

State of Florida



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-

DATE: August 26, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ward, Draper) *JGH*
Office of the General Counsel (Brownless) *JSC*

RE: Docket No. 20220089-EI – Petition for approval of modifications to rate schedule tariff sheet No. 4.122 and determination under Rule 25-6.115(12), F.A.C, by Duke Energy Florida, LLC.

AGENDA: 09/08/22 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 12/29/22 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

Case Background

On April 29, 2022, Duke Energy Florida, LLC (Duke or utility) filed a petition for approval to modify Tariff Sheet No. 4.122 and determination under Rule 25-6.115(12), Florida Administrative Code (F.A.C.), that the limited waiver of certain costs is warranted. In its petition, Duke requested that the costs identified in Rule 25-6.115(8)(b), F.A.C., be excluded from the contribution-in-aid-of-construction (CIAC) calculation for customers requesting to underground overhead distribution facilities that have not been hardened under the utility's Storm Protection Plan filed pursuant to Section 366.96, Florida Statutes (F.S.), and Rule 25-6.030, F.A.C. Rather, the utility requests that these costs be included in net plant in service per Rule 25-6.115(12), F.A.C.

In Order No. PSC-2022-0209-PCO-EI the Commission suspended Duke's proposed revisions to Tariff Sheet No. 4.122 to allow staff time to gather additional data. On June 6, 2022, staff issued

Docket No. 20220089-EI

Date: August 26, 2022

its first data request, to which Duke responded on July 6, 2022. On August 17, 2022, staff held an informal conference call with the utility to get additional information regarding Duke's proposal. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should the Commission grant Duke's petition for a determination under Rule 25-6.115(12), F.A.C., to waive certain costs and approve the associated revised Tariff Sheet No. 4.122?

Recommendation: Yes. The Commission should grant Duke's petition for a determination under Rule 25-6.115(12), F.A.C., to waive certain costs and approve the associated revised Tariff Sheet No. 4.122. As required by Rule 25-6.115(12), F.A.C., Duke has provided an analysis quantifying the benefits of waiving certain costs from the CIAC calculation for customers choosing to underground non-hardened overhead distribution facilities. Staff believes Duke's analysis showing the expected storm restoration savings as a result of undergrounding is reasonable. In addition, encouraging the undergrounding of non-hardened facilities provides benefits to the general body of ratepayers through future reductions in Storm Protection Plan costs. (Ward, Draper)

Staff Analysis:

Current CIAC Calculation

Rule 25-6.115, F.A.C., and Duke's tariff provide the terms under which applicants are to pay CIAC for the conversion of existing overhead distribution facilities to underground. The CIAC is designed to recover the incremental costs Duke incurs resulting from a conversion, over and above the cost of serving the conversion area with overhead facilities. Overhead service is paid by all customers through base rates. In lieu of overhead service, customers have the option of requesting to convert existing overhead to underground facilities. The CIAC paid by an applicant is to ensure that the general body of ratepayers do not bear any costs associated with the conversion.

The formula to calculate CIAC is defined in Rule 25-6.115(8), F.A.C., and in Duke's Tariff Sheet No. 4.122 (the tariff refers to the CIAC as Facility Charge). Paragraph (8)(b) of the rule requires Duke to include the estimated remaining net book value of the existing facilities to be removed less the estimated net salvage value of the facilities to be removed (existing facilities cost). Paragraph (12) of the rule allows a utility to waive all or any portion of the cost for providing underground facilities. If the utility waives any charge, the utility is required to reduce net plant in service unless the Commission determines that there is a quantifiable benefit to the general body of ratepayers commensurate with the waived charge.

Storm Protection Plan and Cost Recovery

In February 2020, Rules 25-6.030, F.A.C., Storm Protection Plan (SPP), and 25-6.031, F.A.C., Storm Protection Plan Cost Recovery Clause (SPP Clause), were implemented to codify Section 366.96, F.S. These rules establish a utility's process for reporting to the Commission its hardening efforts for transmission and distribution facilities from extreme weather events and to allow for the recovery of prudent hardening-related costs. Under the SPP, a utility must provide the Commission with a storm protection plan outlining its hardening initiatives for the upcoming 10-year period. In addition, the utility must update its plan with the Commission every three years. The SPP Clause allows the utility to seek recovery from the general body of ratepayers of these hardening costs through an annual cost recovery mechanism. Prior to the SPP statute being

implemented, utilities made investments in storm hardening under Rule 25-6.042, F.A.C. (storm hardening rule).

Duke's Proposal

Duke's proposed modifications would exclude the cost of existing facilities from the calculation of the CIAC for customers requesting to underground overhead facilities that have not been hardened under the utility's SPP. Attachment A to the recommendation is Duke's proposed revision to Tariff Sheet No. 4.122, which contemplates that elements a, b, and c of the CIAC formula be excluded from the CIAC calculation for an applicant that intends to convert qualifying, non-hardened overhead facilities to underground. Specifically, the elements to be excluded are: a) the remaining net book value of existing overhead facilities to be removed, b) the removal cost of existing overhead facilities, and c) the salvage value of existing overhead facilities.

In general, hardening includes the strengthening of the overhead system or the conversion of overhead to underground. To support its petition, Duke stated the utility intends to eventually harden all overhead facilities as part of its SPP and seek cost recovery through the SPP Clause paid by all customers. Duke contends that customers who pay CIAC to underground non-hardened facilities are effectively hardening the facilities and, thereby, save the general body of ratepayers from the cost of having to harden those facilities through the SPP Clause. Duke explained that the utility will review each request for undergrounding to determine if the distribution lines were previously hardened under the SPP to ensure that only facilities that have not been hardened yet are eligible for the proposed revised CIAC calculation.

Duke states in response to a staff data request that the utility has just begun the hardening of its lateral lines under its SPP and that approximately 96 percent of current lateral lines still require hardening efforts. The utility states that it will take approximately 40 years to complete the hardening of these facilities.

Duke's tariff specifies the terms and conditions for customers, or applicants, seeking the undergrounding of existing distribution facilities by Duke. The tariff also defines which distribution facilities do not qualify for underground conversions pursuant to Tariff Sheet No. 4.122. To provide context, staff included Tariff Sheet Nos. 4.120 and 4.121 (pages 1 and 2 of Attachment A), which shows which customers qualify and which do not qualify for conversion pursuant to this tariff. Municipalities are typically the type of customer requesting the undergrounding of distribution facilities. The utility noted that in 2021, three municipalities requested a conversion that would have qualified under this proposal. The average CIAC for the three municipalities was \$1.53 million. If the proposed tariff revision is approved, Duke stated that customers with active underground conversion projects for facilities that were not previously hardened will receive a reduction in the CIAC estimate already received.

In addition, Duke requests that the Commission determine that there are quantifiable benefits to the general body of ratepayers from the exclusion of the existing non-storm hardened facilities cost from the CIAC calculation for the underground conversions. This Commission determination would allow Duke, pursuant to Rule 25-6.115(12), F.A.C., to treat these existing facilities costs as net plant in service costs that can be recovered from all customers.

In response to staff's first data request, Duke provided an analysis quantifying the benefits of undergrounding. Specifically, based on three undergrounding projects, Duke compared the estimated storm restoration savings for a hardened overhead system to the estimated storm restoration savings for the same underground system over 40 years. Duke explained that while both a hardened overhead system and an underground system provide savings in storm restoration costs, an underground system provides greater savings. Duke's analysis shows that an underground system, on a net present value basis, provides 45 percent greater savings in storm restoration costs on a per mile basis compared to a hardened overhead system. Staff reviewed Duke's analysis, and based on the three projects chosen by Duke, it appears reasonable.

Benefit to the General Body of Ratepayers

Duke stated in its petition four benefits to the general body of ratepayers from excluding the cost from the calculation of CIAC for underground conversions of the existing non-hardened overhead facilities. First, Duke asserts that the general body of ratepayers would not pay any additional costs related to the conversion because these costs would eventually be included as part of Duke's SPP Clause process. Second, Duke asserts that in instances where the utility's SPP is scheduled to keep the existing facilities overhead, but hardened, the utility states that undergrounding provides greater storm resiliency which would benefit all customers. Third, Duke states that because the converting customer is accelerating the timing of when the utility would have hardened the facilities, the general body of ratepayers would receive the benefits of such hardening more quickly. Finally, the utility asserts that the cost of conversion may incentivize more customers to convert, which would further reduce the hardening projects that the general body of ratepayers would have to pay through the SPP Clause.

The Commission has previously recognized the benefits of undergrounding. In 2007, Rule 25-6.115, F.A.C., was amended to include in the CIAC calculation the cost of maintenance and storm restoration activities over time to capture the longer-term costs and benefits of undergrounding. Prior to this rule amendment, the CIAC was based on estimated work order cost only.

In 2018, the Commission approved the same revision to the CIAC calculation and the request to include the waived existing facilities cost in net plant in service for Florida Power & Light Company (FPL).¹ The SPP Clause rule was not in effect in 2017; however, utilities made storm hardening investments pursuant to the storm hardening rule with Commission-approved costs being born by the general body of ratepayers through base rates.

Conclusion

Based on the discussion above, staff recommends that the Commission should grant Duke's petition for a determination under Rule 25-6.115(12), F.A.C., to waive certain costs and approve associated revised Tariff Sheet No. 4.122. As required by Rule 25-6.115(12), F.A.C., Duke has provided an analysis quantifying the benefits of waiving certain costs from the CIAC calculation for customers choosing to underground non-hardened overhead distribution facilities. Staff believes Duke's analysis showing the expected storm restoration savings as a result of

¹ Order No. PSC-2018-0050-TRF-EI, issued January 22, 2018, in Docket No. 20170148-EI, *in Re: Petition for determination under Rule 25-6.115, F.A.C., and approval of associated revised tariff sheet 6.300, by Florida Power & Light Company.*

undergrounding is reasonable. In addition, encouraging the undergrounding of non-hardened facilities provides benefits to the general body of ratepayers through future reductions in Storm Protection Plan costs.

Issue 2: Should this docket be closed?

Recommendation: If a protest is filed within 21 days of the issuance of the order approving the proposed tariffs, the current tariffs should remain in effect pending resolution of the protest. If no timely protest is filed, the approved tariffs should go into effect, and the docket be closed, upon the issuance of a consummating order. (Brownless)

Staff Analysis: If a protest is filed within 21 days of the issuance of the order approving the proposed tariffs, the current tariffs should remain in effect pending resolution of the protest. If no timely protest is filed, the approved tariffs should go into effect, and the docket be closed, upon the issuance of a consummating order.



SECTION NO. IV
FOURTH REVISED SHEET NO. 4.120
CANCELS THIRD REVISED SHEET NO. 4.120

Page 1 of 6

PART XII

CHARGES FOR CONVERSION OF EXISTING OVERHEAD TO UNDERGROUND ELECTRIC DISTRIBUTION FACILITIES

12.01 DEFINITIONS:

The following words and terms used under this Part shall have the meaning indicated:

- (1) Applicant: The Applicant is the person or entity seeking the undergrounding of existing or newly planned electric distribution facilities by the Company. When a developer requests local government development approval, the local government shall not be deemed the Applicant for purposes of these rules.
- (2) Commission: Florida Public Service Commission.
- (3) Cost Estimate Fee: A fee charged an Applicant by the Company for the purpose of preparing a cost estimate of the amount required for the Company to construct or convert particular distribution facilities as underground.
- (4) Company: Duke Energy Florida, LLC
- (5) Distribution Facilities: All electrical equipment of the Company required to deliver electricity to homes and businesses.
- (6) Facility Charge: That charge required to be paid by an Applicant for the Company to construct or convert particular distribution facilities as underground.
- (7) Overhead: Pertains to distribution facilities consisting of conductors, switches, transformers, etc. which are installed above ground on supporting poles.
- (8) Underground: Pertains to distribution facilities consisting of conductors, switches, transformers, etc. which are installed below ground or on the ground.

12.02 GENERAL:

- (1) Application:
Underground electric distribution facilities are offered in lieu of overhead facilities in accordance with these rules.
- (2) Applicant Request:
An Applicant shall submit a request in writing for the Company to develop a cost estimate to accomplish the undergrounding of particular electric facilities. The request shall be accompanied by an appropriate fee and shall specify the following information:
 - (a) the area(s) being sought to be undergrounded;
 - (b) a list of all electric customers affected;
 - (c) an estimated time frame for undergrounding to be accomplished;
 - (d) details of any construction by the Applicant; and
 - (e) any other pertinent information which the Applicant possesses that may aid the Company in preparing an appropriate cost estimate.

(Continued on Next Page)

ISSUED BY: Thomas G. Foster, Vice President, Rates & Regulatory Strategy – FL
EFFECTIVE: January 1, 2022



SECTION NO. IV
SIXTH REVISED SHEET NO. 4.121
CANCELS FIFTH REVISED SHEET NO. 4.121

12.03 INSTALLATIONS NOT COVERED:

The following types of electrical installations are not addressed in these rules:

- (A) Distribution lines, new or existing, in urban commercial area, urban residential area, rural residential area, or existing subdivisions will not be considered for undergrounding if sufficient permits or easements cannot be obtained. The request will not be considered unless all customers on both sides of the road or street who are served by the supply system to be undergrounded are included in the proposed conversion.
- (B) Distribution lines in new residential subdivisions. These installations are covered under "Rules of the Florida Public Service Commission", Chapter 25-6, Part V, "Rules for Residential Electric Underground Extensions", and the Company's "General Rules and Regulations Governing Electric Service", Part XI.
- (C) Individuals applying for undergrounding of service laterals from existing overhead lines. These applications will be covered by rules referenced in 12.03(B) above.
- (D) Electrical distribution circuits serving street or area lighting. Requests for undergrounding circuits of this category will be treated on an individual basis.

12.04 COST ESTIMATE FEES:

- (1) Non-Binding Cost Estimate Fee:

The Company will provide a non-binding cost estimate related to the request at no cost to the Applicant. Such estimate shall not have any guarantee as to its accuracy and shall not be binding upon the Company.

- (2) Binding Cost Estimate Fee

The following schedule of fees shall apply to the Applicant for engineering design time to establish a binding cost estimate by the Company for the request. Such fee shall be recognized as a credit in the Facility Charge determination if the Applicant enters into a construction contract within 180 days from date of receipt of the binding cost estimate. At the discretion of the Company, the time from submittal of the cost estimate to entering a contract may be extended beyond 180 days. A major scope change by the Applicant may require a new fee amount.

SCHEDULE OF BINDING COST ESTIMATE FEES

<u>Facility Classification</u>	<u>Fee</u>
Urban Commercial	\$4,234 per mile
Urban Residential	\$3,476 per mile
Rural Residential	\$2,549 per mile
Low Density Subdivision	\$ 15 per lot
High Density Subdivision	\$ 13 per lot

(Continued on Next Page)

ISSUED BY: Thomas G. Foster, Vice President, Rates & Regulatory Strategy - FL
EFFECTIVE: January 1, 2022



SECTION NO. IV
~~EIGHTH-NINTH~~ REVISED SHEET NO. 4.122
CANCELS ~~SEVENTH-EIGHTH~~ REVISED SHEET NO. 4.122

Page 3 of 6

12.05 CONSTRUCTION CONTRACT:

(1) GENERAL:

Upon acceptance by the Applicant of the binding cost estimate, the Applicant shall execute a contract with the Company to perform the construction of the underground distribution facilities. The contract shall specify the type and character of system to be provided; establish the Facility Charge to be paid by Applicant prior to commencement of construction; specify details of construction to be performed by Applicant, if any; and address any other pertinent terms and conditions including those described in Part (4) below.

(2) FACILITY CHARGE:

Charge = a) Remaining net book value of existing overhead facilities to be removed*;
plus, b) removal cost of existing overhead facilities*;
minus, c) salvage value of existing overhead facilities*;
plus, d) estimated construction cost of underground facilities including
underground service laterals to residential customers meters or point
of delivery for general service customers;
minus, e) estimated construction cost of overhead facilities including overhead
service drops to customers' meters;
minus, f) qualifying binding cost estimate fee.
plus/minus, -g) the net present value of the lifecycle operational costs differential
including storm restoration.

* In calculating the Applicant's Facility Charge, elements a, b, and c of the Facility Charge formula above are to be excluded from Facility Charge due from an Applicant who submits an application providing a binding notification that the Applicant intends to convert existing non-hardened overhead facilities to underground facilities.

The actual or estimated costs applied to the facility charge shall be consistent with the standards of the Company's approved Storm Protection Plan.

3) CONSTRUCTION BY APPLICANT:

If agreed upon by both the Applicant and the Company, the Applicant may construct or install portions of the underground system as long as such work meets the Company's engineering and construction standards. The Company will own and maintain the completed distribution facilities upon accepting the system as operational. The type of system provided will be determined by the Company's standards.

Any facilities provided by the Applicant will be inspected by Company inspectors prior to acceptance. Any deficiencies discovered as a result of these inspections will be corrected by the Applicant at Applicant's sole expense, including the costs incurred by performing the inspections. Corrections must be made in a timely manner by the Applicant, otherwise the Company will undertake the correction and bill the Applicant for all costs of such correction. These costs shall be added to the original binding estimate.

(Continued on Next Page)

ISSUED BY: Thomas G. Foster, Vice President, Rates & Regulatory Strategy – FL

EFFECTIVE: ~~January 1, 2022~~