

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: December 27, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Draper, Guffey) *EAD*
 Division of Engineering (Buys, Graves) *TRB PD*
 Office of the General Counsel (Brownless) *JSC ANW*

RE: Docket No. 20170148-EI – Petition for determination under Rule 25-6.115, F.A.C., and approval of associated revised tariff sheet 6.300, by Florida Power & Light Company.

AGENDA: 01/09/18 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 02/23/18 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

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Case Background

On June 23, 2017, Florida Power & Light Company (FPL or company) filed a petition for approval for a determination under Rule 25-6.115(12), Florida Administrative Code (F.A.C.), that FPL may, under defined circumstances, exclude from the calculation of an applicant's underground conversion contribution-in-aid-of-construction (CIAC) the costs identified in Rule 25-6.115(8)(b), F.A.C., and include those costs in net plant in service. FPL also requests approval of associated revised tariff Sheet No. 6.300 which is attached to this recommendation as Attachment A.

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At the August 3, 2017 Agenda Conference the Commission suspended FPL's proposed revisions to tariff Sheet No. 6.300 to allow staff to gather additional data.¹ On August 4, 2017 and on September 6, 2017, FPL responded to staff's first and second data requests. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

¹ See Order No. PSC-2017-0316-PCO-EI, issued August 8, 2017, in Docket No. 20170148-EI, *In re: Petition for determination under Rule 25-6.115, F.A.C., and approval of associate revised tariff sheet 6.300, by Florida Power & Light Company.*

Discussion of Issues

Issue 1: Should the Commission approve FPL's petition for determination under Rule 25-6.115, F.A.C., and approval of associated revised tariff Sheet No. 6.300?

Recommendation: Yes. The Commission should approve FPL's petition for determination under Rule 25-6.115, F.A.C., and approval of associated revised tariff Sheet No. 6.300 (Draper, Guffey, Buys)

Staff Analysis: FPL is requesting to exclude from the calculation of an underground conversion applicant's CIAC certain costs associated with existing non-storm hardened overhead facilities and that the Commission determine that there are quantifiable benefits to the general body of ratepayers from the exclusion of the cost from the CIAC calculation for underground conversion. FPL also seeks approval of its revised tariff Sheet No. 6.300 to reflect the revised CIAC calculation. FPL's petition is discussed in more detail below.

Current CIAC Calculation

Rule 25-6.115, F.A.C., and FPL's tariff Sheet No. 6.300 provide the terms under which applicants are to pay CIAC for the conversion of existing overhead distribution facilities to underground. The CIAC is intended to cover the incremental costs FPL incurs resulting from a conversion, over and above the cost of serving the conversion area with overhead facilities. Overhead service is paid by all customers through base rates. In lieu of overhead service, customers have the option of requesting to convert existing overhead to underground facilities. Typically, municipalities request a conversion from overhead to underground facilities. The CIAC paid by an applicant is to ensure that the general body of ratepayers do not bear any costs associated with the conversion.

The formula to calculate CIAC is defined in Rule 25-6.115(8), F.A.C., and in FPL's Tariff Section 12.1 of Sheet No. 6.300. One component of the CIAC calculation, stated in paragraph (8)(b) of the rule, requires FPL to include the estimated remaining net book value of the existing facilities to be removed less the estimated net salvage value of the facilities to be removed (existing facilities cost).

Paragraph (12) of Rule 25-6.115, F.A.C., allows a utility to waive all or any portion of the cost for providing underground facilities. If the utility waives any charge, the utility is required to reduce net plant in service unless the Commission determines that there is a quantifiable benefit to the general body of ratepayers commensurate with the waived charge.

Storm Hardening Plan

Rule 25-6.0342, F.A.C., requires each investor-owned utility to file a comprehensive storm hardening plan at least every three years, for Commission review and approval. As discussed in FPL's 2016-2018 Storm Hardening Plan,² FPL is currently projecting that it will complete the storm hardening of its remaining overhead distribution feeders by end of year 2022. FPL's 2016-2018 Storm Hardening Plan was approved by the Commission as part of FPL's 2016 rate case

² See Document No. 01382-16, filed on March 15, 2016, in Docket No. 160061-EI, *In re: Petition for approval of 2016-2018 storm hardening plan, by Florida Power & Light Company.*

settlement and stipulation.³ Under FPL's storm hardening plan, existing, non-hardened overhead facilities will be removed and replaced with hardened overhead facilities. FPL's next storm hardening plan is expected to be filed in 2019.

FPL's Proposal

To support its petition, FPL explained that currently several municipalities are considering or are moving forward with plans to convert existing non-hardened overhead facilities to underground facilities. These existing non-hardened overhead facilities, however, will be removed over the next five to six years consistent with FPL's storm hardening plan discussed above. Therefore, prospective applicants wishing to convert non-hardened overhead facilities to underground within the near future would pay CIAC that covers the cost of removing facilities that are already expected to be removed under FPL's storm hardening plan. FPL's storm hardening costs are recovered from the general body of ratepayers through base rates.

Therefore, FPL requests that it be allowed to exclude the cost of the existing facilities from the CIAC calculation for underground conversions of existing non-hardened overhead facilities. As shown in Attachment A to the recommendation, FPL's proposed revisions to tariff Sheet No. 6.300 contemplate that elements 2, 3, and 5 of the CIAC formula be excluded from the CIAC calculation for an applicant that intends to convert non-hardened overhead facilities to underground. Specifically, the elements to be excluded are: 2) the estimated cost to remove the existing overhead facilities, 3) the net book value of the existing overhead facilities, and 5) the estimated salvage value of the existing overhead facilities to be removed.

In addition, FPL requests that the Commission determine that there are quantifiable benefits to the general body of ratepayers from the exclusion of the existing non-storm hardened facilities cost from the CIAC calculation for the underground conversions. This Commission determination would allow FPL pursuant to Rule 25-6.115(12), F.A.C., to treat these existing facilities costs as net plant in service costs that can be recovered from all customers, just as they would if FPL implemented overhead hardening of the subject feeder facilities.

FPL's response to staff's first data request states that the municipalities of Palm Beach, Longboat Key, Palm Beach Shores, Key Biscayne, Sunny Isles Beach, and Fort Lauderdale are currently in discussion with FPL regarding potential overhead to underground conversion projects. FPL estimated that under the current CIAC formula, these six municipalities would pay a total CIAC amount of approximately \$64.6 million. Under FPL's proposed CIAC calculation that excludes the existing facilities cost, the estimated CIAC amount would be \$50.4 million, for a total CIAC difference of \$14.2 million.

FPL listed in its petition four benefits of excluding the existing facilities cost from the calculation of CIAC for underground conversions of the existing non-hardened overhead facilities, that otherwise would be subject to hardening. First, FPL asserts that such underground conversions will not result in additional costs for the general body of ratepayers because the existing facilities cost would be borne by the general body of ratepayers as a result of FPL's storm hardening activities. Second, FPL asserts that underground distribution facilities tend to be

³ See Order No. PSC-16-0560-AS-EI, issued December 15, 2016, in Docket No. 160021-EI, *In re: Petition for rate increase by Florida Power & Light Company*.

even more storm resilient than hardened overhead facilities. Thus the underground conversion will reduce the need for storm restoration work in the converted area and make restoration crew resources available to help more quickly in other parts of FPL's service territory. Third, FPL states that reliability will improve, as underground facilities have historically provided better reliability than overhead facilities. Finally, the company asserts that excluding the existing facilities cost from the CIAC calculation will reduce the cost of conversion, thereby incentivizing such conversions.

Analysis

Staff agrees with FPL that as a result of its approved storm hardening plan for the remaining distribution feeders, the existing non-hardened facilities cost would have been incurred and borne by the general body of ratepayers under FPL's current base rates as approved in FPL's 2016 rate case settlement.⁴ The term of the rate case settlement is January 1, 2017 through December 31, 2020.

FPL asserts that underground facilities tend to be more storm resilient and provide better overall day-to-day reliability when compared to overhead facilities. In response to a staff data request, FPL explained that in 2016, during Hurricane Matthew, only 2.2 percent of FPL's underground facilities experienced outages, while 9.4 percent of hardened overhead facilities experienced outages and 13.8 percent of non-hardened overhead facilities experienced outages.⁵ FPL also provided reliability data for the five reliability indices for the regions/management areas that had overhead to underground conversion projects. The data provided by FPL supports the company's assertion that day-to-day reliability improves with underground facilities.⁶ However, FPL also acknowledged that locating the cause/failure of an overhead outage and the repair/replacement of overhead facilities is generally less difficult and less time consuming than it is for underground. Therefore, in some instances, the duration of an outage may be longer as a result of underground facilities.

The Commission has previously recognized the benefits of undergrounding. In 2007, Rule 25-6.115, F.A.C., was amended to include in the CIAC calculation the cost of maintenance and storm restoration activities over time to capture the longer-term costs and benefits of undergrounding. Prior to this rule amendment, the CIAC was based on estimated work order cost only.

Furthermore, the Commission approved a Governmental Adjustment Factor (GAF) tariff that allows local governments a 25 percent credit against the otherwise applicable CIAC for projects which convert overhead facilities to underground. The 25 percent reduction in CIAC is based on expected savings in storm restoration costs when large contiguous areas are converted from overhead to underground and is designed to encourage the installation of underground facilities by reducing the CIAC the customer is required to pay FPL. The GAF tariff was approved as a pilot in May 2007 and became a permanent tariff in April 2010.⁷ The six municipalities that are

⁴ *Id.*

⁵ Staff's First Data Request, response to Question 5

⁶ Staff's Second Data Request, response to Question 8

⁷ Order No. PSC-10-0247-FOF-EI, issued April 22, 2010, in Docket No. 070231-EI, *In re: Petition for approval of 2007 revisions to underground residential and commercial distribution tariffs, by Florida Power & Light Company.*

currently in discussion with FPL regarding a conversion project all qualify for the GAF Waiver of 25 percent and the GAF waiver amounts have been reflected in the provided estimated CIAC amounts.

Conclusion

Based on the discussion above, staff recommends approval of FPL's proposed revision to tariff Sheet No. 6.300 and FPL's request to include the waived existing facilities cost in net plant in service. If the proposed tariff revision is approved, FPL will inform the future potential underground conversion customers of the availability of additional credits. The company states that it has already informed the municipalities currently considering conversion projects of this possibility.

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 tariff should not go into effect pending resolution of the protest. If no timely protest is filed, this docket should be closed and the tariff should become effective upon the issuance of a consummating order. (Brownless)

Staff Analysis: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariff should not go into effect pending resolution of the protest. If no timely protest is filed, this docket should be closed and the tariff should become effective upon the issuance of a consummating order.

FLORIDA POWER & LIGHT COMPANY

**INSTALLATION OF UNDERGROUND ELECTRIC DISTRIBUTION FACILITIES
 FOR THE CONVERSION OF OVERHEAD ELECTRIC DISTRIBUTION FACILITIES**

SECTION 12.1 DEFINITIONS

APPLICANT - Any person, corporation, or entity capable of complying with the requirements of this tariff that has made a written request for underground electric distribution facilities in accordance with this tariff.

CONVERSION - Any installation of underground electric distribution facilities where the underground facilities will be substituted for existing overhead electric distribution facilities, including relocations.

CONTRIBUTION-IN-AID-OF-CONSTRUCTION(CIAC) – The CIAC to be paid by an Applicant under this tariff section shall be the result of the following formula:

CIAC=

- 1) The estimated cost to install the requested underground facilities;
- + 2) The estimated cost to remove the existing overhead facilities;^a
- + 3) The net book value of the existing overhead facilities;^a
- 4) The estimated cost that would be incurred to install new overhead facilities, in lieu of underground, to replace the existing overhead facilities (the “Hypothetical Overhead Facilities”);
- 5) The estimated salvage value of the existing overhead facilities to be removed;^a
- + 6) The 30-year net present value of the estimated non-storm underground v. overhead operational costs differential,
- 7) The 30-year net present value of the estimated average Avoided Storm Restoration Costs (“ASRC”) calculated as a percentage of the sum of lines 1) through 6). Simplified eligibility criteria for each ASRC Tier are summarized below. Applicants must enter into an Underground Facilities Conversion Agreement with the Company which provides full details on terms, conditions and compliance requirements.

<u>Tier</u>	<u>Percentage</u>	<u>Pole-LineMiles</u>	<u>CustomerConversions</u>	<u>Completion</u>
1 *	25%	3 or more	100%	3 phases
2	10%	1 to <3	100%	3 phases
3	5%	< 1	n/a	n/a

* The GAF Waiver will apply in lieu of Tier 1 ASRC for eligible conversions by Local Government Applicants.

^a In calculating the Applicant’s CIAC, elements 2, 3, and 5 of the CIAC formula above are to be excluded from CIAC due from an applicant who submits an application providing a binding notification that said applicant intends to convert existingnon-hardenedoverheadfeederfaciliestoundergroundfeederfacilities.

GAFWaiver

For Applicants entering into an Underground Facilities Conversion Agreement – Governmental Adjustment Factor Waiver with the Company, the otherwise applicable CIAC amount, as calculated above, shall be reduced by the GAF Waiver. The amount of the GAF Waiver shall be calculated as follows:

GAF Waiver =

- 25% x the otherwise applicable CIAC;
- + 75% x the ASRC (avoids double-counting the ASRC embedded in the otherwise applicable CIAC.)

If the Applicant elects to construct and install all or part of the underground facilities, then for purposes of calculating the ASRC or the GAF Waiver amount only, the otherwise applicable CIAC shall be adjusted to add FPL’s estimated cost for the Applicant-performed work. In addition, the Direct Engineering, Supervision, and Support (DESS) costs associated with this Applicant-performed work will be reduced by 20% from the amount that would have applied if FPL performed this work.

DISTRIBUTION SYSTEM - Electric service facilities consisting of primary and secondary conductors, service drops, service laterals, conduits, transformers and necessary accessories and appurtenances for the furnishing of electric power at utilization voltage.

SERVICEFACILITIES - The entire length of conductors between the distribution source, including any conduit and or risers at a pole or other structure or from transformers, from which only one point of service will result, and the first point of connection to the service entrance conductors at a weatherhead, in a terminal, or meter box outside the building wall; the terminal or meter box; and the meter.

(Continued on Sheet No. 6.301)