilities and power marketers. Lakeland entered into a contract with a power marketer to purchase 20-40 MW and is currently negotiating with a utility to supply an additional 10-50 MW. According to Lakeland, the purchase of this firm capacity will cost-effectively delay the in-service date of its next generating unit by 3-4 years. Lakeland expects about 15 customers to request service under this rate schedule, with a total load of 50 MW of billing demand.

There are three options as to what reservation charge a customer will pay. Under Option 1, the customer pays $3.70/KW. If the total price the customer pays is ever determined to be more than ten percent greater than the average of similar rates for Florida Power Corporation (FPC), Tampa Electric (TECO) and Orlando Utilities Commission (OUC), the customer may request Lakeland to reduce its rate. Failure or refusal of Lakeland to reduce the rate shall be grounds to terminate the agreement.

Under Option 2, the reservation charge is $5.004/KW. In the event retail wheeling has taken effect, and Lakeland cannot adjust its rate to within 5 percent of a bid price the customer receives, the contract can be terminated.

Under Option 3, the reservation charge is $5.704/KW. Under this option, if Lakeland cannot match the bid price the customer receives after retail wheeling has taken effect, the contract can be terminated.

The total charge paid by the customer will be adjusted each January 1 after executing the agreement. Again, the customer can choose how this adjustment will be computed. Under Option 1, the charge will adjust in the same amount as the change in Lakeland's generation costs. Under Option 2, the charge will adjust in the same amount as the change in Lakeland's applicable rate. Under Option 3, the charge will adjust in the same amount as the change in the average applicable rate of FPC, TECO, and OUC. Under Option 4, Lakeland and the customer can negotiate an appropriate adjustment.

Lakeland's proposed tariff is similar to buy-through clauses commonly found in investor-owned utility (IOU) curtailable (CS) and interruptible rates (IS). Most IOU IS and CS rates have a provision under which the utility during period of interruptions, will attempt to buy power from other sources to minimize interruption. If power is purchased to avoid interruptions, the IS or CS customer pays the cost of the purchased power and an administrative charge in addition to his otherwise applicable rate. Lakeland's proposal takes the buy-through a step further. In the event it has insufficient capacity, Lakeland will only interrupt its interruptible customers and will continue to provide firm service to customers on the GSX-6 rate on the same basis as any other firm customer. Lakeland will serve the GSX-6 load out of its own generation or it will use the purchased power, whichever is more economical.

This is not only a benefit to the customers on the GSX-6 rate, but also minimizes the total power cost to the general body of ratepayers. If Lakeland can serve any part of its load by alternative sources of power and avoid running high cost units of its own, the total power costs to all customers are reduced. The tariff allows Lakeland to continue to serve the customer and guarantee that the customer will remain on Lakeland's system for a minimum of 10 years.

Lakeland provided workpapers comparing the rates a commercial customer would pay under the standard rate, under the interruptible rate and under each of the three options of the proposed rate. Lakeland intends to file each contract signed with the Commission for staff's review. Lakeland's general body of ratepayers will be held harmless by the addition of this new rate schedule because their costs will be no higher than they would be in the absence of this rate offering and could be lower. Furthermore, it will benefit in the sense that the reservation charge recovers the cost of purchasing the firm capacity plus approximately 20 percent. Any profit from the reservation charge will go back into the utility and benefit all customers.

Since the Commission does not regulate the revenue requirement or rate level of a municipal utility, staff gives great deference to the city's request. This proposal could be considered discriminatory since only commercial/industrial customers over a certain size are eligible for this rate, but as with any tariff based on usage level, the GSX-6 tariff is available to all customers falling within the usage level specified. Staff's treatment of commercial/industrial special rates herein should not be used as a precedent for commercial/industrial special rates or rate discounts by utilities over which the Commission does have rate level jurisdiction.

After a meeting and discussions with Lakeland, and based on the above analysis of the proposed tariff, staff recommends that the new optional rate be approved.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If a protest if filed within 21 days from the issuance date of the order, the tariff should remain in effect, pending resolution of the protest. If no timely protest is filed, this docket should be closed.

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed.