State of Florida

Public Service Commission

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

11 JUL 14 AM 11:03

COMMISSION CLERK

RECEIVED-FPSC

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

DATE: July 14, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Draper)
Office of the General Counsel (Norris)

RE: Docket No. 110194-EI – Petition by Florida Power & Light Company for approval of amendment to economic development rider rate schedule and new existing facility economic development rider rate schedule.

AGENDA: 07/26/11 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 07/31/11 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110194.RCM.DOC

Case Background

On June 1, 2011, Florida Power & Light Company (FPL) filed a petition for approval of an amendment to its current Economic Development Rider (EDR) and a new Existing Facility Economic Development Rider (EFEDR) and associated service agreement. On June 23, 2011, FPL responded to Staff's First Data Request. FPL's current EDR rate schedule was approved by Order No. PSC-98-0603-FOF-EI.[1]

The Commission has jurisdiction pursuant to Sections 288.035 and 366.06, Florida Statutes (F.S.).

[1] Order No. PSC-98-0603-FOF-EI, issued April 28, 1998, in Docket No. 980294-EI, In re: Petition by Florida Power & Light Company for approval of Economic Development Rider Rate Schedule and Agreement.

Discussion of Issues

Issue 1: Should the Commission approve FPL's proposed amendments to its Economic Development Rider (EDR) rate schedule?

Recommendation: Yes, the Commission should approve FPL's proposed amendments to its EDR rate schedule. (Draper)

Staff Analysis:

Description of EDR. FPL's current EDR rate schedule allows FPL to offer commercial/industrial customers a declining discount on the base energy and demand charges over four years. The EDR is available to new customers (new load) or to existing customers who expand their operations (incremental load). An applicant for the EDR has to meet two minimum requirements: (1) new or incremental load must be a minimum of 5,000 kilowatt (kW) at a single delivery point; and (2) the applicant must employ an additional work force of at least 75 full-time employees per 1,000 kW of new or incremental load. This requirement guarantees that at least 375 new positions are created. In the case of an existing customer who chooses to expand, the discount applies only to the incremental load.

A customer choosing to take service under the EDR will be required to sign a 5-year Service Agreement (agreement) with FPL and provide verification that the availability of the EDR is a significant factor in the customer's location decision. Service under the EDR terminates at the end of the fifth year. The discount is applied to the customers' base demand and energy charges in the following manner: 20 percent in the first year; 15 percent in the second year; 10 percent in the third year; 5 percent in the fourth year; and in the fifth year the customer pays the otherwise applicable charges. Regardless, customers always pay the otherwise applicable customer charge and all otherwise applicable cost recovery clauses. The latter requirement ensures that the general body of ratepayers is not being harmed by the EDR through the cost recovery clauses.

Proposed amendments to EDR. In support of its petition, FPL explains that while the EDR was designed to enhance economic development, it has met with limited success. FPL states that since its approval in 1998, FPL has only had two customers take service under the EDR. Given the current economic climate, FPL believes that there is a need to promote economic development in Florida by amending the EDR to make it more attractive to a wider base of commercial customers. FPL therefore proposes to reduce the minimum new or incremental load requirement from 5,000 kW to 500 kW and to reduce the job creation requirement from 75 employees per 1,000 kW to 10 employees per 500 kW. This reduces the minimum job creation requirement from 375 employees to 10 employees. The employment requirement for customers applying for the EDR after June 1, 2013, is 25 jobs per 500 kW. The jobs created must be full-time positions and must be maintained as long as the customer takes service under the EDR (or EFEDR as discussed in Issue 2). Therefore, temporary construction jobs would not qualify the customer for either rate schedule.

Customers at the 5,000 kW level include industries such as aggregate mining, universities, or retail distribution warehouses. FPL currently has 67 customers over the 5,000 kW level of load. Customers that fall into the 500 kW load level include schools, grocery stores, large banks, office buildings, electronic manufacturing, and hotels. FPL has approximately 3,700 customers over the 500 kW level.

The majority of customers at the 500 kW load level take service under FPL's GSLD-1 rate. In 2010, the average usage for customers on the GSLD-1 rate was 637 kW and 233,420 kilowatt-hours (kWh). The current electric bill at this usage is $19,711 (excluding any taxes) and is comprised of: a $50.13 customer charge; $6,954 base demand and energy charges; and $12,707 fuel and other cost recovery clauses. The EDR discount only applies to the base demand and energy charges. Staff notes that commercial customers differ greatly in size and usage; therefore, the discount a customer applying for the EDR rate schedule can expect will vary.

Treatment of revenue shortfall. In Order No. PSC-98-0603-FOF-EI, the Commission approved FPL's request to recover the revenue shortfall associated with offering EDR customers a rate discount as an economic development expense under Section 288.035, F.S., and Rule 25-6.0426, Florida Administrative Code (F.A.C.). Subsection (3) of Rule 25-6.0426, F.A.C., places a cap on the amount of economic development expenses which can be reported for surveillance reports and earnings review calculations. The current cap for FPL is $3 million. Based on FPL's May 15, 2011 Surveillance Report, FPL's economic development expenses for the 12-month period ending March 2011 are $250,060 on a retail jurisdictional basis. Subsection (4) of the rule states at the time of each utility's next rate case, the Commission will determine the level of sharing of prudent economic development costs and the future treatment of these expenses for surveillance purposes.

Impact on general body of ratepayers. FPL states that between rate cases, customers would not see an increase in rates nor would there be any other adverse impacts of the proposed rate schedules. FPL further notes that customers may benefit indirectly due to the positive impact on Florida's economy of the new EDR or EFEDR (discussed in Issue 2) customers. In FPL's next base rate proceeding, the amount of economic development expenses recoverable under the EDR and EFEDR rate schedules would have a base rate impact. However, FPL states that any load located in FPL's service territory as a result of the EDR or EFEDR rate schedules may lower or offset some or all of the base rate impact of the economic development expense by spreading fixed cost among a larger customer base.

The EDR tariff includes a provision that allows FPL to close the EDR to new applicants when FPL's economic development expenses from the EDR, together with FPL's other economic development expenses, exceed the maximum amount allowed by Rule 25-6.0426(3), F.A.C., currently set a $3 million annually. For FPL, a $3 million addition in economic development expenses in a rate case would result in an approximate $0.03 impact on a monthly 1,000 kWh residential bill.

Conclusion. Staff recommends approval of FPL's proposed modifications to the EDR rate schedule. The modifications are designed to make the EDR more attractive to a broader range of commercial customers, thus fostering economic growth and job creation. While the exact impact on the general body of ratepayers in FPL's next base rate case proceeding is difficult to project at this time, staff believes that any impact will be minimal.

Issue 2: Should the Commission approve FPL's proposed new Existing Facility Economic Development Rider (EFEDR) and associated service agreement?

Recommendation: Yes, the Commission should approve FPL's proposed new EFEDR and associated service agreement. (Draper)

Staff Analysis: The EFEDR is available for the establishment of new load in commercial or industrial space that has been vacant for more than six months. Service under the EFEDR is limited to customers adding at least 500 kW of new load at a single delivery point and who create at least 10 new full-time jobs per 500 kW. The employment requirement for customers applying after June 1, 2013, is 25 additional full-time jobs per 500 kW.

The EFEDR will provide a similar discount as the EDR, but with higher percentage discounts extending over five years. The discount is applied to the base demand and base energy charges in the following manner: 25 percent in the first year; 20 percent in the second year; 15 percent in the third year; 10 percent in the fourth year; and 5 percent in the fifth year. FPL notes that the increased discount is reasonable and appropriate because the customer's facility and the associated electrical equipment needed to serve the customer is already in place, minimizing the incremental cost on the part of FPL to establish service.

FPL states that filling vacant facilities would provide numerous benefits to FPL customers, as well as the state as a whole, including the direct benefits of creating jobs and increasing the customer base, which allows long-term costs to be spread over a larger number of customers. As with the EDR discussed in Issue 1, FPL proposes to report the economic development discounts pursuant to Rule 25-6.0426, F.A.C. The EFEDR rate schedule also includes a provision that allows FPL to close the rate schedule to new applicants when FPL's economic development expenses from the EFEDR, together with FPL's other economic development expenses, exceed the maximum amount allowed by Rule 25-6.0426(3), F.A.C.

Staff recommends approval of FPL's proposed new EFEDR rate schedule and associated service agreement. The EFEDR is designed to fill vacant buildings with commercial customers, which will provide benefits such as job creation and increasing FPL's customer base.

Issue 3: Should this docket be closed?

Recommendation: Yes. If Issues 1 and 2 are approved, the tariffs should become effective on July 26, 2011. If a protest is filed within 21 days of the issuance of the order, the tariffs 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. (Draper, Norris)

Staff Analysis: If Issues 1 and 2 are approved, the tariffs should become effective on July 26, 2011. If a protest is filed within 21 days of the issuance of the order, the tariffs 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.