

State of Florida



ORIGINAL

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

RECEIVED-FPSC  
JUN 11 AM 9:30  
COMMISSION  
CLERK

---

**DATE:** June 8, 2007  
**TO:** Ann Cole, Commission Clerk - PSC, Office of Commission Clerk  
**FROM:** Elisabeth J. Draper, Economic Analyst, Division of Economic Regulation *EJD*  
**RE:** Docket No. 070242-EI – Request for Revisions to Underground Residential Differential.

---

Please place the attached response from Gulf Power Company to Staff's May 23, 2007 data request in the above docket. Thanks.

EJD:kb

DOCUMENT NUMBER-DATE

04659 JUN 11 8

FPSC-COMMISSION CLERK

## **Gulf Power Company Responses to Staff's May 23, 2007 Data Request**

### **RE: Docket No. 070242, Request for Revisions to Underground Residential Differential, by Gulf Power Company**

**June 4, 2007**

---

#### **Purpose of Memorandum**

The purpose of this Memorandum is to summarize Gulf Power Company's responses to Staff's May 23, 2007 data request in Docket No. 070242.

- 1. Did Gulf implement the requirements of recently amended rule 25-6.078(4), Florida Administrative Code, (Docket Nos. 060172-EU and 060173-EU) to calculate the proposed URD charges? If not, please explain why and state when Gulf intends to file URD charges implementing rule 25-6.078(4).**

Response:

No. The Company filed its 2007 Underground Differential Cost Report and tariff sheets on March 30, 2007. To calculate the proposed URD charges, Gulf utilized data that did not yet incorporate the requirements of amended Rule No. 25-6.078(4), which were not effective until February 5, 2007. The Company does not yet have reliable data as to operational cost differences between underground and overhead systems which reflect the requirements of Rule 25-6.0342. Rule 25-6.078(2) requires that cost estimates should reflect the requirements of Rule 25-6.0342. The Company's Storm Hardening Plan required by Rule 25-6.0342 was filed for approval on May 7, 2007. Consistent with the requirements of Rule 25-6.078(4), the Company is establishing record keeping and accounting measures to separately identify operational costs for such underground and overhead facilities, as well as differences in storm restoration costs. The Company would expect to incorporate such operational cost differences when they are obtained, however, a specific date cannot yet be identified as Gulf's Storm Hardening Plan required by Rule 25-6.0342 has not yet been approved.

- 2. Did Gulf implement the requirements of Rule 25-6.0342, Electric Infrastructure Storm Hardening, to calculate the proposed URD charges? If not, please explain why and state when Gulf intends to file URD charges implementing rule 25-6.0342.**

Response:

No. The Company filed its 2007 Underground Differential Cost Report and tariff sheets on March 30, 2007. The Company's Storm Hardening Plan required by Rule 25-6.0342 was filed for approval on May 7, 2007 and has not yet been approved. See also response above regarding timing of implementation.

**3. Please provide a list of all the design changes Gulf made since the 2004 URD filing and describe their impact on the differentials.**

Response:

For both overhead and underground, voltage drop and flicker calculations have been enhanced, resulting in some changes to transformer sizes, secondary wire sizes, and service wire sizes. This has resulted in very minor changes to the differential pricing.

There were no changes in either the 176 or 210 underground designs.

The overhead design changes of the 176 lot subdivision are as follows:

Gulf's standard design for transformer installations now includes 2 additional spool racks and 21 feet of 4/0 AAC covered wire for leads to the spool racks. This amounts to an adder of \$49.00 to each transformer for a total of \$2,254.00 and an increase in the cost per lot of the overhead design of \$12.81.

The overhead design changes of the 210 lot subdivision are as follows:

Gulf's standard design for transformer installations now includes 2 additional spool racks and 21 feet of 4/0 AAC covered wire for leads to the spool racks. This amounts to an adder of \$49.00 to each transformer for a total of \$3,234.00 and an increase in the cost per lot of the overhead design of \$15.40.

**4. Please explain the increase in the engineering percentage (18% to 23.1%).**

Response:

Since 2004, Gulf has had a lot of large conversion jobs, more underground work (which is more costly), more plant additions, etc. that require more engineering review and planning. Through this experience, studies have indicated that more engineering time should be allocated to plant because of the engineering complexities, therefore, causing an increase in the engineering percentage.

**5. Please explain the increase in the three phase liftstation (Tariff Sheet No. 4.26) charges.**

Response:

The increase in the three phase lift station charges is due to an increase in material costs. Material costs have risen due to supply and demand. Mergers and acquisitions of manufacturers and suppliers have limited the available supplier base to only a few suppliers to provide products. The change in the world economy has resulted in companies selling products abroad at higher prices than what they receive in the United States, therefore, limiting available supply. Prices of core steel, copper, aluminum, and other raw materials used in the manufacturing process have risen, and manufacturers' transportation costs have increased because of higher fuel and equipment costs.

**6. Please provide an explanation for the increase in overhead labor rates. State the date and percentage of the overhead labor rate increases.**

Response:

Gulf's overhead labor rates are adjusted annually. Some factors that are taken into consideration are employee pay and benefits, as well as transportation costs. The increase was primarily due to the transportation component, specifically fuel costs.

<u>Labor Pricing</u>	<u>Date Effective</u>	<u>Percentage Change</u>
\$51.93	9-23-2003	-
\$54.94	10-12-2004	5.8
\$53.44	9-21-2005	(2.7)
\$64.40	9-6-2006	20.5

Gulf's tree trimming contractor's rates are also negotiated and adjusted annually.

<u>Labor Pricing</u>	<u>Date Effective</u>	<u>Percentage Increase</u>
\$23.46	9-23-2003	-
\$23.46	10-12-2004	0
\$26.43	9-21-2005	12.7
\$32.74	9-6-2006	23.9

**7. Please provide an explanation for the increase in underground labor rates. State the date and percentage of the underground labor rate increases.**

Response:

Gulf's underground labor rates are adjusted annually. Some factors that are taken into consideration are employee pay and benefits, as well as transportation costs. The increase was primarily due to the transportation component, specifically fuel costs.

<u>Labor Pricing</u>	<u>Date Effective</u>	<u>Percentage Change</u>
\$51.93	9-23-2003	-
\$54.94	10-12-2004	5.8
\$53.44	9-21-2005	(2.7)
\$64.40	9-6-2006	20.5

Gulf's underground contractor's rates are also negotiated and adjusted annually.

<u>Labor Pricing</u>	<u>Date Effective</u>	<u>Percentage Increase</u>
\$30.00	10-12-2004	-
\$30.66	9-21-2005	2.2
\$33.56	9-6-2006	9.5

**8. Please explain the decrease in the stores handling percentage (16% to 9%).**

Response:

The stores handling percentage is based on "fixed" stores handling costs divided by the cost of all materials "issued" during the same time period. The percentage has dropped

because fixed stores handling costs have remained relatively flat while the cost of materials purchased and issued has risen sharply.

**9. Please provide an explanation for the increase in overhead and underground transformer costs for both subdivisions. Did Gulf change the number of transformers used in the subdivision designs?**

Response:

Both overhead and underground transformer costs have risen due to supply and demand. Mergers and acquisitions of manufacturers and suppliers have limited the available supplier base to only a few suppliers to provide products. The change in the world economy has resulted in companies selling products abroad at higher prices than what they receive in the United States, therefore, limiting available supply. Prices of core steel, copper, aluminum, and other raw materials used in the manufacturing process have risen, and manufacturers' transportation costs have increased because of higher fuel and equipment costs.

The number of transformers used in the subdivision design has not changed.

**10. Please provide a discussion as to why overhead and underground material costs (for service, primary, secondary, and poles) increased.**

Response:

Material costs have risen due to supply and demand. Mergers and acquisitions of manufacturers and suppliers have limited the available supplier base to only a few suppliers to provide products. The change in the world economy has resulted in companies selling products abroad at higher prices than what they receive in the United States, therefore, limiting available supply. Prices of core steel, copper, aluminum, and other raw materials used in the manufacturing process have risen, and manufacturers' transportation costs have increased because of higher fuel and equipment costs. The cost of wood poles has not risen as sharply as conductors and metals over this time horizon.