State of Florida

ORIGINAL

Public Service Commission

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

010949-EI

DATE: February 21, 2002

TO: Chairman Jaber
Commissioner Deason
Commissioner Baez
Commissioner Palecki
Commissioner Bradley

FROM: Connie Kummer, Division of Economic Regulation

RE: MDS distribution allocation in Docket No. 010949-EI, Petition of Gulf Power company for an increase in its retail rates and charges

The purpose of this memo is to explain the difference between Gulf Power and staff on the cost-of-service related issues in the rate case. Based on discussions, staff and the company have reached philosophical agreement on cost-of-service Issues 85-87, 94, 96-100, and 102-122. Issues 91, 92, 93, and 95 are fallout issues based on the revenue requirement approved. Issue 101 is a relatively minor issue on the level of transformer credits. Staff's primary concern is Gulf's position on interrelated Issues 88, 89,and 90. The FEA and FIPUG have agreed to withdraw from the case if all cost of service and rate design issues are stipulated as proposed in the Stipulation for Partial Settlement filed February 15. OPC may or may not concur with FEA and FIPUG on the cost-of service issues or may take no position on these issues. OPC will continue its case against the revenue requirement issues.

Staff is concerned with Gulf's proposed Minimum Distribution System(MDS) used to allocate distribution costs among customer rate classes. The allocation of all costs and the resulting parity ratios are used as a basis for allocating the final revenue increase. Staff concurs with Gulf that no increase should given to the "Major" customers (which includes PX/PXT, Standby and RTP customers) and the CSA customers using either methodology. Use of staff's coincident KW allocator or Gulf's MDS allocator only shifts cost primarily between the residential rate class and the GSD and LP rate classes and can be used to justify a higher fixed customer charge for RS.

In Gulf's last rate case, the approved cost methodology allocated all commingled distribution costs based on the highest KW demand of the class, no matter when that peak occurred (non-coincident peak), on the theory that distribution facilities must be sized to serve maximum load even if that load is not on-peak. In this docket, Gulf has proposed to modify that methodology and allocate a portion of the common distribution facilities on a customer basis. Based staff's preliminary calculations using Gulf's requested increase, the net effect of using the MDS compared to the methodology approved in Gulf's last rate case is to shift approximately $8 million dollars of distribution costs from General Service Demand (GSD) and Large Power (LP) rate classes to the Residential class. This occurs simply because there are relatively more residential customers than commercial customers.

Both the traditional allocation methodology and the MDS are based on the assumptions made about the distribution facililties required to extend the capability of service to a single customer.

The Commission in the past has held that only the service drop and meter costs are marginal costs. The MDS includes a portion of poles, wires, transformers and other common distribution equipment in that marginal customer cost. The Commission has specifically rejected the MDS approach in several rate cases, including Gulf's last case filed in 1989.

The following chart compares the base rate percentage increase impact of Gulf's requested increase to each customer class using Gulf's MDS allocator and staff's noncoincident KW allocator.

	With MDS	Class NCP
CUSTOMER RATE CLASS	PERCENT OF INCREASE ALLOCATED	PERCENT OF INCREASE ALLOCATED
RS/RST/RSVP	79.2	67.3
GS/GST	3.9	2.1
GSD/GSDT/GSTOU	8.5	16.9
LP/LPT	4.9	10.7
MAJOR	0	0
OS I/II	3.2	2.9
OS III	.3	.1
OS IV	0	0
CSA	0	0

A related issue is Gulf's proposed increase in the customer charge from $8.00 to $12.00. Because of the adverse impact of high fixed charges on low-use customer bills, the Commission has been very sensitive to the level of the customer charge. Use of Gulf's MDS allocation could justify a monthly residential customer charge of $22. Based on the previously approved methodology, Staff calculates that only approximately an $11 fixed customer charge is justified, using the cost for the service drop from the home to the first pole, the meter, meter reading, and associated billing. While the Commission is not required to set any charges at cost, defining costs so as to justify a higher fixed charges puts upward pressure on rates.

The level of the customer charge is also important to residential customers who use natural gas for heating and water heating and who are generally low-use electric customers. Increasing the customer charge and reducing the variable energy (KWH) charge tends to discourage customers from using gas appliances

cc: Tim Devlin
Joe Jenkins
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Parties of Record