BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to modify Tariff Sheet Nos. 4.113 and 4.122 regarding conversion of and construction of underground residential facilities by Progress Energy Florida, Inc.	DOCKET NO. 080719-EI ORDER NO. PSC-09-0650-TRF-EI ISSUED: September 25, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

ORDER APPROVING REVISED TARIFFS

BY THE COMMISSION:

BACKGROUND

Rule 25-6.078, F.A.C., defines investor-owned utilities' responsibilities for filing updated underground residential distribution (URD) tariffs for new subdivisions at least every three years. By Order No. PSC-08-0786-TRF-EI, we approved Progress Energy Florida, Inc.'s (PEF) current URD tariffs; however, we directed PEF to refile its URD tariff to include lost pole attachment revenues in the URD calculation.[1] Pole rental revenues are revenues paid to PEF for use of the utility's poles by third-party attachers, such as cable and telephone companies. PEF's proposed Tariff Sheet No. 4.113 implements our order.

Rule 25-6.115, F.A.C., addresses the contribution-in-aid-of-construction (CIAC) to be paid by applicants for conversion of existing overhead electric distribution facilities to underground facilities. The CIAC represents the conversion costs incurred by PEF. Rule 25-6.115, F.A.C., was amended in February 2007 to require that the calculation of CIAC include the difference in the net present value (NPV) of operational costs between underground and overhead systems over the expected life of the facilities.[2] The proposed revisions to Tariff Sheet No. 4.122 are designed to implement the requirements of the amended rule.

[1] See Order No. PSC-08-0786-TRF-EI, issued December 2, 2008, in Docket No. 080186-EI, In re: Petition for approval of revised underground residential distribution tariffs, by Progress Energy Florida, Inc.
[2] 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.

By Order No. PSC-09-0119-PCO-EI, issued on March 2, 2009, we suspended PEF's proposed tariffs. On July 14, 2009, PEF provided certain minor corrections to its calculations. We have jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

DISCUSSION AND DECISION

Proposed Tariff Sheet No. 4.113

The URD charges represent the additional costs PEF incurs to provide underground distribution service in place of overhead service, and they are calculated as differentials between the cost of underground and overhead service. The cost of standard overhead construction is recovered through base rates of all ratepayers. In lieu of overhead construction, customers may request underground service. Costs for underground service have historically been higher than those for standard overhead construction, and the additional cost is paid by the customer as a CIAC. Typically, the URD customer is the developer of the subdivision.

URD charges are 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.

In 2007, we amended Rule 25-6.078, F.A.C., to require that the differences in NPV of operational costs between underground and overhead systems, including average historical storm restoration costs over the life of the facilities, be taken into consideration in determining the URD differential.[3] Prior to the rule revision, URD charges were based on initial installation costs only and did not include the costs of maintenance or storm restoration activities over time. On April 1, 2008, PEF filed a petition in Docket No. 080186-EI to incorporate for the first time the requirements of amended Rule 25-6.078, F.A.C., and included the difference in operational and storm restoration costs between underground and overhead facilities. We approved PEF's URD charges effective November 13, 2008. However, we also ordered PEF to refile its URD tariff by April 1, 2009, to include lost pole rental revenues in the calculation of operational expenses. PEF had not included lost pole rental revenues in Docket No. 080186-EI.

Pole rental revenues are revenues paid to PEF for use of the utility's poles by third-party attachers, such as cable and telephone companies. Revenues from pole attachments are included as other operating revenues in a utility rate case. Other operating revenues increase the utility's current revenues and decrease 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 revenues, which benefit all ratepayers. In Order No. PSC-08-0786-TRF-EI, we found that if the URD differential is reduced to recognize savings to the general body of ratepayers from potential avoided storm restoration costs, then lost revenues from potential pole attachments are appropriate to be included as operational costs of undergrounding.

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[3] See Order No. PSC-07-0043-FOF-EU.

The following table shows PEF's current and proposed URD differentials, which include the lost pole attachment revenues. Since the attachments would be attaching to overhead lines, they represent lost revenues when facilities are installed underground, and thus increase the URD differential. The charges shown are per-lot charges.

Table 1

	Current URD differential per lot	Proposed URD differential per lot	Percent Change
210-lot low density	$524	$646	+23%
176-lot high density	$465	$528	+14%
176-lot ganged meters	$245	$306	+25%

In support of its petition, PEF provided workpapers showing that it received the following distribution pole attachment revenues for the years 2002 through 2006.

Table 2

Year	Pole attachment revenues (dollars)
2002	8,177,067
2003	8,309,584
2004	10,425,994
2005	11,364,123
2006	10,884,819

PEF recalculated its URD differential using the same methodology as in Docket No. 080186-EI. Inclusion of the 5-year average lost pole rental revenues increases the NPV differential from $5,968 (amount approved in Docket No. 080186-EI) to $13,030 per mile (i.e., over the 38-year life of the facilities, underground is more expensive to operate and maintain than overhead by $13,030 per mile). The URD charges shown in Table 1 vary between the subdivisions because of the difference in miles of line and number of lots in each subdivision.

Having reviewed the proposed charges and their accompanying work papers, we find that PEF's charges are reasonable. PEF has correctly included the lost revenues from potential pole attachments as operational costs of undergrounding as required by Order No. PSC-08-0786-TRF-EI. Therefore, PEF's proposed URD charges are hereby approved.

Proposed Tariff Sheet No. 4.122

Rule 25-6.115(11)(a), F.A.C., was amended in February 2007 to require that the CIAC paid by applicants for underground conversions include the operational cost differential between underground and overhead, including storm restoration costs. The same provision was also approved for Rule 25-6.078, as mentioned above. In order to comply with the amended rule, PEF proposes an additional charge of $13,030 per mile (or $2.47 per foot) of overhead facilities that are converted as the operational cost differential. The amount represents the NPV value of the lifecycle operational costs differential including storm restoration. This 38-year amount represents an annual differential of approximately $340 per pole-line mile.

PEF used the same methodology as in Docket No. 080186-EI to calculate the operational cost difference between underground and overhead, which is described below.[4] PEF modified the calculation only to add a 38-year NPV of the lost pole rental revenues.

PEF used its actual operational expenses for the period 2002 through 2006 to calculate the NPV of non-storm operational difference for underground and overhead facilities. In order to calculate operational costs per mile, i.e., unit costs, PEF divided the annual total operational costs for the years 2002 through 2006 for underground and overhead facilities by the number of miles of underground and overhead distribution lines in PEF's service territory. Finally, PEF calculated a 5-year average of the underground and overhead operational costs per mile for the years 2002 through 2006. The resulting 5-year average operational costs per mile are $3,580 for overhead and $4,902 for underground. To calculate the NPV of the overhead and underground operational unit costs, PEF escalated the unit cost at 2.5 percent to adjust for inflation over a period of 38 years. The 38-year cash flows are then discounted back to arrive at the NPV for overhead operational costs per circuit mile of $56,196 and $76,946 for underground, resulting in a NPV differential of $20,750 per mile.

The inclusion of the storm restoration costs in the CIAC calculation lowers the CIAC, since an underground distribution system incurs less damage than an overhead system as a result of a storm. Thus, restoration costs are less when compared to an overhead system. Inclusion of the storm restoration differential lowers the per-mile NPV differential from $20,750 to $13,030, a $7,720 reduction. As in Docket No. 080186-EI, PEF used an expected annual storm damage cost of $21.4 million.[5]

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[4] While both Rules 25-6.078 and 25.6115, F.A.C., were amended in 2007 to include the operational cost difference between underground and overhead, PEF only implemented the requirements of Rule 25-6.078 in Docket No. 080186-EI.

[5] The $21.4 million annual storm damage cost was originally calculated and provided by PEF in Docket No. 050078-EI, PEF's 2005 rate case.

We find that PEF's proposed Tariff Sheet No. 4.122 implements amended Rule 25-6.115, F.A.C. PEF's analysis is consistent with the methodology we approved in Order No. PSC-08-0786-TRF-EI and appears reasonable. Accordingly, PEF's proposed tariff is hereby approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Progress Energy Florida, Inc.'s proposed revisions to Tariff Sheet Nos. 4.113 and 4.122 are hereby approved. It is further

ORDERED that the tariffs shall become effective on August 18, 2009. It is further

ORDERED that if no protest is received, a consummating order shall be issued and this docket shall be closed. If a protest is filed within 21 days of the issuance of the order, this tariff shall remain in effect, with any revenues held subject to refund, pending resolution of the protest.

By ORDER of the Florida Public Service Commission this 25th day of September, 2009.

ANN COLE
Commission Clerk

By: Dorothy E. Menasco
Dorothy E. Menasco
Chief Deputy Commission Clerk

(S E A L)

ARW/JSB

NOTICE OF FURTHER PROCEEDINGS

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 16, 2009.

In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.