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COMMISSION
CLERK

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

DATE: September 8, 2005

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

FROM: Division of Economic Regulation (Draper, Brennan) *EAD B 243 CA WEM*
Office of the General Counsel (Brown) *MCB MCB PLT JOJ*

RE: Docket No. 050226-EI – Petition for approval of 2005 revisions to underground residential and commercial distribution tariff, by Florida Power & Light Company.

AGENDA: 09/20/05 – Regular Agenda – Tariff Filing – Interested Persons May Participate

CRITICAL DATES: 8-Month Effective Date: December 1, 2005

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050226A.RCM.DOC

Case Background

On April 1, 2005, Florida Power & Light Company (FPL) filed a petition for approval of 2005 revisions to Florida Power & Light Company's underground residential and commercial distribution tariff. At its May 31, 2005, Agenda Conference, the Commission suspended FPL's proposed tariffs and their associated charges. These charges represent the additional costs FPL incurs to provide underground service in lieu of overhead service, and are calculated as differentials between the cost of underground and overhead service. The underground residential distribution (URD) tariff applies to new residential developments such as subdivisions and townhouses. It does not apply to the conversion of existing facilities. The underground commercial distribution (UCD) tariff applies to new commercial developments that request the installation of underground distribution facilities.

Rule 25-6.078, Florida Administrative Code, requires utilities to file updated URD 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 URD charge by 10 percent or more. The utilities are required to use current cost data.

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FPL's current residential URD charges were approved on June 10, 2002. See Order No. PSC-02-0776-TRF-EI. To comply with the three-year filing requirement of Rule 25-6.078(2), FPL filed the instant petition. The Commission rule does not require specific tariffed underground charges for new commercial and industrial customers. The charges are similar in design to those for underground residential service.

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 FPL's proposed underground residential distribution (URD) tariffs and their associated charges?

Recommendation: Yes. (Draper, Breman)

Staff Analysis: Costs for underground service are higher than for standard overhead construction. The additional cost to provide underground service is recovered through the URD differential paid by the customer as a contribution in aid of construction.

The URD tariffs provide standard charges for certain types of underground service to new subdivisions. FPL develops URD charges based on three model subdivisions: (1) a 210-lot low density subdivision with a density of one or more but less than six dwelling units per acre; (2) a 176-lot high density subdivision with a density of six or more dwelling units per acre; and (3) a 176-lot high density subdivision with a density of six or more dwelling units per acre taking service at grouped meter pedestals. Examples of this last subdivision type include mobile home and R.V. parks. All four major investor-owned utilities use the same standardized model subdivision designs to develop URD differential charges, as required by the Commission's rule.

The URD differential is developed by estimating the total cost per lot of both underground and overhead service, and is based on FPL'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 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, installing cable, and backfilling. The material and labor costs are based on actual 2004 data.

The following table shows FPL's present and proposed URD differentials for new residential subdivisions and developments:

| Subdivision | Current URD differential per lot | Proposed URD differential per lot | Percent Change |
|--|----------------------------------|-----------------------------------|----------------|
| Density of 1 or more but less than 6 dwelling units per acre (low density) | \$367 | \$444.01 | +21% |
| Density of 6 or more dwelling units per acre (high density) | \$201 | \$236.29 | +18% |
| Service from grouped meter pedestals (mobile home parks) | \$0 | \$41.31 | n/a |

As shown in the table above, the URD differential for the low density subdivision increased from \$367 to \$444.01 per lot, and the URD differential for the high density subdivision increased from \$201 to \$236.29 per lot. The URD differential for the 176-lot high density subdivision with service from grouped meter pedestals increased from \$0 to \$41.31.

A combination of factors affect the proposed URD differentials. Labor and material costs vary from year to year, and some costs increase while others decrease. The increase in the differential for the three subdivisions is mainly driven by an increase in underground labor rates. While labor rates for both underground and overhead construction increased, the increase in underground labor rates was greater than the increase in overhead labor rates, thus increasing the differential. The overhead labor rate increased by 19.20%, and the underground labor rate increased by 23.56%.

In addition to the charges to its standard subdivision differentials, FPL proposed revisions to the charges for customers requesting new underground service laterals from overhead distribution systems, and underground service laterals replacing existing services. FPL's URD tariff also provides credits to customers who do their own trenching or installation of FPL-provided conduit. FPL has proposed increases to these credits. FPL also proposed to modify its tariff to allow customers to receive credits for any work normally performed by FPL. This will allow customers to receive credits for work performed in addition to trenching and backfilling.

FPL has proposed a new tariff provision that allows an applicant to receive a \$39.10 credit when requesting an underground service lateral for new construction. The service lateral is the conductor that runs between the transformer and the customer's meter. Typically, such a request requires FPL to make two trips to the site. During the construction phase, FPL digs the trench and installs the lateral. After construction is complete, FPL connects the lateral to the meter and energizes the lateral. In order to receive the \$39.10 credit, the applicant must install a permanent electric service entrance during the construction phase, which allows FPL to install and energize the lateral in one trip. The credit is based on the avoided cost of the second trip.

Finally, FPL has proposed to modify its tariff to specify that the applicant for underground service is responsible for recording any required easements. At present, the tariff only requires the applicant to provide FPL with any required easements.

The staff has reviewed the proposed charges and their accompanying workpapers, and believes that they are reasonable. Accordingly, staff believes that FPL's proposed URD tariff sheets and charges should be approved.

Issue 2: Should the Commission approve FPL's revised tariff sheets and charges associated with the installation of underground commercial/industrial distribution (UCD) facilities?

Recommendation: Yes. (Draper, Breman)

Staff Analysis: FPL's proposed UCD tariff contains revised standard charges for new commercial and industrial customers who request underground distribution service in lieu of standard overhead service. The tariff provisions are patterned after those that are required by rule to be filed for underground residential service. The Commission does not require tarified differentials for commercial and industrial customers.

The UCD tariff contains charges for commercial underground distribution facilities such as laterals, risers, pad-mounted transformers, and handholes. In addition, the UCD tariff provides for credits that apply if the customer provides trenching and backfilling. The charges are derived from cost estimates of underground commercial distribution facilities and their equivalent overhead design. The estimates were made using standard FPL design and 2004 labor and material costs. FPL's current UCD tariff is based on 2001/02 cost data.

The proposed revisions to the UCD charges and credits reflect updated labor and material costs, resulting in increases to the differentials for commercial underground distribution facilities, and increases to the credits provided for work performed by the customer. In addition, FPL has proposed new differential charges for small commercial 2-wire and 3-wire underground service and pad-mounted secondary junction cabinets. FPL has proposed to provide credits for any work normally performed by FPL. At present, FPL's UCD tariff provides credits only if the customer provides trenching, backfilling, or the installation of a concrete pad for a feeder switch chamber or a splice box.

The staff has reviewed the proposed charges and their accompanying workpapers, and believes that they are reasonable. There is no Commission requirement that UCD tariffs with specific standardized charges be filed by investor-owned utilities. However, staff believes that standard charges promote efficiency and avoid controversy which may result from customer-specific estimates of undergrounding costs. Accordingly, staff believes that the proposed tariff sheets and charges are reasonable and should be approved.

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Issue 3: Should this docket be closed?

Recommendation: Yes. If Issues 1 and 2 are approved, this tariff should become effective on September 20, 2005. If a protest is filed within 21 days of the issuance of the order, these tariffs 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. (Brown)

Staff Analysis: If Issues 1 and 2 are approved, this tariff should become effective on September 20, 2005. If a protest is filed within 21 days of the issuance of the order, these tariffs 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.