State of Florida

Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: April 8, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Wheeler, Draper, Slemkewicz) DRU EAD JS
Office of the General Counsel (Vining) JDJ

RE: Docket No. 031069-EI – Petition for authority to implement proposed Military Base Facilities Charge Rider by Gulf Power Company.

AGENDA: 04/20/04 – Regular Agenda – Tariff Filing – Interested Persons May Participate

CRITICAL DATES: 8-Month Effective Date: 07/21/04

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\031069.RCM.DOC

Case Background

On November 21, 2003, Gulf Power Company (Gulf) filed a petition for Commission approval of a proposed new Military Base Facilities Charge Rider. The Commission suspended the proposed new tariff at its January 6, 2004 agenda conference.

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05 and 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Gulf Power Company's proposed new Military Base Facilities Charge Rider?

Recommendation: Yes. Gulf should file with the Commission for staff review all finalized contracts entered into pursuant to the rider, and all supporting documentation demonstrating that the contracts recover the full cost of service. This information should be submitted within 30 days of the date a contract is finalized. (Wheeler, Draper, Slemkewicz)

Staff Analysis: On November 21, 2003, Gulf Power Company filed a petition for Commission approval of a proposed new Military Base Facilities Charge Rider (the rider). The proposed rider is applicable to military bases located in Gulf's service territory that privatize their electric distribution systems.

Gulf typically provides service to the military bases in its territory through one or more delivery points. From these delivery points, electricity is distributed throughout the bases via distribution systems that are owned and maintained by the Department of Defense. Department of Defense Reform Initiative Directive #49 – Privatizing Utility Systems (the Directive), issued by the U.S. Department of Defense on December 23, 1998, requires the privatization of the utility systems on all U.S. military bases, including electric distribution systems. Exemptions from this requirement are granted only for bases for which privatization is uneconomical or where there are unique security concerns. The current deadline for completing the privatization is September 30, 2005.

Privatization entails the transfer of ownership of the distribution system to private entities that are selected through a competitive bidding process. The winning bidders will also be responsible for the operation, maintenance, and expansion of the system pursuant to a contract. It is anticipated that the privatization will also entail the provision of services such as meter reading and billing that are normally provided to regulated retail customers. The privatization does not affect the retail sale of electricity to the military bases. The bases will continue to pay the incumbent utility for power under the appropriate existing retail rate schedule, just as they do today.

The privatization process involves the issuance of a Request for Proposals (RFP), which includes instructions and a technical data package for preparing the proposal. A Preproposal Conference and site visits for the potential offerors are then typically scheduled. During the period given to complete the proposals, there are opportunities for additional site visits and the submission of questions. Once the RFP is closed, the proposals are evaluated and a "best value" Offeror is selected. Contract negotiations are then conducted until a final contract is agreed upon. When the contract is awarded, a final economic test is performed, and, if passed, Pentagon and Congressional approvals are sought. The process of negotiations and approvals is expected to take approximately one year.

Gulf states that there are six military bases in its territory: Eglin Air Force Base, Hurlburt Field Air Force Base, Naval Air Station Pensacola, Naval Air Station Whiting Field, Naval Surface Warfare Center - Coastal Systems Station, and Tyndall Air Force Base. Of these, Eglin

AFB and Hurlburt Field AFB have indicated that they are not pursuing privatization at this time due to exemptions from the Directive.

Gulf was selected as the "best value" Offeror for both Naval Air Station Pensacola and Naval Air Station Whiting Field on September 24, 2003, and it is anticipated that the first contract negotiation meetings will be held in early April of this year. Gulf submitted its proposal for the Naval Surface Warfare Center - Coastal Systems Station in April 2003, and is awaiting a determination of the "best value" Offeror for this facility. Proposals for Tyndall Air Force Base are due April 13, 2004.

The rider would give Gulf the authority to negotiate and enter into contracts with the bases in their territory that are seeking to privatize. The contracts will specify the distribution facilities charges to be paid, as well as a minimum term, a description of the facilities covered, and any other customer-specific terms as needed. Gulf indicates in its petition that the rider is needed to allow it the flexibility to negotiate and enter into contracts with military bases in a timely manner. In the absence of the tariff, Gulf would be required to file for prior Commission approval of a special contract for each base.

Because the rider will be offered as a regulated service, staff believes that it is important that any contract payments negotiated under the rider recover the full cost of providing the contracted services to the military bases. This will prevent the general body of ratepayers from subsidizing the privatization service. Gulf indicates in its petition that any charges negotiated pursuant to the rider will be calculated to recover the full embedded cost associated with the service provided. In addition, staff has obtained information regarding the general methodology Gulf intends to employ in determining charges pursuant to the rider. After reviewing the methodology, staff believes that it should result in charges that will recover the full cost of providing service.

In order to insure that the contracts executed pursuant to the rider recover the full cost of providing service, staff recommends that Gulf be required to submit any finalized contracts executed pursuant to the rider for staff review. Gulf should also submit supporting documentation that is sufficient to demonstrate that all costs are being recovered through the charges contained in the contract. Staff will review this information to confirm that Gulf has appropriately applied its methodology for insuring that the contracts recover the full cost of providing service. This information should be submitted within 30 days of the date a contract is finalized. If staff finds that a contract may not fully recover the cost to serve the customer, staff will bring its concerns before the Commission at an agenda conference.

Since it does not require that each potential contract be submitted for prior Commission approval, staff believes that the rider will provide an effective mechanism to allow Gulf the flexibility to negotiate contracts for the privatization of military base facilities. With the condition discussed above, staff recommends that the rider be approved.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on April 20, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Vining)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on April 20, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.