State of Florida

ORIGINAL

# Public Service Commission

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RECORDS AND REPORTING

**DATE:** SEPTEMBER 24, 1998

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

RVE

**FROM:** DIVISION OF LEGAL SERVICES (PAUGH, JAYE) TD
DIVISION OF ELECTRIC AND GAS (BASS, BOHRMANN, TEW) KJ JDJ

**RE:** DOCKET NO. 980755-EU - JOINT PETITION FOR APPROVAL OF NEW TERRITORIAL AGREEMENT BETWEEN FLORIDA POWER & LIGHT COMPANY AND JACKSONVILLE ELECTRIC AUTHORITY.

**AGENDA:** 10/06/98 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** 60-DAY SUSPENSION DATE: OCTOBER 12, 1998

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\LEG\WP\980755.RCM

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## DISCUSSION OF ISSUES

**ISSUE 1**: Should the Commission suspend Florida Power and Light Company's St. John's Transitional Rider - (SJT) tariff?

**RECOMMENDATION**: Yes. The St. John's Transitional Rider - (SJT) tariff should be suspended to allow additional time for staff to review a new Ratepayer Impact Measure (RIM) type of justification for approval of the Florida Power and Light Company and Jacksonville Electric Authority proposed territorial agreement.

**STAFF ANALYSIS**: On June 15, 1998, Florida Power and Light Company (FPL) and the Jacksonville Electric Authority (JEA) filed a joint petition for approval of a territorial agreement. On August 13, 1998, FPL filed a motion to amend the proposed territorial agreement to include the St. John's Transitional Rider - (SJT) tariff, tariff sheet No. 8.900. The purpose of the tariff is to ensure that JEA customers transferred to FPL will pay the lower of JEA's applicable rates or FPL's applicable rates for a period of

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three years from the date that the last customer is transferred to FPL. The filed tariff would be applicable to rate schedules RS-1, GS-1, and GSLD-1. On September 8, 1998, FPL filed a motion to revise this tariff to include street lights and traffic light (SL-1 and SL-2) schedules which were excluded from the original filing.

Staff's recommendation regarding approval of the proposed territorial agreement was deferred from the September 22, 1998 agenda. Subsequent to the deferral, FPL provided a new Ratepayer Impact Measure (RIM) type of justification regarding whether or not the territorial agreement is in the public interest. This new RIM test justification is attached. The RIM test normally applies to utility conservation programs. Applying the RIM test to a territorial boundary agreement is unique. Staff is unsure from what perspective the test should be used. Interrogatories have just been issued requesting that data be submitted in the format required by Rule 25-17.008, F.A.C. and done so separately for customer transfers in Duval and St. Johns Counties. Because of the uniqueness of applying the RIM test, staff recommends that the tariffs be suspended to allow additional time for staff to review the new RIM test data when it is received related to the Florida Power and Light Company and Jacksonville Electric Authority proposed territorial agreement.

Although the issue of the agreement can not be readdressed due to the outstanding discovery on the new information presented by FPL, staff believes that it is prudent to suspend the SJT tariff to avoid any question about its effectiveness prior to a Commission vote on the territorial agreement itself. The 60-day clock for a decision on the SJT tariff expires on October 12, 1998.

**ISSUE 2**: Should this docket be closed?

**RECOMMENDATION**: No.

**STAFF ANALYSIS**: This docket should remain open until the Commission either approves or denies the territorial agreement and the proposed tariff.

FPL

September 21, 1998

Mr. Joseph D. Jenkins
Florida Public Service Commission
Director, Division of Electric & Gas
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Dear Joe:

Having reviewed Staff's analysis of the economics of the proposed territorial swap between FPL and JEA, I thought it would be appropriate to send you the attached analysis done by FPL to look at the economic effects over the longer term. The analysis we have performed looks at costs and benefits associated with the territorial swap using a conventional rate-impact (RIM) test. The results show that the net effect on FPL customers is positive, i.e., rates for FPL customers go down due to the net benefit provided by the swap, even with the effects of the transitional rate agreement included. These results are derived from the growth and customer characteristics in the areas which are being transferred.

The assumptions used for marginal costs and benefits in this analysis are the same as used for analysis of FPL's demand-side-management (DSM) programs, although I would caution you against equating a territorial swap with DSM. While the same cost assumptions should be used to perform the analysis, it would be inappropriate to extend the analogy by subjecting the territorial agreement to other DSM tests. Use of the RIM methodology demonstrates, in my mind, that the deal is in the public interest, by showing benefits to the larger body of customers.

The results shown in the attachment have also been subjected to a series of sensitivities to test our assumptions related to load growth. The volume of data and analyses is too large to attach, but I would be happy to provide the backup information or discuss the specifics at your convenience, including meeting with you in Tallahassee. Please feel free to call me at (305) 552-3643 if you would like to discuss this analysis, or you have any additional questions.

Sincerely,

Samuel S. Waters

Samuel S. Waters
Director, Regulatory Affairs

Enclosures
cc: W. Feaster
W. Miller
R. Valdez

an FPL Group company

**ANALYSIS OF FPL/JEA TERRITORIAL AGREEMENT**
**NET PRESENT VALUE (NPV)**
**SUMMARY OF COSTS AND BENEFITS (1999-2020)**

| COSTS | 96$ NPV, 000'S | BENEFITS | 96$ NPV, 000'S |
|---|---|---|---|
| 1. Lost Revenues from customers transferred to JEA | 108,667 | 1. Avoided generation transmission and distribution O & M Capital | 107,231 |
| 2. Additional generation, transmission and distribution costs to serve customers transferred from JEA. Additional fuel costs | 10,738 | 2. Additional revenues received from customers transferred from JEA. | 14,103 |
| 3. Additional generation, transmission and distribution costs to serve customer growth in new territory. Additional fuel costs. | 44,689 | 3. Additional revenues received from customer growth. | 114,822 |
| 4. Payments to JEA for facilities transferred to FPL and costs to transfer customers | 4,145 | 4. Revenues from JEA for facilities transferred to JEA. | 3,224 |
| 5. Reduced revenue associated with 3 year rate transition. | 574 | | — |
| Totals | 218,813 | | 239,380 |

**Benefit-to-Cost Ratio = $\frac{239,380}{218,813}$ = 1.09**

**Note:** All customer transfers and payments are assumed to occur 1/1/99.