



Public Service Commission

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RECORDS AND REPORTING

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DATE: APRIL 22, 1999

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

FROM: DIVISION OF ELECTRIC AND GAS (DRAPER) *EJD*
DIVISION OF LEGAL SERVICES (C. KEATING) *WOK RVE JOJ*

RE: DOCKET NO. 990417-EM - PETITION FOR APPROVAL OF PREFERRED CUSTOMER STANDARD OFFER ELECTRIC SERVICE AGREEMENT BY CITY OF TALLAHASSEE.

AGENDA: 05/04/99 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\990417.RCM

CASE BACKGROUND

On April 1, 1999, the City of Tallahassee ("City" or "Tallahassee"), a municipal electric utility, filed a petition for approval of its Preferred Customer Standard Offer Electric Service Agreement ("SOA" or "Agreement"). The proposed SOA offers a discounted rate to customers in certain rate classes in return for a ten-year commitment from the customer to use the City as its electric provider. The proposed SOA is designed to retain large commercial customers and the revenues associated with those customers in the event the electric industry is deregulated.

DOCUMENT NUMBER-DATE

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DISCUSSION OF ISSUES

ISSUE 1: Should the Commission grant the City of Tallahassee's Petition for Approval of Preferred Customer Standard Offer Electric Service Agreement?

RECOMMENDATION: Yes. The Commission should grant the City of Tallahassee's Petition for Approval of Preferred Customer Standard Offer Electric Service Agreement.

STAFF ANALYSIS: Tallahassee's proposed SOA will be available to commercial/industrial customers falling in the following rate classes: General Service Demand, Curtailable General Service Demand, Interruptible General Service Demand, or General Service Large Demand. Customers who currently take service or are eligible to take service under the General Service Demand, Curtailable General Service Demand, or Interruptible General Service Demand rates and who elect to sign an SOA will receive a five percent discount from the City's standard rate. Customers who currently take service or are eligible to take service under the General Service Large Demand rate and who elect to sign an SOA will receive a seven percent discount from the City's standard rate. The discount will apply to existing base rates (customer charge, energy charge, demand charge). The discounts will not apply to fuel charges or any credits, penalties, service charges, surcharges, taxes, or other applicable charges including franchise fees.

By signing an SOA, a customer agrees to take service from the City for a period of ten years. During the first five years of the Agreement, the customer has no right to terminate the SOA except as provided for in the default and force majeure provisions of the Agreement. During this period, the City provides the customer protection from future base rate increases by capping the customer's rates at the current level net of the fuel charge component. During the last five years of the Agreement, the customer may terminate the Agreement on eight months' written notice under the SOA's "Competitive Pricing Exit Clause." Under this clause, the customer may terminate the Agreement if an alternative electric provider offers delivered, bundled electric service for the remaining duration of the SOA at a rate more than eight percent below the SOA rate in effect, presuming that the customer can legally obtain service from an alternative electric provider. The clause further provides, however, that the termination will not take effect if the City, within five months of receipt of the customer's notice, submits a counter-proposal offering rates less than six percent greater than those offered by

the alternative supplier. The SOA provides clear formulas for the calculation of fees due from the customer in the event the customer elects to terminate the SOA early.

In its petition, the City states that its proposed SOA is designed to retain large commercial customers and the significant level of revenues associated with those customers in the event the electric industry is deregulated. The City notes that Florida State University has already agreed to take service under the proposed SOA. The City asserts that by retaining these large customers and providing incentives for new commercial customers to locate in Tallahassee's service area, residential and small business customers will gain increased protection from rate increases which could result from the loss of large customers in a deregulated environment. The City further asserts that the discounted rates reflected in its SOA will not be subsidized by the City's residential or other commercial ratepayers.

Staff agrees that Tallahassee's general body of ratepayers will benefit from the retention of some of the City's largest customers. Staff believes that lost revenues from the proposed rate discounts are minimal compared to the potential loss of revenues that would result from the loss of a significant customer from the City's electric system. Staff notes that the Commission has recently approved similar tariff offerings by other municipal utilities, including the Kissimmee Utility Authority, City of Lakeland, Jacksonville Electric Authority, and Gainesville Regional Utilities. Therefore, staff recommends that the Commission grant the City's petition for approval of its proposed SOA.

DOCKET NO. 990417-EM
DATE: APRIL 22, 1999

ISSUE 2: When should the SOA become effective?

RECOMMENDATION: Staff recommends that the SOA become effective on May 4, 1999.

STAFF ANALYSIS: Staff recommends that the SOA become effective on May 4, 1999, the date of the Commission vote.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interest are affected by the Commission's order in this docket files a protest within 21 days of the issuance of the order, this docket should be closed. If a protest is timely filed, the tariff should remain in effect, pending resolution of the protest.

STAFF ANALYSIS: If no person whose substantial interest are affected by the Commission's order in this docket files a protest within 21 days of the issuance of the order, this docket should be closed. If a protest is timely filed, the tariff should remain in effect, pending resolution of the protest.