

State of Florida



Public Service Commission

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

DATE: October 30, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Kummer)
Office of the General Counsel (Jaeger)
Office of Strategic Analysis and Governmental Affairs (Ellis)

RE: Docket No. 070231-EI – Petition for approval of 2007 revisions to underground residential and commercial distribution tariff, by Florida Power & Light Company.

AGENDA: 11/13/08 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: 8-Month clock expires December 2, 2008

SPECIAL INSTRUCTIONS: Request for Docket Nos. 070231-EI, 080244-EI and 080186-EI be held sequentially.

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070231.RCM.DOC

Case Background

Rule 25-6.078, Florida Administrative Code (F.A.C.), defines investor-owned utilities' (IOU) responsibilities 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 a utility's 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 file on or before October 15 of each year a schedule showing the increase or decrease in the differential for the standard low-density subdivision.

On October 13, 2006, Florida Power and Light Company (FPL) notified the Commission, pursuant to Rule 25-6.078, F.A.C., that its underground cost differential for the standard low-density subdivision varied from the last approved differential by 31.01 percent. FPL's then current URD charges had been approved in 2005.¹

To comply with the 10 percent filing requirement of Rule 25-6.078, F.A.C., FPL filed a petition for approval of 2007 revisions to FPL's URD and underground commercial/industrial distribution tariffs and their associated charges on April 2, 2007. The Commission suspended the tariff by Order No. PSC-07-0484-PCO-EI, issued June 8, 2007. On June 15 and July 30, 2007, FPL filed clarifications and additional documentation in response to staff's data requests. On October 16, 2007, the Commission issued Order No. PSC-07-0835-TRF-EI, approving revisions to FPL's URD and underground commercial/industrial distribution tariffs and their associated charges.

On November 6, 2007, the Municipal Utilities Underground Consortium (MUUC) and the City of Coconut Creek, FL (Coconut Creek) filed a Petition protesting Order No. PSC-07-0835-TRF-EI and requesting a Formal Hearing. The protest maintained that the tariffs should reflect changes in Rule 25-6.078, F.A.C., which require CIAC calculations to address operating costs and storm restoration costs. The rule change was effective February 1, 2007; however, FPL argued that since it had filed its intent to revise the tariffs in October 2006, it was not required to adhere to the new rule language in this filing. On November 20, 2007, FPL filed a Motion to Dismiss MUUC and Coconut Creek's Petition protesting Order No. PSC-07-0835-TRF-EI and requesting a Formal Hearing. On November 27, 2007, MUUC and Coconut Creek filed their Response to FPL's Motion. On January 30, 2008, the City of South Daytona, FL (South Daytona) filed a Petition to Intervene in the docket.² On February 7, 2008, FPL filed a Response in Opposition to the Petition to Intervene by the City of South Daytona. On February 11, 2008, FPL filed an Agreed Motion for Continuance of Protest and Request for a Formal Proceeding by MUUC and Coconut Creek (Motion for Continuance) in which FPL agreed to file revised URD and underground commercial/industrial distribution tariffs and their associated charges by April 1, 2008, if MUUC and Coconut Creek agreed to a continuance of their protests. FPL was not able to contact South Daytona by the time the Agreed Motion was filed. This Motion for Continuance was granted by Order No. PSC-08-0141-PCO-EI, issued March 6, 2008.

On April 1, 2008, FPL filed revised URD and underground commercial/industrial tariffs, which reflect the changes in Rule 25-6.078, F.A.C., which required certain additional operating costs to be taken into consideration. On June 3, 2008, the Commission issued Order No. PSC-08-0371-PCO-EI, suspending the revised April 1, 2008 tariffs. Per Order No. PSC-07-0835-TRF-EI, FPL's URD and underground commercial/ industrial distribution tariffs filed on April 2, 2007, have remained in effect with any charges held subject to refund pending resolution of the protest.

FPL's original 2008 filing used a pre-tax discount rate for calculating the Net Present Value for operating expenses. After discussions with staff, FPL agreed to recalculate the

¹ Docket No. 050226-EI, Petition for approval of 2005 revisions to underground residential and commercial distribution tariff, by Florida Power & Light Company, Order No. PSC-05-0952-TRF-EI issued October 6, 2005

² By Order No. PSC-08-0486-PC)-EI, issued August 1, 2008, South Daytona was granted intervenor status.

Docket No. 070231-EI
Date: October 30, 2008

proposed rates using an after-tax discount rate. Use of the after-tax discount rate is consistent with the discount rate used in previous need determinations³ and standard offer contracts.⁴ The rates shown in the recommendation reflect this recalculation.

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

³ See Order No. PSC-08-0021-FOF-EI, issued January 7, 2008, in Docket No. 070602-EI, In re: Petition for determination of need for expansion of Turkey Point and St. Lucie nuclear power plants, for exemption from Bid Rule 25-22.082, F.A.C., and for cost recovery through the Commission's Nuclear Power Plant Cost Recovery Rule, Rule 25-6.0423, F.A.C.; see also Order No. PSC-08-0237-FOF-EI, issued April 11, 2008, in Docket No. 070650-EI, In re: Petition to determine need for Turkey Point Nuclear Units 6 and 7 electrical power plant, by Florida Power & Light Company.

⁴ See Order No. PSC-01-2512-PAA-EQ, issued December 24, 2001, in Docket No. 011200-EQ, In re: Petition for approval of standard offer contract and revised COG-2 tariff, and for ruling that waiver of a portion of Rule 25-17.0832(4), F.A.C., is unnecessary, by Florida Power & Light Company.; see also Order No. PSC-00-0621-CO-EG, issued March 31, 2000, in Docket No. 990249-EG, In re: Petition by Florida Power & Light Company for approval of a standard offer contract and revised COG-2 tariff.

Discussion of Issues

Issue 1: Should the Commission approve FPL's proposed underground residential distribution (URD) tariffs and their associated charges as modified?

Recommendation: Yes. (Kummer, Ellis, Jaeger)

Staff Analysis: The URD charges represent the additional costs FPL incurs to provide underground distribution service in place of overhead service, and are calculated as differentials between the cost of underground and overhead service. Costs for underground service have historically been higher than for standard overhead construction. The URD differential is paid by the customer (usually a 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.

Because of the number of changes, staff has divided the analysis into two categories: (1) the URD as historically calculated prior to the inclusion of avoided storm restoration and operating expenses, (2) the adjustments to the historical calculation to include avoided storm and operating and maintenance (O&M) costs. Additionally staff discusses in some detail major changes proposed in the structure of the URD.

FPL's proposal. FPL has developed URD charges based on three standard model subdivisions: (1) a 210-lot low-density subdivision with a density of one or more, but less than six, dwelling units per acre; (2) a 176-lot high-density subdivision with a density of six or more dwelling units per acre; and (3) a high-density subdivision where service is provided using grouped meter pedestals. For example, grouped meter pedestals subdivision type would include mobile home and R.V. parks. All four major IOUs use the same standardized model subdivisions to develop URD charges.

As stated in Rule 25-6.078(1), F.A.C., the URD differential is developed by estimating the cost per lot of both underground service and overhead service, and is based on the utility's standard engineering and design practices. The difference between these numbers is the per-lot charge that developers pay when they request underground service in lieu of standard overhead service for a new subdivision. The costs of both underground and overhead service include the material and labor costs to provide primary, secondary, and service distribution lines, and transformers. The cost to provide underground service also includes the cost of trenching and backfilling. The utilities are required to use current cost data. For ease of reference, staff has designated this calculation as Pre Operational Costs.

To establish a baseline for comparison for the changes that have occurred in the 2008 URD, staff has provided Table 1 below showing the URD costs, prior to the inclusion of operational costs, at three separate points: (1) the URD differential in effect prior to this docket; (2) the approved but protested 2007 URD differential filing⁵ that incorporated FPL's compliance

⁵ These tariffs were approved by Order No. PSC-07-0835-TRF-EI, issued October 16, 2007, in Docket No. 070231-EI, In re: Petition for approval of 2007 revisions to underground residential and commercial distribution tariff, by Florida Power & Light Company. This order was protested on November 6, 2007 by the Municipal Utilities Underground Consortium and the City of Coconut Creek, FL

with Rule 25-6.0342, F.A.C. on electric infrastructure storm hardening; and (3) the proposed pre-operational costs in FPL's April 2008 URD filing, before changes to the operating costs pursuant to amended Rule 25-6.078, F.A.C., effective February 2007 are included. The changes in the high and low-density differentials from 2007 to 2008 are due to different engineering assumptions and an error in calculating the 2007 high-density URD.

Table 1 - Pre Operational Cost per Lot

Type of Subdivision	Approved 2005 URD Differential (per lot)	Approved 2007 URD Differential (per lot)	Proposed Pre-Operational Costs (per lot)	% Change (2007 to 2008)
210-lot low density	\$444.01	\$562.80	\$563.23	+0.07%
176-lot high density	\$236.29	\$86.70	\$140.19	+61.7%
Grouped meter pedestals	\$41.31	\$0.00	\$0.00	0%

For the low-density subdivision, FPL made an equipment change in the layout of that type of subdivision. Due to the availability and operating characteristics of newer high efficiency air conditioning units, FPL has changed the engineering specifications for the starting current required. This has resulted in an increase in the size of some of the low density underground conduit and overhead lines. This change has had a very modest effect on the cost of the low density subdivision and has not affected the differentials of the other model subdivisions.

For the high-density subdivisions, FPL states that an error was made in calculating the 2007 high-density URD differential. In response to staff inquiries, the Company states that it did not include the labor associated for cable reel setups used in installing underground services. The proper inclusion of labor for cable reel setups would have resulted in a higher differential in 2007 than what was submitted, and the correction of which has resulted in an increase to the 2008 high-density URD differential.

Changes to the Calculation of the Underground Residential Distribution (URD) Tariff

For the first time, the URDs filed in this docket incorporate operational costs including Avoided Storm Restoration Costs (ASRC), which have not been previously required to be included in the URD differentials. The amount that would have previously been the URD is now designated as the pre-operational cost, as discussed above. Operational costs include operations and maintenance costs and capital costs. An amount representing avoided storm restoration cost is then subtracted. A more detailed description of FPL's methodology is contained in Attachment 1.

Finally, FPL then splits each charge into three separate charges based on the number of service laterals in the project being undergrounded. Tier 1 is defined as those subdivisions that are equivalent to projects eligible for the Governmental Adjustment Factor (GAF), which is a discount for local governments for undergrounding projects.⁶ Tier 2 and Tier 3 are correspondingly smaller, as outlined in the table below. Total Operational Costs are added to the Pre Operational Costs to arrive at the Final URD charge. The charges that result from the inclusion of operational costs and ASRC are presented in Table 2 below.

Table 2 – Post Operational Cost / Final Tariff Cost

Type of Subdivision	Tier (Service Laterals Required)	Non-storm Operational Costs	Avoided Storm Costs (ASRC)	Total Operational Costs	Pre-Operational Costs	Final Costs (URD)
Low Density	1 – GAF Equivalent (200 or more units)	\$245	(\$384)	(\$139)	\$563.23	\$424.23
	2 – 40% of ASRC (199-85 units)	\$245	(\$154)	\$91		\$654.23
	3 – 20% of ASRC (84 or fewer units)	\$245	(\$77)	\$168		\$731.23
High Density	1 – GAF Equivalent (300 or more units)	\$217	(\$384)	(\$167)	\$140.19	\$0.00
	2 – 40% of ASRC (299-100 units)	\$217	(\$154)	\$63		\$203.19
	3 – 20% of ASRC (99 or fewer units)	\$217	(\$77)	\$140		\$280.19
Grouped Meter Pedestal	1 – GAF Equivalent (300 or more units)	\$217	(\$384)	(\$167)	(\$43.85)	\$0.00
	2 – 40% of ASRC (299-100 units)	\$217	(\$154)	\$63		\$19.15
	3 – 20% of ASRC (99 or fewer units)	\$217	(\$77)	\$140		\$96.15

Below staff discusses in more detail several changes in the method of calculating the URD: (1) the splitting of each existing URD charge into three separate charges based on total service laterals; (2) the methodology of assuming one storm event every five years; and (3) the inclusion of lost pole rental revenues in the calculation of non-storm operational costs.

⁶ Order No. PSC-07-0442-TRF-EI, issued May 22, 2007, in Docket No. 060150-EI, In re: Petition for approval of revisions to contribution-in-aid-of-construction definition in Section 12.1 of First Revised Tariff Sheet No. 6.300, by Florida Power & Light Company.

Splitting the Existing URD Charge Based on the Number of Service Laterals

One of the more notable changes in the URD is the splitting of the existing three charges for low density, high density and grouped meter subdivisions into nine charges. Each existing model subdivision charge will now have three tiers that will vary by the number of service laterals. Each Tier represents a certain percentage of the avoided storm restoration costs based on the level of benefits FPL asserts will result from projects in that Tier. In response to staff inquiries, FPL stated that it had no objective basis to choose a particular percentage level over another, but that based on historical data of the amount of avoided storm restoration cost benefits derived from the size of the various projects, that the company believed levels of 40% and 20% were reasonable for Tier 2 and 3 projects, respectively.

The effect of this tiered approach is to increase the URD costs for undergrounding for smaller subdivisions and projects while decreasing it for larger subdivisions. This could result in smaller projects and subdivisions subsidizing the larger ones if the breakpoints do not capture the cost savings differential. FPL has stated that expected economies of scale during storm restorations impact the ASRC because FPL avoids costs by not having to deploy crews to a given area to restore service. The larger the area undergrounded, the greater is the avoided costs. However, FPL has also stated that a baseline number of crews will still have to be deployed (to deal with uprooted trees, damage to pad mounted transformers, etc.), so that while undergrounding will reduce costs to restore service, it will not entirely eliminate them. Thus, Tier 2 and Tier 3 gain a benefit from avoided storm restoration, but the amount of the benefit is reduced since the smaller size of the project in those two Tiers minimizes or eliminates the savings in restoration activities. The Commission currently recognizes that there are different costs associated with the number of units being connected in a given area through the three subdivision designs. Staff recommends that the three Tier application of the avoided storm restoration costs is appropriate.

Methodology Assumes One Storm Event Every Five Years

One of the most significant assumptions for the new URD calculation is the frequency of storms. FPL's calculation of the ASRC have a direct bearing on the URD. If more storms are assumed, the greater will be the negative ASRC factor. This results in a lower per lot URD. FPL has stated that it assumes one storm event every five years for purposes of calculating the ASRC. FPL stated that a storm event was a hurricane or tropical storm named by the National Hurricane Center, as specified in Rule 25-6.0455, (4)(b), F.A.C, Annual Distribution Service Reliability Report.

In response to staff inquiries, FPL stated that it relied on historic data dealing with storms that actually hit eastern and southeastern Florida in selecting an occurrence rate of one storm every five years for the ASRC in the URD. Though the Florida Commission on Hurricane Loss Projection Methodology has developed a 66% chance per year of a storm hitting the state, that chance represents a storm hitting anywhere in the state of Florida, not just in FPL's service territory. For southeastern Florida where FPL is located, the Commission on Hurricane Loss Projection Methodology's report shows a 24% chance per year, which was derived from

historical data.⁷ Underlying some scenarios, such as FPL's base case of three storm events annually, is an assumption that the state is entering a period of heightened storm activity. Projections of future storm activity can widely vary. If actual storm restoration savings is overestimated, the general body of ratepayers will be subsidizing underground projects through higher base rates. The Commission has previously approved FPL's assumption of one storm event every five years in the GAF docket.⁸ Staff believes that FPL's decision to conservatively assume one storm event every five years based on historic data is appropriate at this time.

Inclusion of Lost Pole Rental Revenues in the Non-storm O&M Expenses

A final significant change is the inclusion of lost pole rental revenues in the non-storm O&M expenses. The pole rental revenues are revenues paid to FPL for the use of the Company's poles by third-party attachers such as cable and telephone companies. FPL is adding in a 30-year net present value of the lost pole rental revenues into the calculation of its non-storm operational costs. The lost pole rental revenues have the effect of increasing the non-storm operational costs, thus raising the per lot URD differential paid by the customer. The revenues vary slightly depending upon whether the subdivision is low density or high density/meter pedestal.

Revenues from pole attachments are included as Other Operating Revenues (OOR) in a utility rate case. OOR increases the utility's current revenues and decreases the amount of any increase in rates, thereby reducing rates to all ratepayers. For subdivisions which have all underground facilities, there is no opportunity to generate these beneficial non-rate revenues. This represents lost potential revenues to the utilities, which could benefit all ratepayers. If the differential is reduced to recognize savings to the general body of ratepayers from potential avoided storm restoration costs, staff believes these lost revenues from potential pole attachments are appropriate to be included as operational costs of undergrounding.

Conclusion

Staff has reviewed the proposed charges and their accompanying work papers, and believes the charges are reasonable. Staff recognizes that the URD tariff may need to be fine-tuned in the future as more information on costs and benefits become available. Rule 25-6.078, F.A.C., requires utilities to file new residential URDs at least every 3 years. Utilities must file a report with the Commission on October 15 every year, indicating if the current costs differ from the approved rates by more than ten percent. If costs differ by ten percent or greater, the utility must file new URD tariffs by April 1 of the following year. The Commission may also require utilities to file new underground differentials at any time. As costs change over time, either through better knowledge or changes in technology, the rates will be reviewed on a regular basis.

⁷ See Form M-1 Annual Occurrence Rates, page 91, November 1, 2007 Report of Activities of the Florida Commission on Hurricane Loss Projection Methodology at <http://www.sbafla.com/methodology/pdf/2007%20ROA.pdf>.

⁸ See page 24, Order No. PSC-07-0442-TRF-EI

Issue 2: Should the Commission approve FPL's revised tariff sheets and charges associated with the installation of underground commercial/industrial distribution (UCD) facilities?

Recommendation: Yes. (Kummer, Ellis, Jaeger)

Staff Analysis: FPL's proposed UCD tariff contains revised standard charges for new commercial and industrial customers who request new underground distribution service in lieu of standard overhead service.

The UCD tariff contains charges for commercial underground distribution facilities such as laterals, risers, pad-mounted transformers, and handholes. In addition, the UCD tariff provides for credits that apply if the customer provides trenching and backfilling. The charges are derived from cost estimates of underground commercial distribution facilities and their equivalent overhead design. The estimates were made using standard FPL design and 2007/08 labor and material costs.

The proposed revisions to the UCD charges and credits reflect updated labor and material costs, resulting in increases to the differentials for commercial underground distribution facilities, and increases to the credits provided for work performed by the customer. In addition, FPL has updated its design standards to comply with the Company's hardening plan specified by Rule 25-6.0342, F.A.C.

Staff has reviewed the proposed charges and their accompanying work papers, and staff believes the proposed rates are reasonable.

Issue 3: What action should be taken on MUUC, the City of Coconut Creek, and the City of South Daytona's protests of Order No. PSC-07-0835-TRF-EI, which proposed to approve FPL's April 2, 2007, URD and UDC tariffs?

Recommendation: No action is needed.

Staff Analysis: In the Motion for Continuance filed by FPL on February 11, 2008, FPL stated, that two of the principal bases for the Protests were that the calculation of the April 2007 Tariffs did not take into account (1) differences in the net present value of operational costs between overhead and underground facilities, as contemplated by Rule 25-6.078(4), F.A.C., or (2) the added cost of building the hypothetical overhead system to hardening standards, as contemplated by Rule 25-6.078(2), F.A.C. Those requirements were added to Rule 25-6.078, F.A.C., by amendments that became effective in February 2007. The revised tariffs filed April 1, 2008 include those cost components as required by the rule.

In that February 11, 2008, motion, FPL proposed, and MUUC and Coconut Creek agreed to, filing of revised tariffs by April 1, 2008. In exchange, the parties agreed that the continuance would remain in effect until the Commission ruled on the newly revised tariffs and the period for protest thereof has passed. If MUUC or another party then chooses to protest the newly revised tariffs, an updated procedural order would be issued at that time to reschedule the hearing and associated prehearing matters.

If the Commission approves the revised tariffs, the 2007 tariffs are superseded and no longer valid. Therefore the protests are moot. Any party, including MUUC, Coconut Creek or South Daytona may protest the new proposed rates under the appropriate tariff procedure. There is no need to address the continuance as the parties have the same rights under the disposition of the revised tariffs as they had under the continuance of the protest of the previous tariffs. Therefore no further Commission action on the protests is necessary at this time.

Issue 4: Should this docket be closed?

Recommendation: Yes. If Issues 1, 2 and 3 are approved, the tariffs should become effective on November 13, 2008. If a protest is filed by a substantially affected person 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 13, 2008. If a protest is filed by a substantially affected person 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.

Explanation of FPL's Methodology for Calculating the 2008 URD

This Appendix summarizes the method that FPL uses to calculate the underground residential distribution differential. The Company first calculates a pre-operational cost per lot in exactly the same manner that it calculated previous differentials:

Pre-operational cost (URD prior to February 1, 2008) =

The estimated capital and labor costs to install the requested underground facilities

- The estimated capital and labor costs to install the hypothetical corresponding overhead facilities

Rule 25-6,078(4) prescribes that the differences in NPV of operational costs, over the life of the facilities, between underground and overhead systems be included in the URD charge. To the pre-operational cost have been added three new, additional steps: addition of non-storm operational costs, the subtraction of avoided storm restoration costs, and the splitting of the URD for each model type of subdivision based on the number of service laterals.

Step 1: Calculation of the Non-storm Operational Costs

FPL calculates non-storm operational costs by first deriving a 30 year net present value (NPV) of various operating expenses and capital expenditures. FPL utilized the 5-year average of its actual, historical capital and O&M expenses, i.e., operational costs, for operating, maintaining, and repairing its overhead and underground distribution facilities. The data were based on the years 2003 through 2007. O&M costs were escalated using the Consumer Price Index (CPI) while capital expenditures were escalated using the Public Utility Private Fixed Investment (PUPFI).

In place of historical costs, FPL incorporated projected vegetation management and pole inspection costs in the NPV calculation of the non-storm operational cost differential. Vegetation management and pole inspection costs are operational costs for overhead facilities, which FPL will no long incur when facilities are converted to underground. Vegetation management and pole inspection costs are projected to change as a result of the Commission decision in the following two orders. In Order No. PSC-07-0468-FOF-EI, the Commission ordered FPL to implement system-wide average trim cycles of three years for distribution feeder circuits and six years for distribution lateral circuits.⁹ In Order No. PSC-06-0144-PAA-EI, the Commission ordered FPL to implement eight-year pole inspection cycles.¹⁰ FPL states that the vegetation management and pole inspection costs it used in its calculation of the non-storm operational differential are consistent with these two orders and these costs are up-to-date with current information. The company than calculates the non-storm operational costs through the following steps:

⁹ See Order No. PSC-07-0468-FO-EI, issued May 30, 2007, in Docket No. 060198-EI, In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation costs estimates.

¹⁰ See Order No. PSC-06-0144-PAA-EI, issued February 27, 2006, in Docket No. 060078-EI, In re: Proposal to require investor-owned electric utilities to implement ten-year wood pole inspection program.

Non-storm operational cost =

- + 30 year net present value of underground O&M and capital expenses
- + lost pole rental revenue from attachers (while cable and telephone companies recompense FPL for attaching to FPL's poles overhead, they lay their own conduit underground and do not attach to FPL's equipment)
- + property taxes and insurance
- 30 year net present value of overhead O&M and capital expenses
- vegetation management expenditures
- pole inspection and remediation expenditures
- differential for litigation expenses

After going through these steps, FPL arrives at a 30 year NPV differential. FPL then divides the 30 year NPV differential by the number of lots per pole-line mile. The Company derives the number of lots per pole-line mile by dividing the number of lots in the subdivision (210 or 176) by the number of pole-line miles excluding services that the company shows is standard for that type of subdivision (2.4 for LD and 1.8 for HD).

Step 2: Development of the Avoided Storm Restoration Costs

FPL derives the avoided storm restoration costs by calculating a 30 year NPV of avoided storm restoration costs. FPL assumes one storm event every five years, for a total of six storm events occurring over a 30 year period. FPL states that the assumption of one storm event every five years is based on a 100 year historical average. In years where there is not a storm event, FPL sets the ASRC value at \$0. In years where there is a storm event, FPL takes the lots per pole line mile number derived in step 1 and multiplies it times \$121. The \$121 per lot ASRC charge is the same charge that was submitted by FPL in Docket No. 060150-EI and approved by the Commission.¹¹ The lot per pole line mile number is divided into the avoided storm cost NPV and the base ASRC for each model type subdivision derived, which came to \$384 for all subdivisions.

Step 3: Splitting Each Model Subdivision URD Based on the Number of Service Laterals

During the calculation of the ASRC, the existing single differential charge for high-density, low-density and grouped meter pedestal subdivisions is split into three, new, separate Tiers. FPL asserts that because the Company's experience with the savings from avoided storm restoration costs has varied depending upon the size of the subdivision which has been undergrounded, adjusting the level of ASRC costs based on the number of service laterals is

¹¹ See Order No. PSC-07-0442-TRF-EI, issued May 22, 2007, in Docket No. 060150-EI, In re: Petition for approval of revisions to contribution-in-aid-of-construction definition in Section 12.1 of First Revised Tariff Sheet No. 6.300, by Florida Power & Light Company.

appropriate. Tier 1 comprises large subdivisions that have 300 or more service laterals for high density/grouped meter or 200 or more service laterals for low density and approximately three pole-line miles of overhead distribution facilities. In FPL's records and experience, Tier 1 projects gain the greatest benefit from having their service undergrounded. FPL considers these large projects to be a GAF equivalent, which are projects that can have the greatest impact on reliability and avoided storm restoration costs and thus should be promoted by the utility.