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COMMISSION
CLERK

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DATE: September 22, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (A. Roberts, Draper)
Office of the General Counsel (Jaeger)

RE: Docket No. 110094-EI – Petition for approval of revised underground residential and commercial differential tariffs, by Florida Power & Light Company.

AGENDA: 10/04/11 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 12/01/11 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110094.RCM.DOC

Case Background

Rule 25-6.078, Florida Administrative Code (F.A.C), sets forth the responsibilities of electric investor-owned utilities (IOUs) for filing updated underground residential distribution (URD) tariffs for new subdivisions. This rule requires IOUs to file updated URD charges for Commission approval at least every three years, or sooner if its underground cost differential for the standard low-density subdivision varies from the last approved charge by 10 percent or more. The rule requires IOUs to annually file, on or before October 15, a schedule showing the increase or decrease in the differential for the standard low-density subdivision. FPL's current URD charges were approved in Order No. PSC-10-0578-TRF-EI.[1]

[1] Order No. PSC-10-0578-TRF-EI, issued September 21, 2010, Docket No. 100166-EI, In re: Petition for approval of revised underground residential and commercial differential tariffs, by Florida Power & Light Company.

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On October 15, 2010, Florida Power & Light Company (FPL) notified the Commission, pursuant to Rule 25-6.078(3), F.A.C., that its underground cost differential for the standard low-density subdivision increased from the last approved differential by 23 percent. To comply with the 10 percent filing requirement of the rule, on April 1, 2011, FPL filed a petition for Commission approval of revisions to its Underground Residential Distribution (URD) tariffs and their associated charges. In conjunction, FPL also petitioned the Commission for approval of its Underground Commercial/Industrial Distribution (UCD) tariffs and their associated charges. The URD and UCD tariffs apply to new residential and commercial developments and represent the additional costs FPL incurs to provide underground distribution service in place of overhead service.

By Order No. PSC-11-0251-PCO-EI, issued on June 13, 2011, the Commission suspended FPL's proposed tariffs. On June 22, 2011, FPL responded to staff's first data request. While developing the responses to staff's data request, FPL found two errors in the April 1, 2011 filing, and submitted corrected tariff sheets and supporting documentation.[2] These two errors impacted the URD and UCD charges, resulting in a slight decrease in the differential from the original filing.

This recommendation addresses FPL's revised URD and UCD tariffs and their associated charges. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.05, Florida Statutes.

[2] FPL determined that the 8.12 percent stores loading rate used in the April 1, 2011, filing should have been 8.34 percent; and the 30.46 percent engineering overhead rate used in the April 1, 2011, filing should have been 26.94 percent.

Discussion of Issues

Issue 1: Should the Commission approve FPL's revised Underground Residential Distribution (URD) tariffs and their associated charges?

Recommendation: Yes, the Commission should approve FPL's revised URD tariffs and their associated charges. (A. Roberts, Draper)

Staff Analysis: The URD charges represent the additional cost FPL incurs to provide residential underground distribution service in place of overhead service, and are calculated based on the cost of underground facilities and their equivalent overhead design. The URD differential is paid by the customer (usually the developer) as a contribution in aid of construction (CIAC). The URD tariffs provide standard charges for certain types of underground service, and apply to new residential developments such as subdivisions and townhouses.

FPL's URD charges are developed based on three model subdivisions: (1) a 210-lot low density subdivision, (2) a 176-lot high density subdivision, and (3) mobile homes. All four of the largest investor-owned electric utilities use the same standardized model subdivisions to develop their URD charges.

Table 1-1 shows the current and proposed per-service lateral URD charges for the low- and high-density subdivisions. The current and proposed URD charge for mobile homes is $0.

Table 1-1

Types of Subdivision	Number of Service Laterals in Subdivision	Current URD Charges	Proposed URD Charges
Low Density	1 – 200 or more	$12.39	$82.55
	2 – 85 – 199	$242.39	$312.55
	3 – less than 85	$319.39	$389.55
High Density	1 – 300 or more	$0	$0
	2 – 100 – 299	$0	$0
	3 – less than 100	$5.63	$71.88

Components of URD charges

As required by Rule 25-6.078, F.A.C., the URD charges consist of three components: (1) pre-operational costs, (2) non-storm operational costs, and (3) avoided storm restoration costs. The pre-operational costs represent the cost differential in material and labor costs to install an underground versus an overhead system, and are the only cost component FPL is proposing to change at this time. The non-storm operational costs represent the cost differential between maintaining and operating an underground versus an overhead system over the life of the facilities. Pursuant to Order No. PSC-10-0247-FOF-EI,[3] FPL's non-storm operational component of the URD calculation is set at $0 for the three subdivisions until January 1, 2013. Finally, the storm cost component of the URD charge represents avoided storm restoration costs when an area is undergrounded, and is subtracted from the pre-operational costs, thus reducing the URD charge. The avoided storm restoration costs were approved in Order PSC-08-0774-TRF-EI.[4] For clarity, Attachment A to this recommendation shows the three components of the URD charges discussed above.

Updated pre-operational costs. The proposed pre-operational costs are based on FPL's system-wide unit cost for labor and material which were in use at the end of 2010. Underground and overhead facilities included in the cost differential include primary laterals, secondary and service lines, and transformers. The costs for poles are included in providing overhead service. The costs for trenching and backfilling are included in providing underground service. Labor costs are based on actual labor rates for FPL employees and contract labor.

The pre-operational costs have increased as shown in Table 1-2, resulting in the overall increase of the URD charges.

Table 1-2

Type of Subdivision	Current Pre-operational Costs	Proposed Pre-operational Costs
210-lot low density	$396.39	$466.55
176-lot high density	$82.63	$148.88
Mobile Homes[5]	$0	$0

FPL explains that three main factors contributed to the increase in pre-operational costs. First, labor rates for underground work increased more than labor rates for overhead work, resulting in an increasing impact on the differential. FPL further explains that while underground manhours decreased and overhead manhours increased, thus decreasing the

[3] Order No. PSC-10-0247-FOF-EI, issued April 22, 2010, in Docket No. 080244-EI, In re: Petition for approval of underground conversion tariff revisions by Florida Power and Light Company, and in Docket No. 070231-EI, In re: Petition for approval of 2007 revisions to underground residential and commercial distribution tariff, by Florida Power and Light Company.
[4] Order No. PSC-08-0774-TRF-EI, issued November 24, 2008, Docket No. 070231-EI, In re: Petition for approval of 2007 revisions to underground residential and commercial distribution tariff, by Florida Power and Light Company.
[5] The calculated pre-operational cost differential is ($148.16) compared to ($189.86) in 2010. Since the differential is a negative amount, the charge is set at $0.

differential, it was not enough to offset the impact of the labor rates. Labor rates reflect actual labor rates for FPL employees and FPL contract labor.

Second, changes in material costs contributed to the increase in the pre-operational differential. FPL states that the increases for material costs can be attributed to the increased commodity prices for aluminum (used in manufacturing of cable and wire) and manufactured plastics (used in the manufacturing of conduit, cable insulation, and underground terminators). The increases for transformer costs can be attributed to higher raw material costs, higher costs associated with the Department of Energy's recently mandated efficiency design requiring a higher quality of steel and additional copper content, and increased transportation costs. Overhead pole costs, on the other hand, decreased.

Staff notes that material costs may have different impacts on the low-density versus the high density-subdivision. Material costs are a function of the different designs used for each subdivision, different material requirements, and changes in unit prices for specific materials.

Third, the increased stores loading had a small upward impact on the pre-operational differential. FPL proposed to increase the stores loading rate from 7.11 percent to 8.34 percent, due to higher stores expenses. The stores loading charge is applied to all open construction work orders and represents the cost of operating storerooms. The increased stores loading rate is applied to the cost of material, and impacts underground more than overhead due to the larger amount of material cost for the underground design, thus having an increasing impact on the differential.

FPL's proposed URD tariff also provides for updated charges to reflect current labor and material costs for additional customer-requested equipment such as feeder mains or switch package. Finally, FPL's tariff provides for a credit if the customer installs certain equipment, such as a splice box, handhole, or concrete pad for transformer.

The charges shown in Table 1-1 apply if FPL supplies and installs all the equipment and materials. FPL's URD tariff also provides for reduced URD charges if the customer provides the trench and installs the conduit. Staff notes that Rule 25-6.078(7), F.A.C., provides that any credit shall be no more in amount than the total charges applicable.

Conclusion

Staff has reviewed FPL's proposed URD charges and associated tariffs, and their accompanying work papers, and believes the proposed URD charges are reasonable and recommends approval.

Issue 2: Should the Commission approve FPL's revised Underground Commercial Distribution (UCD) tariffs and their associated charges?

Recommendation: Yes. Staff believes the proposed UCD charges are reasonable and recommends approval. (A. Roberts, Draper)

Staff Analysis: The UCD charges represent the additional costs FPL incurs to provide commercial and industrial customers underground distribution service in place of overhead service. Generally, the UCD charges are tailored to specific equipment and materials that are utilized to provide underground service to a single or limited number of commercial buildings in distinct and widely varying circumstances. The UCD tariffs are not governed by Rule 25-6.078, F.A.C.; however, FPL has incorporated the cost effects of hardening its overhead system in the calculations of its UCD charges.

The UCD tariff contains charges for commercial underground distribution facilities such as laterals, risers, pad-mounted transformers, and hand-holes. In addition, the UCD tariff provides for credits that apply if the applicant provides trenching and backfilling. The UCD charges are derived from cost estimates of underground commercial facilities and their equivalent overhead designs. These cost estimates are based on FPL's standard design, estimating practices, and the system costs, which were in use at the end of 2010.

Staff has reviewed the UCD proposed tariff charges and their accompanying work papers, and believes the charges are reasonable. Unlike the URD tariffs, the UCD tariffs are not governed by Rule 25-6.078, F.A.C, and utilities are not required to file them; however, staff believes the filing of the standard charges promotes transparency, efficiency, and reduces controversy regarding the UCD charges. Staff believes the proposed UCD charges are reasonable and recommends approval.

Issue 3: Should this docket be closed?

Recommendation: Yes. If issues 1 and 2 are approved, the tariffs should become effective on November 3, 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. (Jaeger)

Staff Analysis: If issues 1 and 2 are approved, the tariffs should become effective on November 3, 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.

Attachment A

Components of the URD Charges					
Type of Subdivision	**Number of Service Laterals in Subdivision**	**Pre-Operational Costs (A)**	**Non-storm Operational Costs (B)**	**Avoided Storm Costs (C)**	**Proposed URD Charges (A)+(B)+(C)**
Low Density	1 – 200 or more	$466.55	$0	($384)	**$82.55**
	2 – 85 - 199		$0	($154)	**$312.55**
	3 – less than 85		$0	($77)	**$389.55**
High Density	1 – 300 or more	$148.88	$0	($384)	**$0**
	2 – 100 - 299		$0	($154)	**$0**
	3 – less than 100		$0	($77)	**$71.88**
Mobile Homes	1 – 300 or more	$0	$0	($384)	**$0**
	2 – 100 - 299		$0	($154)	**$0**
	3 – less than 100		$0	($77)	**$0**