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| State of Florida  pscSEAL | | 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: | June 28, 2023 | | |
| TO: | Office of Commission Clerk (Teitzman) | | |
| FROM: | Division of Economics (P. Kelley, Hampson)  Office of the General Counsel (Dose) | | |
| RE: | Docket No. 20230042-EI – Petition for approval of revised underground residential distribution tariff, by Tampa Electric Company. | | |
| AGENDA: | 07/11/23 – Regular Agenda – Tariff Filing – Interested Persons May Participate | | |
| COMMISSIONERS ASSIGNED: | | | All Commissioners |
| PREHEARING OFFICER: | | | Administrative |
| CRITICAL DATES: | | | 11/30/2023 – (8-Month Effective Date) |
| SPECIAL INSTRUCTIONS: | | | None |

Case Background

On March 31, 2023, Tampa Electric Company (TECO or utility) filed a petition for approval of revisions to its Underground Residential Distribution (URD) tariffs and associated charges. These tariffs represent the additional costs, if any, TECO incurs to provide underground service in place of overhead service in new residential subdivisions. TECO’s current URD charges were approved in Order No. PSC-2021-0462-TRF-EI.[[1]](#footnote-1) The proposed URD tariffs are contained in the recommendation as Attachment A.

The Commission suspended the proposed tariffs by Order No. PSC-2023-0160-PCO-EI, issued May, 16, 2023 to allow staff sufficient time to analyze the utility’s filing, pursuant to Section 366.06(3), Florida Statutes (F.S.). Staff issued one data request to the utility on May 5, 2023, for which response was provided on May 19, 2023. 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 approve TECO’s proposed underground residential distribution tariffs and associated charges?

Recommendation:

 Yes, the Commission should approve TECO’s proposed underground residential distribution tariffs and associated charges, effective on the date of the Commission vote. The proposed URD charges are cost-based and staff

recommends approval of the tariffs shown in Attachment A. (P. Kelley, Hampson)

Staff Analysis:

 Rule 25-6.078, Florida Administrative Code (F.A.C.), defines investor-owned utilities’ (IOU) responsibilities for filing updated URD tariffs. TECO has filed the instant petition pursuant to subsection (3) of the rule, which requires IOUs to file supporting data and analyses for updated URD tariffs if the cost differential, using current labor and material costs, varies from the Commission-approved differential by more than 10 percent. On October 14, 2022, pursuant to Rule 25-6.078, F.A.C., TECO informed the Commission that its differential for the low density subdivision would change by more than 10 percent from the differential approved URD charges, requiring TECO to file the instant petition.

The URD tariffs provide standard charges for underground service in new residential subdivisions and represent the additional costs, if any, the utility incurs to provide underground service in place of overhead service. The cost of standard overhead construction is recovered through base rates from all ratepayers. In lieu of overhead construction, customers have the option of requesting underground facilities. Typically, the developer of a new residential subdivision would be the utility customer utilizing the URD tariffs.

In its petition, the utility updated its cost calculations and supporting documentation for its low-density and high-density per lot service lateral cost differentials. The currently approved high-density cost differential is $0.00 and the currently approved low-density cost differential is $370.29. The utility’s calculations determined the per lot undergrounding differential for high-density and low-density subdivisions should be $0.00. While labor and material costs have increased since the 2021 filing, the main reason for the decrease in the low-density differential is a change in the operations cost of overhead versus underground facilities, as discussed further below. A lower, or zero, URD differential charge is typically the result of the avoided storm restoration costs associated with underground facilities, offsetting any higher labor and material costs associated with underground construction.

Table -1

Comparison of URD Differential per Lot

|  |  |  |
| --- | --- | --- |
|  | **Current Differential** | **Proposed Differential** |
| Low-density | $370.29 | $0.00 |
| High-density | $0.00 | $0.00 |

Source: DN 03161-2021 (Docket No. 20210034-EI) and DN 02456-2023 (Docket No. 20230035-EI).

Two primary factors impacted the calculation of TECO’s proposed URD charges which are discussed in greater detail below: (1) updated labor and material costs and (2) updated operational costs.

Updated Labor and Material Costs

The installation costs of both underground and overhead facilities include the labor and material costs to provide primary, secondary, and service distribution lines as well as transformers. The costs of poles are specific to overhead service while the costs of trenching and backfilling are specific to underground service. Table 1-2 compares the currently approved 2021 costs and 2023 costs for underground and overhead labor and material for the two subdivision models.

Table -2

Labor and Material Costs per Lot

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2021 Costs** | **2023 Costs** | **Difference** |
| **Low-density** |  |  |  |
| Underground labor/material costs | $2,441 | $4,108 | $1,667 |
| Overhead labor/material costs | $1,429 | $1,797 | $369 |
| Per lot differential | $1,013 | $2,310 | $1,298 |
| **High-density** |  |  |  |
| Underground labor/material costs | $1,881 | $3,052 | $1,170 |
| Overhead labor/material costs. | $1,122 | $1,413 | $291 |
| Per lot differential | $760 | $1,639 | $879 |

Source: DN 03161-2021 (Docket No. 20210034-EI) and DN 02456-2023 (Docket No. 20230035-EI).

While both overhead and underground labor and material costs increased, underground costs increased at a higher rate, resulting in an increase in the differential. The utility states that the reason for the increase in labor and material costs are due to manufacturers experiencing extraordinary levels of inflation and supply chain shortages that is being passed onto their customers through increased prices, also paired with wages and salaries increasing. The utility further explained that several factors caused material and labor costs for underground construction to escalate at a faster rate than overheard construction. These factors included a higher demand for underground facilities versus that of overhead facilities.

Updated Operational Costs

Rule 25-6.078(4), F.A.C., provides that the differences in net present value (NPV) of operational costs between overhead and underground systems, including average historical storm restoration costs over the life of the facilities, be included in the URD charge. Operational costs include operations and maintenance (O&M) costs and capital costs. The inclusion of the operational costs is intended to capture longer term costs and benefits of undergrounding.

In the current URD petition, TECO used actual costs from storms that impacted TECO’s service area between 2020 and 2022. This resulted in the average annual storm costs being $40,991,120 over the 3-year period. TECO stated that based on impacts and data from Hurricanes Irma and Ian, the utility updated the allocation factors to attribute 99 percent of the storm costs to overhead and 1 percent to underground. Therefore, $40,581,209 (99 percent of the total $40,991,120 storm costs) represents the avoided overhead storm restoration costs when facilities are placed underground.

Table -3

NPV of Operational Costs Differential per Lot

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2021 Calculation** | **2023 Calculation** | **Difference** |
| **Low-density** |  |  |  |
| Underground NPV- Operational Costs | $1,254 | $2,571 | $1,316 |
| Overhead NPV- Operational Costs | $1,897 | $4,928 | $3,032 |
| Per lot Differential | $(642) | $(2,358) | $(1,715) |
| **High-density** |  |  |  |
| Underground NPV- Operational Costs | $584 | $1,208 | $624 |
| Overhead NPV- Operational Costs | $1,408 | $3,656 | $2,248 |
| Per lot Differential | $(825) | $(2,449) | $(1,624) |

Source: DN 03161-2021 (Docket No. 20210034-EI) and DN 02456-2023 (Docket No. 20230035-EI).

As shown above, the overhead operational costs are greater than underground, resulting in operational savings from undergrounding. The NPV differential of operational costs, including avoided storm restoration costs, increased in both low-density and high-density subdivision models, resulting in an increase in the NPV operational cost credit.

To illustrate the calculation for the low-density subdivision URD charge, the 2023 labor and material costs differential is $2,310 (Table 1-2). Subtracting the NPV of operational costs differential of $2,358 (Table 1-3), results in a negative $47.34 URD differential. Since the tariffed URD charge cannot be a negative, it is set at $0.

Other Proposed Tariff Changes

TECO’s proposed URD tariffs also include standard charges for the installation and trenching of underground service laterals from overhead distribution, underground service laterals converted from existing overhead service drops, and non-refundable deposits for cost estimates for the conversion of existing overhead distribution facilities to underground facilities. If a customer requests an underground service lateral, the tariff includes a credit to the customer for avoiding a pole that is otherwise required for overhead service. The charges have been updated to reflect current material and labor costs.

Conclusion

Staff has reviewed TECO’s proposed changes to its URD tariffs and associated charges, the accompanying work papers, and responses to staff’s data request. Staff believes TECO’s proposed URD tariffs and associated charges as filed in the petition are cost-based and recommends approval of the tariffs shown in Attachment A. These tariffs should become effective on the date of the Commission vote.

Issue 2:

 Should this docket be closed?

Recommendation:

If Issue 1 is approved and 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. (Dose)

Staff Analysis:

 If Issue 1 is approved and 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





1. Order No. PSC-2021-0462-TRF-EI, issued December 16, 2021, in Docket No. 20210064-EI, *In re:* *Petition Company for approval of revised underground residential distribution tariff, by Tamp Electric Company.* [↑](#footnote-ref-1)