BEFORE THE PUBLIC SERVICE COMMISSION

In re: Request for approval of 2004 underground differential cost report (Form PSC/EAG 13) and revised tariff sheets, by Gulf Power Company.	DOCKET NO. 040313-EI ORDER NO. PSC-04-0669-TRF-EI ISSUED: July 12, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
LILA A. JABER
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER APPROVING 2004 UNDERGROUND DIFFERENTIAL COST REPORT AND REVISED TARIFF SHEETS

BY THE COMMISSION:

On April 1, 2004, Gulf Power Company (Gulf) filed a petition for approval of revised residential underground distribution tariffs and their associated charges. By Order No. PSC-04-0517-PCO-EI, issued May 21, 2004, we 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 by Order No. 00-2389-TRF-EI, issued 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 order addresses Gulf's filing under Rule 25-6.078, Florida Administrative Code. We have jurisdiction over the subject matter pursuant to Sections 366.04 and 366.05, Florida Statutes.

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. We believe 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. We reviewed workpapers that support the development of these charges, and we believe 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. 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. We disagree with Gulf's interpretation of the rule that it complied with the 3-year filing requirement of the rule since it filed Schedule 1 in October 2003. Instead, Gulf should have made its filing on or before April 2003 instead of April 2004. The utility is thus 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.

We have reviewed the proposed charges and accompanying work papers, as well as the requested additional information that supports Gulf's filing. We find that Gulf's proposed URD charges are reasonable. Accordingly, we approve the revised URD tariffs. The effective date shall be June 29, 2004.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's revised Underground Residential Distribution tariffs are approved. It is further

ORDERED that this Order approving tariff revisions shall become final upon issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850, by the close of business on the due date set forth in the Notice of Further Proceedings attached hereto. It is further

ORDERED that these tariffs shall be effective as of June 29, 2004. If a protest is filed within 21 days of the issuance of the order, these tariffs shall remain in effect, with any revenues held subject to refund, pending resolution of the protest. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 12th day of July, 2004.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

JAR

NOTICE OF FURTHER PROCEEDINGS

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 2, 2004.

In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.