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: June 27, 2007

TO: Office of Commission Clerk (Cole)

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

RE: Docket No. 070327-EI – Petition for approval of contributions-in-aid-of-construction tariff revision, by Progress Energy Florida, Inc.

AGENDA: 07/10/07 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 07/17/07 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070327.RCM.DOC

Case Background

On May 18, 2007, Progress Energy Florida, Inc. (PEF) filed a petition seeking approval for contribution-in-aid-of-construction (CIAC) tariff revisions to comply with the recent revisions to Rule 25-6.064, Florida Administrative Code (F.A.C.).[1] Rule 25-6.064, F.A.C., addresses the calculation of CIAC for line extensions, excluding new residential subdivisions. The Commission-approved amendments to the rule include: (a) expanding the rule application to include upgrades to existing facilities as well as line extensions, (b) include transformer costs in

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[1] See Order No. PSC-07-0043-FOF-EU, issued January 16, 2007, in Docket No. 060172-EU, In Re: Proposed rules governing placement of new electric distribution facilities underground, and conversion of existing overhead distribution facilities to underground facilities, to address effects of extreme weather events and Docket No. 060173-EU, In Re: Proposed amendments to rules regarding overhead electric facilities to allow more stringent construction standards than required by National Electric Safety Code.

the CIAC calculation, (c) requiring a true-up of the CIAC at a customer's request, and (d) requiring that the CIAC be prorated to future customers.

Section 2.07.C.5.a of the Administrative Procedures Manual (APM) allows staff to administratively approve tariffs filed in response to a Commission rule. However, PEF's proposed tariffs, in addition to implementing the above-described rule amendments, also contain a threshold level at which the proration would be required. This proposal expands the language contained in Rule 25-6.064, F.A.C., and therefore requires Commission approval.

The Commission has jurisdiction over this subject matter pursuant to Section 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve PEF's proposed CIAC tariff revisions?

Recommendation: Yes. (Draper)

Staff Analysis: Rule 25-6.064, F.A.C., requires investor-owned electric utilities to establish procedures by which the utilities calculate CIAC amounts due from customers who request new or upgraded facilities in order to receive electric service. The Commission recently revised Rule 25-6.064, F.A.C. and several other rules related to construction standards and the strengthening of the electric infrastructure. PEF's proposed tariffs are intended to comply with the revisions to Rule 25-6.064, F.A.C. While most of PEF's proposed tariff provisions simply copy the new rule language, and therefore, would not require explicit Commission-approval, PEF's proposed implementation of the CIAC proration expands and clarifies the rule language and therefore, requires Commission approval.

Under the prior rules, if a line extension was required to serve a customer, the first customer to request the extension was responsible for the total cost of the extension pursuant to the CIAC formula, even if other customers later connected to the line. The Commission revised this rule provision, and 25-6.064(6)(b), F.A.C., now states:

> In cases where more customers than the initial applicant are expected to be served by the new or upgraded facilities, the utility shall prorate the total CIAC over the number of end-use customers expected to be served by the new or upgraded facilities within a period not to exceed 3 years, commencing with the in-service date of the new or upgraded facilities. The utility may require payment equal to the full amount of the CIAC from the initial customer. For the 3-year period following the in-service date, the utility shall collect from those customers a prorated share of the original CIAC amount, and credit that to the initial customer who paid CIAC. The utility shall file a tariff outlining its policy for the proration of CIAC.

The initial customer is responsible for paying the full CIAC upfront in order to obtain service. However, as new customers connect to the line pursuant to the provisions of Rule 25-6.064(6)(b), F.A.C., PEF must collect a share of the initial CIAC amount from each new customer and credit that amount to the initial customer. This process would continue for each new connection during a three year period from the in-service date of the facilities. At the end of that period, no further customers would be required to pay for the line extension and credits to the initial customer would cease.

PEF proposed to set a $1,500 threshold of total CIAC paid in order for the applicable end-use customer to be eligible for a proration. End-use customers do not include developers or builders who actually do not take service at the location other than temporary service for construction. To support this tariff provision, PEF provided a table that shows the number of annual work orders for end-use customers that require CIAC and the corresponding CIAC amounts. The numbers are based on 2006 data.

Table 1

CIAC thresholds and corresponding work orders

CIAC threshold	Annual number of work orders
$250	450
$500	300
$1,000	50
$1,500	35
$2,000	20

The above table shows that for example 450 work orders for overhead line extensions require a CIAC of $250 or higher.

PEF states that it has no automated system in place to track whether other customers will take service from the initial installed facilities within 3 years. Therefore, PEF will manually track this information. PEF states that an automated tracking system has an initial cost of $1.4 million and $0.5 million in ongoing annual costs. PEF states that the proposed $1,500 threshold will allow for efficient and cost-effective administration of this rule requirement.

PEF's proposed tariffs also specify that the proration would only apply to customers that are served from the initial facilities by a service drop and meter, and not to customers requiring additional equipment. Customers requiring additional equipment for service (transformers, poles, conductors, etc.) are not considered part of the initial line extension and would be a separate CIAC calculation.

Staff believes that PEF's proposed proration threshold is reasonable and should be approved. PEF serves many large rural areas that are more likely to require an extension of facilities to serve new customers than a utility serving a predominantly urban area. Staff believes it is reasonable that the implementation of a CIAC proration results in some additional costs to the utility to administer the collections and refunds of CIAC because of the customer equity issue. Staff also believes that PEF has shown that requiring a proration of all CIAC amounts, no matter how small, would create a significant administrative burden and that the $1,500 threshold is reasonable since manual tracking is now required. However, staff also believes that PEF should strive to automate its proration system, and at the time of automation the Commission should re-visit PEF's proration threshold. PEF should inform the Commission if and when PEF has an automated tracking system in place.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on July 10, 2007. If a protest is filed within 21 days of the issuance of the order, this tariff 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. (Holley)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on July 10, 2007. If a protest is filed within 21 days of the issuance of the order, this tariff 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.