State of Florida

Public Service Commission

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

DATE: OCTOBER 24, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (E. DRAPER, SLEMKEWICZ, BREMAN)
OFFICE OF THE GENERAL COUNSEL (JAEGER)

RE: DOCKET NO. 020993-EI - PETITION FOR APPROVAL OF LOCAL GOVERNMENT UNDERGROUND COST RECOVERY TARIFF BY FLORIDA POWER CORPORATION.

AGENDA: 11/5/2002 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: 11/17/2002

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020993.RCM

CASE BACKGROUND

On September 18, 2002, Florida Power Corporation (FPC) filed a Petition for Approval of a Local Governmental Underground Cost Recovery tariff (underground tariff). The proposed tariff provides local governments with an optional mechanism for the recovery of the costs of converting overhead electric service to underground service through a fee on FPC's electric bill.

In 1993 FPC proposed a similar underground cost recovery tariff. A municipality would contract with FPC for the conversion of its distribution facilities in a specific location, or Underground Assessment Area. The municipality was responsible for securing financing to pay FPC. The underground cost recovery tariff allowed FPC to bill the customers in the Underground Assessment Area on their electric bill for the conversion costs, and remit the dollars collected to the municipality. See Order No. PSC-97-1625-FOF-EI, issued December 31, 1997, in Docket No. 971217-EI.

In 1997 FPC filed a petition to withdraw the underground cost recovery tariff. FPC stated that it had prepared several underground cost recovery estimates for municipalities. However, none of the municipalities who requested estimates ever implemented the conversion of their distribution system. Since the optional tariff had never been applied, the Commission approved its withdrawal. The Commission noted that municipalities have other options to finance undergrounding projects, such as local taxation or increased franchise fees. See Order No. PSC-97-1625-FOF-EI.

FPC states that some municipalities have expressed a renewed interest in receiving assistance from FPC for the undergrounding of distribution facilities. The proposed underground tariff is similar to FPC's previous underground tariff. Based on suggestions by local governments during the development of the tariff, FPC included additional options designed to assist local governments in converting overhead facilities to underground.

The Commission has jurisdiction over the subject matter pursuant to Sections 366.04 and 366.05(1), Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve FPC's proposed Local Governmental Underground Cost Recovery tariff?

RECOMMENDATION: Yes. FPC's proposed Local Governmental Underground Cost Recovery tariff should be approved. In addition, if FPC provides the financing, the amount of the loan and the related interest income should be excluded for ratemaking and surveillance purposes. For capital structure and rate base reconciliation purposes, the loan amount should be removed from investor sources of capital. (E. DRAPER, SLEMKEWICZ)

STAFF ANALYSIS:

The Proposed Underground Tariff

FPC's proposed Local Governmental Underground Cost Recovery tariff (underground tariff) is available to local governments (municipalities and counties) within FPC's service territory. The proposed underground tariff provides local governments with an optional procedure to recover their conversion costs from customers on whose behalf the conversion was made through a fee on the FPC electric bill.

Prior to FPC applying the proposed underground tariff, the local government must contract with FPC, pursuant to tariff Section 12.05, to convert existing electric distribution facilities from overhead to underground service. In addition, the local government is responsible for establishing an Underground Assessment Area (UAA). The UAA is a geographic area that is used to identify customers who benefit from the underground conversion. Only customers in the UAA will be responsible for the conversion costs.

In addition to the actual conversion costs, customers in the UAA will be responsible for the computer programming costs FPC expects to incur. FPC identified two types of programming costs: initial programming costs and additional programming costs. The initial programming costs include start-up costs such as the one-time modification of the billing system to add a line item to the electric bill. These programming costs will be capped at the lesser of 10 percent of the conversion costs or $50,000. Once a local government identifies a UAA, FPC expects to incur additional costs, such as the cost of identifying each account located in the UAA.

Finally, a local government has the option of adding additional costs related to the conversion project for recovery through the proposed tariff. These additional costs can include right-of-way acquisition, and charges paid to an electrical contractor hired by the local government to convert customer-owned meters to receive underground service.

The local government is responsible for securing financing to pay FPC for the contracted conversion costs and the programming costs. The proposed tariff also provides the local government with the option to obtain financing from FPC, subject to FPC having funds available.

FPC will determine an annual recovery amount the local government is eligible to receive from FPC based on the contracted conversion costs, the programming costs, the number of years over which the costs will be recovered, and the interest rate applied. For example, a local government that pays FPC $500,000 for a conversion project and wishes to recover its costs over 20 years, will be eligible to receive $25,000 annually (excluding interest).

The annual recovery amount will be calculated as a percentage of revenues in the UAA over the preceding 12-month period. Based on the example provided above ($25,000 annual recovery amount) and a UAA that generates $400,000 in sales, the percentage is 6.25. The annual recovery amount, however, can not exceed 15 percent of the revenues received from customers in the UAA over the preceding 12-month period. If the annual recovery amount exceeds the 15 percent threshold, the local government must use another method to recover the conversion costs that exceed the annual recovery amount.

FPC will then determine the Governmental Underground Fee (fee), which represents the monthly conversion cost to each customer in the UAA. This fee will be included as a separate line item in the customer's electric bill. FPC will remit the fees collected to the local government for the recovery of its conversion costs.

The fees collected from the customers in the UAA over a 12-month period are calculated to produce the annual recovery amount. Specifically, the percentage calculated in the above example, i.e., 6.25 percent, is applied to customers' bills. The proposed tariff provides limitations on the maximum fee customers can be assessed. The fee can not exceed the lesser of (1) 15 percent of a customer's bill, or (2) a maximum amount of $30 for residential customers and $50 for each 6,000 kilowatt-hour increment of consumption for commercial/industrial customers. For example, a residential customer whose monthly electric bill is $100 would pay no more than a $15 fee. If a local government requests a higher percentage or maximum monthly amount, Commission approval will be required.

The proposed underground tariff includes a mechanism for customer notification. At least 30 days prior to final implementation of the tariff, the local government must mail a notice to each electric customer located within the UAA stating its intention to recover the cost of the conversion project through a monthly fee. The notice must include a description of the conversion project, an estimate of the fee, the number of years over which the fee will be applied, and a form on which customers may submit comments to the local government.

Staff notes that the non-payment of the fee by an electric customer could result in the disconnection of electric service. However, as stated above, the tariff requires the local government to notify customers in the UAA in advance and allow customers to submit comments.

Conclusion

Staff recommends that the proposed underground tariff be approved. The tariff provides a reasonable way to facilitate a local government's ability to finance and recover the substantial costs of providing underground service to customers within its boundaries.

The application of the proposed tariff does not appear to impact the general body of ratepayers. Customers in the UAA will be responsible for the administrative costs of the tariff. In the event FPC finances the project, the amount of the loan and the associated interest income should be removed for ratemaking and surveillance purposes. In addition, the loan amount should be removed from investor sources of capital for rate base and capital structure reconciliation purposes. This will ensure that the general body of ratepayers will not subsidize the loan made to the local government for the purpose of providing underground electric facilities within the UAA.

For these reasons, staff recommends that FPC's proposed underground tariff be approved.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If Issue 1 is approved, this tariff should become effective on November 5, 2002. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect with any increase 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. (JAEGER)

STAFF ANALYSIS: If Issue 1 is approved, this tariff should become effective on November 5, 2002. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.