State of Florida

Public Service Commission

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RECORDS AND REPORTING
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DATE: NOVEMBER 16, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (GING)
DIVISION OF SAFETY AND ELECTRIC RELIABILITY (BREMAN, LEE)
DIVISION OF REGULATORY OVERSIGHT (YAMBOR)
DIVISION OF LEGAL SERVICES (ISAAC)

RE: DOCKET NO. 000392-EI - PETITIONS FOR APPROVAL OF UNDERGROUND RESIDENTIAL DISTRIBUTION TARIFF REVISIONS BY GULF POWER COMPANY AND TAMPA ELECTRIC COMPANY.

AGENDA: 11/28/2000 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 8-MONTH EFFECTIVE DATE: 12/03/2000

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000392.RCM

CASE BACKGROUND

Rule 25-6.078, Florida Administrative Code, requires utilities to file updated underground residential distribution (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 differential by 10 percent or more. The URD charges represent the additional costs to provide underground service in place of standard overhead service. In order to determine whether or not the utilities are within the 10 percent threshold, each company is required to file overhead and underground costs for its low-density subdivision on Schedule 1, Form PSC/EAG 13 by October 15 of each year. If a utility's cost differential between its overhead and underground costs exceed the 10 percent threshold, the utility is required to submit a complete filing on or before April 1 of the following year. All four major investor-owned utilities have filed Schedule 1 showing their current URD low-density subdivision costs. Because

Gulf Power Company (Gulf) and Tampa Electric Company (TECO) have not made a complete filing in three years, each submitted a complete filing by April 3, 2000. Because Florida Power & Light Company's and Florida Power Corporation's underground differentials did not change by 10 percent or more, they did not make a complete filing in April. Both Gulf's and TECO's proposed changes were accompanied by work papers explaining their derivation.

The Commission has jurisdiction to review TECO'S and Gulf's tariff sheets under sections 366.04(2)(f) and 366.05(1) Florida Statutes. By Order No. PSC-00-0987-PCO-EI, issued May 19, 2000, the Commission suspended the tariffs to allow time for the Bureau of Regulatory Review (BRR) to complete its study, "Comparative Review of Underground Residential Distribution Tariff Differentials." This recommendation addresses the tariff filings guided by the findings in BRR's report.

DISCUSSION OF ISSUES

ISSUE 1: *Should the Commission approve Tampa Electric Company's updated tariff sheets and charges associated with the installation of underground electric distribution facilities?*

RECOMMENDATION: Yes. The Commission should approve TECO's proposed revisions to its residential underground tariff differentials. (GING, YAMBOR, BREMAN)

STAFF ANALYSIS: The underground residential distribution (URD) tariffs provide standard charges for certain types of underground service. TECO, similar to all other major IOU's develops URD charges based on two model subdivisions: a 210-lot low-density single-family home subdivision and a 176-lot high density subdivision served by individual meters.

The differential rates for these subdivisions are developed by estimating the cost per unit of both underground service and overhead service. The difference between these numbers is the per unit charge that customers must pay when they request underground service in lieu of standard overhead service. The estimates are based on each company's standard engineering and design practices, and incorporate company-wide material costs and labor rates.

The following table shows TECO's present and proposed URD differentials:

TABLE 1

	1997 Existing Differential	2000 Proposed Differential	Percent Change
210-Lot Low-Density Subdivision	$273	$278	+1.83%
176-Lot High Density Subdivision	$190	$217	+14.21%

The staff has reviewed the proposed charges and accompanying work papers. Staff also requested and reviewed additional information and analyses that supported TECO's initial filing. Based on a review of the information provided, staff believes that the proposed charges are reasonable, and should be approved.

ISSUE 2: What is the appropriate effective date for TECO's residential underground tariff differentials?

RECOMMENDATION: The appropriate effective date for TECO's residential underground tariff differentials is November 28, 2000. (GING)

STAFF ANALYSIS: If the Commission approves TECO's residential underground tariff differentials at its November 28, 2000 Agenda Conference, they should become effective on that date.

ISSUE 3: Should the Commission approve Gulf Power Company's updated tariff sheets and charges associated with the installation of underground electric distribution facilities?

RECOMMENDATION: Yes. The Commission should approve Gulf's residential underground tariff differentials. (GING, YAMBOR, BREMAN)

STAFF ANALYSIS: The underground residential distribution (URD) tariffs provide standard charges for certain types of underground service. Gulf, similar to all other major IOU's develops URD charges based on two model subdivisions: a 210-lot low-density single-family home subdivision and a 176-lot high density subdivision served by individual meters.

The differential rates for these subdivisions are developed by estimating the cost per unit of both underground service and overhead service. The difference between these numbers is the per-lot charge that customers must pay when they request underground service in lieu of standard overhead service. The estimates are based on each company's standard engineering and design practices, and incorporate company-wide material costs and labor rates. Table 1 shows Gulf's present and proposed URD differentials.

TABLE 1

	1997 Existing Differential	2000 Proposed Differential	Percent Change
210-Lot Low-Density Subdivision	$404	$429	+6.18%
176-Lot High Density Subdivision	$394	$371	-5.84%

Order No. PSC-96-1516-FOF-EI, issued December 13, 1996, required a Commission staff audit of Gulf's underground tariff differentials based on concerns raised by staff during the evaluation of Gulf's previous petition in Docket No. 960325-EI. The Bureau of Regulatory Review (BRR) conducted a comparative review of Underground Residential Distribution differentials and published the results in June 2000.

Gulf's methodology for determining its URD differentials includes a Net Present Value (NPV) analysis which assumes a ten-year build out for developments. The effect of using a ten-year NPV analysis is a reduction in the URD differentials of approximately 50 percent. BRR's "Comparative Review of Underground Residential Distribution Tariff Differential" states in part: "In the past Gulf has asserted that builders were taking, on average, ten years to build out developments. Staff's review indicated that many developments were in their second and third phase, and the time frame between phases appeared to be one to three years based on Gulf's print revisions."

Based on BRR's review of Gulf's actual build-out time frames, staff believes that using the ten-year NPV analysis significantly understates the actual costs to Gulf. Staff met with Gulf to discuss its concerns with Gulf's high cost of construction and their ten-year NPV analysis. The high costs are due to Gulf's construction standards and practices. Gulf believes their standards and practices are necessary to achieve high reliability and reduced outages on their underground systems. Gulf supported the continued use of a ten-year NPV analysis as a method to discount URD differentials to a level they believed were appropriate. Gulf did not provide any other justification for the continued use of the ten-year build out assumption or the ten-year NPV adjustment.

Staff believes that it is appropriate, when practical, for URD customers to pay the actual costs associated with the service they receive, in order to avoid any subsidization from the general body of ratepayers. However, in this case, excluding the ten-year NPV adjustment would result in a significant increase to Gulf's URD differentials, as shown in Table 2.

TABLE 2

	2000 Proposed Differentials With NPV	2000 Differentials Without NPV	Percent Change
210-Lot Low-Density Subdivision	$429	$630	+46.9%
176-Lot High Density Subdivision	$371	$530	+42.9%

Staff believes that the rate shock that would result from excluding the NPV adjustment is excessive. In order to avoid these large increases in the URD differentials, staff recommends that Gulf's proposed URD differentials be approved as filed.

ISSUE 4: What is the appropriate effective date for Gulf's residential underground tariff differentials?

RECOMMENDATION: The appropriate effective date for Gulf's residential underground tariff differentials is November 28, 2000. (GING)

STAFF ANALYSIS: If the Commission approves Gulf's residential underground tariff differentials at its November 28, 2000 Agenda Conference, they should become effective on that date.

ISSUE 5: Should this docket be closed?

RECOMMENDATION: Yes, if no protest is filed within 21 days of the issuance of the order. (ISAAC)

STAFF ANALYSIS: If a protest is filed within 21 days of the Commission order approving this tariff, the tariff should remain in effect pending resolution of the protest, with any charges held subject to refund pending resolution of the protest. If no protest is filed, this docket should be closed upon issuance of the Consummating Order.