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August 21, 2008

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**-VIA HAND DELIVERY -**

Ms. Ann Cole  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

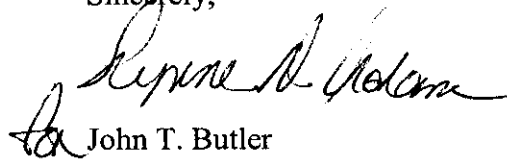
**Re: Docket Nos. 070231-EI and 080244-EI**

Dear Ms. Cole:

I am enclosing for filing in the above dockets the original and five (5) copies of Florida Power & Light Company's responses to Staff's First Data Request in Docket No. 080244-EI and Second Data Request in Docket No. 070231-EI, except for FPL's response to Data Request No. 15, which is confidential. I am also enclosing for filing the original and seven (7) copies of FPL's Notice of Intent to Seek Confidential Classification with respect to FPL's response to Staff's Data Request No. 15. A copy of the response to Data Request No. 15 is also enclosed, in a separate envelope marked "confidential."

If there are any questions regarding this transmittal, please contact me at 561-304-5639.

Sincerely,

  
John T. Butler

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**Dockets No. 080244-EI and 070231-EI**  
**July 31, 2008 Staff Data Requests – FPL Responses**

1. Please provide a general discussion as to why non-storm operational costs are higher for underground than overhead facilities (response will also apply to Docket No. 070231-EI)
  - A. The non-storm operational costs for underground and overhead facilities are more accurately characterized as essentially equivalent. For instance, in 080244-EI, the 30-year net present value differential between the two types of infrastructure is estimated to be \$10,400 per pole-line mile, in contrast to the typical full CIACs of hundreds of thousands dollars per pole-line mile. This 30-year amount would roughly translate into an annual differential in operational costs of less than \$350 per pole-line mile. The annual equivalent differential value in Docket No. 070231-EI of about \$640 per pole-line mile, though somewhat higher, is also comparatively small. There is no *straightforward generalization* that explains why the operational costs are slightly higher for underground facilities. The operational costs for both underground and overhead facilities are comprised of many elements, some of which are unique to either underground or overhead facilities, with others varying substantially between the two types of facilities. To a large extent, these differences offset each other, but the cumulative total of all the cost elements turns out to be slightly higher for operating underground facilities.
  
2. The Phase 3 PURC Report which was presented to the Commission at the June 16, 2008, Internal Affairs, states on page 56 that an underground feasibility study shows that the O&M costs for overhead and direct buried underground systems are comparable. Please comment on this conclusion and discuss why FPL analysis in this docket and Docket No. 070231-EI shows a different result, i.e., operational costs are higher for underground than overhead. The report can be read at  
[http://www.cba.ufl.edu/purc/docs/initiatives\\_UndergroundingAssessment3.pdf](http://www.cba.ufl.edu/purc/docs/initiatives_UndergroundingAssessment3.pdf)
  - A. See FPL's response to Question 1. FPL generally concurs that the operational costs are similar for overhead and underground distribution systems. However, the Commission's rules require electric utilities to calculate the differential and include it in the determination of CIAC even if the differential is relatively small. The PURC Report relied on a November, 2003 study performed by the North Carolina Utilities Commission as the source for this information. FPL has not reviewed the North Carolina study, though the general conclusion appears directionally consistent with FPL's analysis. Absent detailed examination, it is not possible to comment further on a detailed comparison between the two.
  
3. In Docket No. 060150-EI, FPL provided CIAC and GAF waiver examples (see Order No. PSC-07-0442-TRF-EI, Attachment C). Please provide the same example (using the same illustrative amounts where reasonable for purposes of this docket), for the following four scenarios:
  - a) Applicant qualifies for GAF waiver (converts 4 pole line miles)
  - b) Applicant qualifies for Tier 1 (but not GAF waiver, converts 4 pole line miles)
  - c) Applicant qualifies for Tier 2 (converts 2 pole line miles)
  - d) Applicant qualifies for Tier 3 (converts 0.5 pole line miles)

A. See Attachment A.

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4. Please explain the difference in the calculation of the NPV of the non-storm operational costs between Docket No. 070231-EI and the instant docket (\$20,792 vs. \$10,400 per pole-line mile).
  - A. On May 16, 2008, FPL filed a revised figure for Docket No. 070231-EI of approximately \$19,200 for URD facilities. The primary difference between this figure and the \$10,400 for underground conversions is estimated vegetation management cost. The PSC-defined subdivision used in Docket No. 070231-EI is served exclusively by lateral facilities, which are on a 6-year average trim cycle. However, the facilities that could be subject to overhead to underground conversion, in Docket No. 080244-EI, are assumed to include both feeder and laterals. Since feeders are on a 3-year average trim cycle, this increases the effective cost of vegetation management for the overhead facilities that are assumed to be converted in Docket No. 080244-EI. Higher operational costs for overhead facilities reduces the underground v. overhead operational cost differential and thus the differential is lower for Docket No. 080244-EI than it is in Docket No. 070231-EI.
  
5. Please explain how GAF applicants are impacted by the proposed tariff revisions.
  - A. Currently, FPL is implicitly applying a value of \$0 for non-storm operational costs. Including the filed amount for Docket No. 080244-EI for non-storm operational costs would increase the CIAC owed by GAF-eligible applicants.
  
6. FPL states in its petition that the current underground conversion tariff does not accommodate taking the operational cost differential into account in the CIAC calculation. However, second revised Sheet No. 6.300, which was approved in Docket No. 060150, includes the Net Present Value (NPV) of the estimated operational costs of underground and overhead facilities in the CIAC formula. Would a more accurate assessment of FPL's proposal be that FPL is seeking Commission approval of a specific amount, i.e., \$10,400 per pole-line mile, to reflect the non-storm operational cost differential? Is FPL currently including a value for the NPV of non-storm operational costs in CIAC calculations?
  - A. 1<sup>st</sup> Question – FPL is seeking inclusion of the specific amount, as well as an accompanying simplification of the CIAC structure. 2<sup>nd</sup> Question – See FPL's response to Question 5.
  
7. How often does FPL propose to update the tariffed NPV of the operational cost differential?
  - A. FPL proposes to update the analysis coincident with URD Tariff revision filings, but no more frequently than every 3 years. By design, the use of 5-year averages will mitigate any significant future volatility. Therefore, this timeframe should strike the balance between ensuring that customers' charges remain reasonable without creating unnecessary regulatory filing requirements for either FPL or the Commission.

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8. This question refers to the second part of the GAF waiver calculation, the addition of the 75% times the avoided storm restoration costs (ASRC). The current CIAC formula includes the estimated average storm restoration costs, therefore the 75% adjustment is required to avoid double-counting the storm restoration costs. Please explain why the proposed GAF Waiver calculation continues to include the 75% adjustment when it appears that there are no ASRC embedded in the proposed otherwise applicable CIAC calculation (lines 1 through 6 of proposed CIAC formula).
  - A. The 75% adjustment is still necessary because line 7 of the reconstituted CIAC formula must still be included in the GAF Waiver calculation. In order to have the GAF Waiver formula be fully compliant with F.A.C. 25-6.115, all elements of the CIAC must first be calculated and then the GAF Waiver applied to that figure.

The following questions refer to the work papers provided to staff titled *FAC 25-6.115 – Conversions – Underground v. Overhead Operational Cost Differential – Net Present Value (NPV)*.

9. Please explain why FPL believes it is appropriate to include Lost Pole Rental Revenue in the calculation of the non-storm operational cost differential pursuant to Rule 25-6.115. Discuss what happens to the non-electric pole attachers' equipment in an underground conversion and whether FPL will receive any revenues from the pole attachers after the conversion.
  - A. 1<sup>st</sup> Question – For cost and logistical purposes, FPL and others (i.e., telecom and CATV) jointly use poles. Included in the overhead O&M are the costs incurred by FPL to attach to poles owned by telephone companies (FERC account 589 Operation–Rents). Conversely, the analysis also reflects the payments made by others to attach to FPL's poles (FERC Account 454). In effect, these "revenues" are a net reduction in the cost of operating the overhead facilities. Therefore, to not reflect both the incoming and outgoing pole attachment cash flows would improperly overstate the overhead facilities' operational cost. 2<sup>nd</sup> Question – In an underground conversion, non-electric pole attachers are responsible for the removal and disposal of their own equipment. The customer requesting the conversion makes the necessary arrangements with the non-electric attachers. 3<sup>rd</sup> Question – No further monies for a given attachment are exchanged between pole owners and attachers once it has been removed.
10. Please calculate the non-storm 30-year differential NPV excluding the Lost Pole Rental Revenue for this docket and Docket No. 070231-EI.
  - A. See FPL's response to Question 9 as to why it would be inappropriate to exclude Lost Pole Rental Revenue from the operational cost calculation. However, the non-storm operational cost differential in both dockets would be reduced by approximately \$6,500 per pole-line mile. For example, in Docket No. 080244-EI the cost would go from \$10,400 to \$3,900 per pole-line mile.

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11. Please explain the inclusion of Property Taxes and Insurance. Is that an increase to the underground operational costs?

A. Property Taxes and Insurance are applied to the accumulated balance of *both* the underground and hypothetical overhead capital expenditures. For simplicity in the analysis, the underground and overhead balances are first netted against one another and the result is then multiplied by the appropriate rate. Since underground capital expenditures are greater than those for overhead, this results in a net increase in the operational costs.

12. The following questions refer to the Pole Inspection/Remediation costs shown in the work papers.

a) Are the costs shown based on the cost estimates discussed in Order No. PSC-06-0144-PAA-EI, in Docket No. 060078-EI? If not, please explain.

A. The costs utilized are consistent with the Order updated for more current information. For example, whereas the Order refers to a per pole inspection cost of \$45, the analysis used a more current amount of \$40 per pole.

b) Is it correct that FPL inspects a certain number of poles annually (as opposed to inspecting all poles every 8 years)?

A. Yes. As described in Order No. PSC-06-0144-PAA-EI, in Docket No. 060078-EI, FPL pole inspections are on an 8-year cycle, which means that approximately 1/8 of all poles are inspected each year with the result being that any given pole will be visited once every 8 years but not once each year.

c) Would it be more accurate to include annual pole inspection costs in the calculation of the non-storm NPV as opposed to a lump-sum number every 8 years (as FPL has proposed)?

A. No. Though costs for pole inspections on a *system-wide* basis are ongoing every year, they only occur *periodically* at any given location, such as the “typical” subdivision used in the analysis. In the case of the Pole Inspection/Remediation program, as per Order No. PSC-06-0144-PAA-EI, in Docket No. 060078-EI, FPL will only visit a given location once every 8 years. Therefore, any “annualized” effective cost, absent being discounted to reflect the appropriate time value of money, would improperly overstate the NPV costs. Note: If the proper discounting were applied to such annualized costs, the NPV result would be mathematically identical to that currently shown in the analysis.

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13. The following questions refer to the vegetation management costs shown in the work papers.

a) Are the costs shown based on the Commission's decision in Order No. PSC-07-0468-PAA-EI, in Docket No. 060198-EI? If not, please explain.

A. The costs utilized are consistent with the Order updated for more current information. The more current figures are approximately 2% higher than those used in the Order.

b) Is it correct that FPL trims lateral and feeders annually?

A. See FPL's response to Question 12.b). Similar to pole inspections, FPL trims feeder and lateral vegetation on cycles which average 3 and 6 years, respectively. This means that any given pole line will be visited, on average, at least once during that cycle, but not typically once each year.

c) Would it be more accurate to include annual vegetation management costs in the calculation of the non-storm NPV as opposed to a number every 3 and 6 years (as FPL has proposed)?

A. No. See FPL's response to Question 12.c) regarding the proper method for reflecting cash flows in an NPV analysis. Again, after applying the proper discounting to such annualized costs, the NPV result would be mathematically identical to that currently shown in the analysis.

14. Please recalculate the 30-year non-storm differential NPV with pole inspection and vegetation management costs occurring annually for this docket and Docket No. 070231-EI.

A. It is not appropriate to recalculate the NPV for the reasons discussed in 12.c) and 13.c). As previously discussed, such calculation would serve no purpose since the result would be mathematically identical once the proper discounting was applied.

15. Please provide a discussion as to why litigations costs and what type of costs are included in the non-storm NPV calculation, and whether they increase or decrease the differential.

A. The response to this data request is confidential. See Confidential Attachment B.


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16. On page 6 of 17 of the work papers, FPL made adjustments to the total distribution O&M. Please state what type of costs FPL removed from the CIAC calculation.
- A. To aid transparency, the analysis started with the total Distribution O&M costs as reported in FPL's FERC Form 1. Adjustments were made to this total to remove costs either not associated with the facilities included under the rules or to substitute projections where costs are expected to meaningfully differ from historic levels. Certain full FERC accounts unrelated to the subject facilities were removed, such as: substation, street & signal lighting, customer premise equipment, and meters. Also removed were costs embedded within other FERC accounts related to the previously listed activities, as well as, system expansion, large commercial projects, and storms. Embedded costs for vegetation management and pole inspection/remediation were removed in order to be replaced by projected costs for these programs (for most of the historical years, the costs for these programs did not reflect the Commission's new pole inspection/remediation or vegetation management requirements). Finally, the analysis also adjusted out a pro-rata share of supervision and engineering.
17. Please refer to pages 8-9 of 17 of the work papers and provide a discussion how FPL determined which O&M costs are overhead vs. underground. Can all accounts be distinguished between overhead and underground work? Please explain the allocation developed on page 9 of 17.
- A. 1<sup>st</sup> Question – There are 3 FERC accounts that are purely overhead (583, 589 and 593) and 2 that are purely underground (584 and 594). For all others, a pro-rata allocation was applied. 2<sup>nd</sup> Question – The overhead allocation was based on the ratio of the respective overhead "line" account to the overhead plus underground "line" accounts. The underground allocation was 100% minus this overhead proportion. Separate ratios were used to allocate the Operations-related and Maintenance-related accounts.

Respectfully submitted,

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By: 

 John T. Butler  
Florida Bar No. 283479

**7/31/08 Staff Data Request #3**  
**(Amounts are Illustrative Only)**

**Attachment A**

**Contribution-In-Aid-of-Construction (CIAC):**

- 1) The estimated cost to install the requested underground facilities
- + 2) The estimated cost to remove the existing overhead facilities
- + 3) The net book value of the existing overhead facilities
- 4) The estimated cost that would be incurred to install new overhead facilities, in lieu of underground, to replace the existing overhead facilities (the "Hypothetical Overhead Facilities")
- 5) The estimated salvage value of the existing overhead facilities to be removed
- + 6) \$10,400 per pole-line mile of the existing overhead facilities - the 30-year net present value of the estimated underground v. overhead operational costs differential
- 7) The 30-year net present value of the estimated average Avoided Storm Restoration Costs ("ASRC")

	<b>Scenarios (\$000's)</b>			
	<b>(a) GAF Eligible</b>	<b>(b) Tier 1</b>	<b>(c) Tier 2</b>	<b>(d) Tier 3</b>
	1,000	1,000	1,000	1,000
	100	100	100	100
	300	300	300	300
	(700)	(700)	(700)	(700)
	(100)	(100)	(100)	(100)
	10	10	10	10
	-	(153)	(61)	(31)
<b>CIAC</b>	<b><u>610</u></b>	<b><u>458</u></b>	<b><u>549</u></b>	<b><u>580</u></b>
<b>GAF Waiver:</b>				
25% x the otherwise applicable CIAC	(153)			
+ 75% x the ASRC	-			
<b>GAF Waiver</b>	<b><u>(153)</u></b>	<b><u>n/a</u></b>	<b><u>n/a</u></b>	<b><u>n/a</u></b>
<b>Net CIAC</b>	<b><u>458</u></b>	<b><u>458</u></b>	<b><u>549</u></b>	<b><u>580</u></b>