

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for authority to implement
proposed Military Base Facilities Charge Rider
by Gulf Power Company.

DOCKET NO. 031069-EI
ORDER NO. PSC-04-0471-TRF-EI
ISSUED: May 6, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
LILA A. JABER
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER APPROVING GULF POWER COMPANY'S MILITARY
BASE FACILITIES CHARGE RIDER

BY THE COMMISSION:

On November 21, 2003, Gulf Power Company (Gulf) 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. We suspended the proposed new tariff by Order No. PSC-04-0030-PCO-EI, issued January 12, 2004. We have jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05 and 366.06, Florida Statutes.

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

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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.

There are six military bases in Gulf's 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 the first contract negotiation meetings were to 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 were due April 13, 2004.

The rider would give Gulf the authority to negotiate and enter into contracts with the bases in its 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, we believe 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, we obtained information regarding the general methodology Gulf intends to employ in determining charges pursuant to the rider. After reviewing the methodology, we believe that it will 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, Gulf shall be required to submit any finalized contracts executed pursuant to the rider for review by Commission staff. Gulf shall also submit supporting documentation that is sufficient to demonstrate that all costs are being recovered through the charges contained in the contract. The Commission 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. All contracts and supporting documentation shall be submitted within 30 days of the date a contract is finalized.

Since it does not require that each potential contract be submitted for prior Commission approval, we find 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, we hereby approve the rider.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's Petition for Authority to Implement the Military Base Facilities Charge Rider is hereby approved as set forth in the body of this Order. It is further

ORDERED that Gulf shall be required to submit any finalized contracts executed pursuant to the rider for review by Commission staff. Gulf shall also submit supporting documentation that is sufficient to demonstrate that all costs are being recovered through the charges contained in the contract. All contracts and supporting documentation shall be submitted within 30 days of the date a contract is finalized. It is further

ORDERED that the Military Base Facilities Charge Rider shall become effective on April 20, 2004. It is further

ORDERED that if a protest is filed within 21 days of the issuance of this Order, the tariff shall remain in effect pending resolution of the protest. It is further

ORDERED that if no timely protest is filed, this docket shall be closed upon the issuance of a consummating order.

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By ORDER of the Florida Public Service Commission this 6th day of May, 2004.



BLANCA S. BAYO, Director
Division of the Commission Clerk
and Administrative Services

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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 Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 27, 2004.

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.