State of Florida

Public Service Commission

RECEIVED-FPSC

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

98 AUG -6 PM 12:05

RECORDS AND REPORTING

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

DATE: AUGUST 6, 1998

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

FROM: DIVISION OF ELECTRIC AND GAS (GING) GI DD RVE JDJ
DIVISION OF LEGAL SERVICES (CRUZ-BUSTILLO) JCB

RE: DOCKET NO. 980766-EI - PETITION BY FLORIDA POWER CORPORATION FOR APPROVAL OF ECONOMIC DEVELOPMENT RIDER (RATE SCHEDULE GSED-1) AND STANDARD FORM CUSTOMER AGREEMENT.

AGENDA: 08/18/98 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\980766.RCM

CASE BACKGROUND

On June 18, 1998, Florida Power Corporation (FPC) petitioned for Approval of an Economic Development Rider (Rider) and Standard form Customer Agreement. If approved, the proposed Rider allows FPC to negotiate a discount on the capacity clause, the base energy and/or base demand charges with commercial customers who either expand their existing load by 500 kW or for new customers with a minimum load of 500 kW who also meet the economic development criteria outlined in the Qualified Target Industry Tax (QTI) program adopted by the State. The Commission has already approved economic development tariffs for the three other major investor-owned electric utilities that are described below.

After rejecting Gulf Power Company's (Gulf) original proposal, the Commission approved a Commercial/Industrial Service Rider (CISR) in Order PSC-96-1219-FOF-EI which allowed Gulf to enter into negotiated contracts with certain customers. The total load under CISR contracts was limited to 200 MW or 12 CISR contracts and a

DOCUMENT NUMBER-DATE

08352 AUG-6 98

FPSC-RECORDS/REPORTING

CISR contracts was limited to 200 MW or 12 CISR contracts and a minimum new or retained load was required to qualify for the Rider. Negotiated rates were not to fall below incremental costs and all revenues were to be credited first to the cost recovery clauses at the otherwise applicable rates.

On February 26, 1998, Florida Power & Light Company (FPL) petitioned the Commission for approval of its Economic Development Rider Rate Schedule (EDR). The EDR would offer commercial/industrial customers a fixed discount on the base energy and base demand charge. New customers or existing customers that expand their operation qualify for service under the Rider. Load applicable under the Rider must be at least 5,000 kW. In addition, the customer applying for the Rider must attest that he will create at least 375 full-time positions. FPL petitioned the Commission to allow it to recover the revenue shortfall associated with the rate discounts as an economic development expense, under section 288.035, Florida Statutes, and Rule 25-6.0426, Florida Administrative Code. The Commission approved the tariff at the April 7, 1998 Agenda Conference. Order No. PSC-98-0603-FOF-EI, issued April 28, 1998.

On June 2, 1998, Tampa Electric Company (TECO) petitioned for Approval of a Commercial/Industrial Service Rider (CISR) and Pilot Study Implementation Plan. The proposed Rider allows TECO to negotiate a discount on the base energy and/or base demand charges with commercial/industrial customers who can show that they have viable alternatives to taking electric service from TECO (at-risk load). The Commission approved the tariff at the July 21, 1998 Agenda Conference. The order is scheduled to be issued August 10, 1998.

Discussion of Issues

ISSUE 1: Should the Commission approve Florida Power Corporation's Economic Development Rider and standard form customer agreement.

RECOMMENDATION: No. Past Commission Orders have approved economic development discount tariffs requiring all rate-discount customers to pay the full cost of recovery clauses. Staff believes that FPC should refile its tariff in accordance with the previously approved tariffs. Staff recommends that the Commission deny FPC's tariff as filed.

STAFF ANALYSIS:

Description of proposed tariff

FPC's General Service Economic Development Rider, Rate Schedule GSED-1 (ED-Rider) is patterned after the Qualified Target Industry Tax Refund Program (the QTI Program), a statewide economic development initiative offered through Enterprise Florida and administered by the Office of Tourism, Trade and Economic Development. The eligibility criteria associated with the ED-Rider are patterned after the criteria within the QTI Program. Like the QTI Program the applicability of the ED Rider is limited to new or expanding businesses that represent a "targeted industry" as specified in Section 288.106 (2) (p), F.S., relating to economic development initiatives. Further eligibility requirements that are patterned after the QTI Program relate to job creation and wage levels.

The proposed tariff is available to new customers (new load) or to existing customers who add additional load. Specifically, non-residential customers currently taking firm service or qualified to take firm service under rate schedule GSD qualify. New customers must have at least 500 kW of connected demand. For existing customers additional load of at least 500 kW must be added and the discount will only apply to the additional load. In addition, ED Rider eligibility will require that at least 10 new jobs be created and that they pay at least 115% of state, county or Standard Metropolitan Statistical Area wage. Exceptions can be made for economically distressed rural areas or enterprise zone special projects.

The negotiated discount will apply to base energy and/or base demand charges as well the Capacity Cost Recovery Clause (Capacity Clause). No reductions shall apply to the customer charge, the fuel charge, or the Energy Conservation Cost Recovery Charge. The total rate reduction shall not exceed 20% of the total bill or exceed 5 years in duration. Further, the reduction of the Capacity Clause charge shall not exceed 50% of the total rate reduction. FPC has stipulated that customers who qualify for ED-Rider will pay at least 20% of the capacity clause which will ensure that customers contribute to the various QF contract buyouts approved by this Commission to reduce long term purchased power costs. FPC intends to apply the ED Rider on a non-discriminatory basis. The ED-Rider does not have a customer or MW limitation. Although FPC describes their tariff as an Economic Development Rider they are not seeking recovery Pursuant to section 288.035, Florida Statutes, and Rule 25-6.0426, Florida Administrative Code. FPC does not intend to report the revenue shortfall on the monthly surveillance report. FPC recognizes the Commission's authority to conduct a prudence review by the Commission's own motion.

Analysis of proposed tariff

Staff's main objection to FPC's proposed tariff is the provision allowing the discounting of the Capacity Cost Recovery Clause. Tariffs approved for Gulf, FPL and TECO require participating customers to pay the full cost of the otherwise applicable clauses including the capacity clause. This policy was first established in Order PSC-96-1219-FOF-EI where the Commission stated:

> "Gulf's original proposal did not define the incremental costs to serve the "at-risk" customer and did not provide guidelines for determining customer specific incremental cost. Because of this, we believed that some costs of serving an at risk customer would be omitted from Gulf's incremental cost analysis and would thus, be borne by Gulf's general body of ratepayers through the cost recovery clauses. To address these concerns, Gulf now proposes that all revenues received from executed Customer Service Agreements (CSAs) shall be allocated first to all applicable cost recovery clauses at the rate which the customer would have been charged in the absence of the CISR. This allocation will ensure that at a minimum, the revenue associated with the cost-recovery clauses for true-up purposes will be the same with CSAs as it would be without CSAs."(Order PSC-96-1219-FOF-EI, page 3)

Order PSC-98-0603-FOF-EI reiterated the policy, stating that "Moreover, FPL's ratepayers will not be affected through the adjustment clauses since EDR customers pay the otherwise applicable clauses." (Order, Page 3) During discussions of the TECO tariff, the Commission again affirmed that the customers taking service under the CISR would pay the otherwise applicable cost recovery clauses. Unlike Gulf, FPL, and TECO's economic development tariffs, FPC's proposed ED-rider does not contain this safeguard.

Additionally, FPC argues that their proposal will not have a negative impact on the capacity clause because the capacity factor charged to customers will decrease due to the application of this tariff. Staff's objection is that the capacity clause is immediately impacted. Without delving into the accounting treatment, all clauses snould be made whole. In the previously approved tariffs Gulf, FPL and TECO all require participating customers to pay the full cost of the otherwise applicable clauses including the capacity clause.

As with Gulf and TECO's discount tariffs, the Commission will review the prudence of this decision in the context of the next rate case with the Company and its stockholders bearing responsibility for revenue losses until then. Because only 50% of FPC's proposed total discount applies to base rates, FPC and its stockholders will not bear the full responsibility for making an incorrect determination of an "at-risk" customer. If an incorrect decision is made, all other customers will pay more through the Capacity Clause than they otherwise would have.

In summary, past Commission Orders have approved economic development discount tariffs requiring all rate-discount customers to pay the full cost of recovery clauses. FPC has not offered a compelling reason why this Commission should deviate from that practice. Staff is not convinced that the ED-Rider provides enough assurances that all other ratepayers will not be negatively impacted, as a consequence of the impact on the capacity clause, and recommends that the Commission deny FPC's tariff as filed.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If Staff's recommendation for Issue 1 is approved, this tariff should not become effective. This docket should be closed if no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period.

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