State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 17, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Draper, Breman) EJD WBM
Office of the General Counsel (Rodan) JAR JDJ

RE: Docket No. 040313-EI – Request for approval of 2004 underground differential cost report (Form PSC/EAG 13) and revised tariff sheets, by Gulf Power Company.

AGENDA: 06/29/04 – Regular Agenda – Tariff Filing – Interested Persons May Participate

CRITICAL DATES: 8-Month Effective Date: 12/01/04

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040313A.RCM.DOC

Case Background

On April 1, 2004, Gulf Power Company (Gulf) filed a petition for approval of revised residential underground distribution tariffs and their associated charges. At its May 18, 2004, Agenda Conference, the Commission suspended Gulf's proposed tariffs and their associated charges.

Rule 25-6.078, Florida Administrative Code, requires investor-owned electric utilities to file updated underground residential distribution charges for Commission approval at least every three years, or sooner if a utility's underground cost differential for the standard low-density subdivision varies from the last approved charge by 10 percent or more. Gulf's current underground residential distribution (URD) charges were approved in Order No. 00-2389-TRF-EI, issued on December 13, 2000, in Docket No. 000392-EI, in Re: Petition for Approval of Underground Residential Distribution tariff revisions by Gulf Power Company and Tampa Electric Company. This recommendation addresses Gulf's filing under Rule 25-6.078, Florida Administrative Code.

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

Discussion of Issues

Issue 1: Should the Commission approve Gulf's revised Underground Residential Distribution tariffs and their associated charges?

Recommendation: Yes. (Draper, Breman)

Staff Analysis: The Underground Residential Distribution (URD) charges represent the additional costs Gulf incurs to provide underground distribution service in place of overhead service, and are calculated as differentials between the cost of underground and overhead service. Costs for underground service have historically been higher than for standard overhead construction. The URD differential is paid by the customer as a contribution-in-aid-of-construction. The URD tariffs provide standard charges for certain types of underground service, and apply to new residential developments such as subdivisions and townhouses.

Gulf developed URD charges based on two model subdivisions: (1) a 210-lot low-density subdivision with a density of one or more, but less than six, dwelling units per acre; and (2) a 176-lot high-density subdivision with a density of six or more dwelling units per acre. All four major investor-owned electric utilities use the same standardized model subdivisions to develop their URD charges.

The URD differential is developed by estimating the cost per lot of both underground service and overhead service, and is based on the utility's standard engineering and design practices. The difference between these numbers is the per-lot charge that customers must pay when they request underground service in lieu of standard overhead service. The costs of both underground and overhead service include the material and labor costs to provide primary, secondary, and service distribution lines, and transformers. The cost to provide underground service also includes the cost of trenching and backfilling. The utilities are required to use current cost data.

The following table shows Gulf's current and proposed URD differentials (Option 1):

Type of Subdivision	Current URD differential per lot	Proposed URD differential per lot	Percent Change
210-lot low density	$429	$413	-3.7%
176-lot high density	$371	$363	-2.16%

The above differentials provide that Gulf supplies and installs all primary, secondary, and service trench, duct, and cable (Option 1). Gulf has also proposed revisions to the URD differentials for customers who choose to provide and install some of their own materials. Specifically, under Option 2, the customer receives a credit for installing the primary and secondary trench and duct system. Under Option 3, the customer receives a credit for both supplying and installing the primary and secondary trench and duct system. Gulf has proposed to eliminate the options which allow the applicant to supply and install the service duct or install the primary and secondary trench and duct in addition to supplying and installing the service duct. Gulf states that these options were rarely used.

A combination of factors affect the proposed URD differential for the two subdivision types. Labor and material costs vary from year to year. Some costs increase while others decrease. Gulf states that overhead labor rates have increased, while underground labor rates decreased, resulting in a decrease in the differential. Gulf states that in April 2003, it changed underground construction contractors and went from an hourly rate contract to a unit rate contract. This change resulted in an approximate 20 percent savings in underground labor costs. Under a unit rate contract, the contractor is paid based on the length of trenching work performed or number of transformers installed.

The methodology Gulf used to calculate its current URD differentials included a Net Present Value (NPV) analysis which assumed a ten-year build out for developments. See Order No. PSC-00-2389-TRF-EI, page 3. Gulf asserted that builders were taking, on average, ten years to complete developments. Using a ten-year NPV analysis results in a reduction in the URD differential. Gulf has proposed to discontinue the use of the NPV analysis, and therefore the proposed URD differentials are based on actual cost. Gulf states that low interest rates and increased economic development have contributed to the faster completion of subdivisions. Staff believes that it is appropriate for URD customers to pay the actual costs associated with the service they receive, and that Gulf's proposal to eliminate the use of an NPV analysis is reasonable.

Gulf has also proposed revisions to the per-foot charges that apply when an applicant requests a three-phase lift station in a new residential subdivision. Gulf's current tariff includes the per-foot charges for three-phase commercial loads such as lift stations, that require 120/240 volt service. Gulf has proposed to expand that tariff provision to include charges for lift stations that require 120/208 or 277/240 voltage. Staff has requested and reviewed workpapers that support the development of these charges, and believes that the charges will recover the cost of installing lift stations.

Finally, Gulf's current tariff includes per-foot charges for underground service laterals from overhead service for residential or commercial facilities. The charges apply for service laterals up to 200 feet. Service laterals in excess of 200 feet are based upon customer-specific cost estimates. Gulf has proposed to eliminate the standard charges and provide all applicants with customer-specific estimates of the costs to install an underground service lateral. Staff believes that while standard charges avoid controversy which may result from customer-specific estimates of undergrounding costs, customer-specific cost estimates ensure that customers' charges are based on the most currently available cost.

Rule 25-6.078, Florida Administrative Code, requires utilities to file updated URD charges and supporting data and analyses at least once every three years. The rule further requires utilities to file overhead and underground costs for its low-density subdivision by October 15 of each year (Schedule 1). If a utility's cost differential for the low-density subdivision varies from the last approved differential by 10 percent or more, the utility is required to submit a complete filing on or before April 1 of the following year. Gulf's petition for its current URD tariff was made in April 2000 and the tariffs became effective in November 2000. Staff believes that Gulf should have made this filing on or before April 2003 instead of April 2004. Gulf believes that it has complied with the 3-year filing requirement of the rule since it filed Schedule 1 in October 2003. Staff disagrees. The utility should be put on notice that it must file updated URD tariffs and their associated charges every three years from the date of the last filing, and that this requirement is not satisfied by filing Schedule 1.

In summary, staff has reviewed the proposed charges and accompanying work papers. Staff also requested additional information that supports Gulf's filing. Based on a review of the information provided, staff believes that the proposed charges are reasonable, and should be approved.

Issue 2: Should this docket by closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on June 29, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues 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. (Rodan)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on June 29, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues 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.