

State of Florida



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Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 4, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Ollila) *A.O. ESD P.D.*
Office of the General Counsel (Brownless) *J.W.D. J.C. ABW*

RE: Docket No. 150112-EI – Request by Gulf Power Company to modify its underground residential differential tariffs.

AGENDA: 06/18/15 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 12/01/15 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

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Case Background

On April 1, 2015, Gulf Power Company (Gulf) filed its revised underground residential distribution (URD) tariff. These tariffs reflect the additional costs the customer must pay for initial service above the standard overhead service. The proposed tariffs are shown in Attachment 1. Gulf's current charges were approved in Order No. PSC-12-0531-TRF-EI (2012 Order).¹ On April 13, 2015, Gulf waived the 60-day suspension date. Staff issued two data requests to Gulf. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

¹ Order No. PSC-12-0531-TRF-EI, issued October 4, 2012, in Docket No. 120075-EI, In re: Request by Gulf Power Company to modify its underground residential differential tariffs.

Discussion of Issues

Issue 1: Should the Commission approve Gulf's proposed URD tariffs and associated charges?

Recommendation: Yes, the Commission should approve Gulf's proposed URD tariffs and associated charges effective June 18, 2015. (Ollila)

Staff Analysis: Rule 25-6.078, Florida Administrative Code (F.A.C.), defines investor-owned utilities' (IOUs) responsibilities for filing updated URD tariffs. IOUs are required to file supporting data and analyses for URD tariffs at least once every three years. The URD tariffs provide standard charges for underground service in new residential subdivisions and represent the additional costs the utility incurs to provide underground service in place of standard overhead service. The cost of standard overhead construction is recovered through base rates from all ratepayers. In lieu of overhead construction, customers have the option of requesting underground facilities. Costs for underground construction have historically been higher than for standard overhead construction and the additional cost is paid by the customers as contribution-in-aid-of construction (CIAC). Typically the URD customer is the developer of the subdivision.

Gulf's URD charges are based on two standard model subdivisions: (1) a 210-lot low density (LD) subdivision, and (2) a 176-lot high density (HD) subdivision. While actual construction may differ, the model subdivisions are designed to reflect average subdivisions. Gulf explained that both subdivision underground designs were updated to reflect changes in construction standards, resulting in minor increases to the affected materials.

Table 1-1 displays the currently approved and proposed URD differentials for the LD and HD subdivisions. The charges shown are per-lot charges. Gulf's URD tariff also provides for reduced charges if the customer chooses to supply and/or install the primary and secondary trench and duct system.

Table 1-1
Comparison of URD Differential Per Lot

| | Current Differential Per Lot | Proposed Differential Per Lot |
|----------------------|-------------------------------------|--------------------------------------|
| 210-Lot Low Density | \$427 | \$402 ² |
| 176-Lot High Density | \$458 | \$521 |

As shown in the table above, the differential per-lot has decreased for the LD subdivision and increased for the HD subdivision. The calculation of Gulf's proposed URD charges are based on 1) updated labor and material costs, and 2) calculation of operational costs.

Updated labor and material costs. The installation costs of both underground and overhead facilities include the material and labor costs to provide primary, secondary, and service distribution lines as well as transformers. The costs of poles are specific to overhead

² \$402 is calculated as follows: \$592 (Table 1-2) + (\$190) (Table 1-3) = \$402.

service while the costs of trenching and backfilling are specific to underground service. The current URD charges are based on 2012 labor and material costs, and the proposed charges are based on 2015 costs. Table 1-2 compares the per-lot 2012 and 2015 underground and overhead labor and material costs for the two subdivisions.

Table 1-2
Labor and Material Costs per Lot

| | 2012 Costs | 2015 Costs | Difference |
|----------------------------------|------------|------------|------------|
| Low Density | | | |
| Underground labor/material costs | \$2,258 | \$2,307 | \$49 |
| Overhead labor/material costs | \$1,701 | \$1,715 | \$14 |
| Per lot differential | \$557 | \$592 | \$35 |
| High Density | | | |
| Underground labor/material costs | \$1,803 | \$1,895 | \$92 |
| Overhead labor/material costs | \$1,325 | \$1,331 | \$6 |
| Per lot differential | \$478 | \$564 | \$86 |

As indicated in the table above, the changes in total labor and material cost differentials are minimal for the two model subdivisions. Gulf stated that the overall increases in LD and HD underground labor and material costs result from increases in the cost of contract labor (used for trenching and the installation of duct work) and are somewhat mitigated by decreases in material costs. Specifically, the decrease in material costs is driven by the volume procurement of transformers. The increase in overhead costs is minimal.

Calculation of operational costs. Rule 25-6.078(4), F.A.C., provides that the differences in Net Present Value (NPV) of operational costs between overhead and underground systems, including average historical storm restoration costs over the life of the facilities, be included in the URD charge. Operational costs include operations and maintenance (O&M) costs and capital costs. The inclusion of the operational costs are intended to capture longer term costs and benefits of undergrounding. Gulf used its actual historical O&M and capital expenses for the period 2010 through 2014 to calculate the operational difference for overhead and underground facilities.

Table 1-3 below compares the 2012 and 2015 NPV calculations of operational cost differentials between overhead and underground systems on a per-lot basis.

Table 1-3
NPV of Operational Costs per Lot

| | 2012 Calculation | 2015 Calculation | Difference |
|----------------------|-------------------------|-------------------------|-------------------|
| Low Density | | | |
| Underground | \$379 | \$436 | \$57 |
| Overhead | \$509 | \$626 | \$117 |
| Per lot differential | -\$130 | -\$190 | -\$60 |
| High Density | | | |
| Underground | \$238 | \$274 | \$36 |
| Overhead | \$258 | \$317 | \$59 |
| Per lot differential | -\$20 | -\$43 | -\$23 |

Gulf used the same methodology as updated in the 2012 Order and originally approved in Order No. PSC-10-0563-TRF-EI.³ Gulf's NPV calculation used a 32-year life of the facilities and a 6.72 percent discount rate. Staff notes that operational costs may vary among IOUs as a result of differences in size of service territory, miles of coastline, regions subject to extreme winds, age of the distribution system, or construction standards.

Conclusion. In summary, for LD subdivision lots, the proposed labor and material differential is a \$35 increase from current costs. The operational cost savings not only offset the \$35 increase, but serve to reduce the proposed differential an additional \$25 from the current differential. For the HD subdivision lots, the proposed labor and material differential is an \$86 increase from the current differential. The operational cost savings reflect a decrease of \$23 from the current differential, for a total increase of \$63 from the current differential.

Staff has reviewed Gulf's proposed URD charges and associated tariffs, its accompanying work papers, and data request responses. Staff believes the proposed URD charges are reasonable and recommends approval, effective June 18, 2015.

³ Order No. PSC-10-0563-TRF-EI, issued September 14, 2012, in Docket No. 100165-EI, In re: Request to revise 2010 overhead/underground residential differential cost data by Gulf Power Company.

Issue 2: Should this docket be closed?

Recommendation: Yes. If a protest is filed within 21 days of the issuance of the order, this tariff should remain effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Brownless)

Staff Analysis: If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.



Section No. IV
Thirteenth Revised Sheet No. 4.25
Canceling Twelfth Revised Sheet No. 4.25

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6.2.8 DAMAGE TO COMPANY'S EQUIPMENT. The Applicant shall be responsible to ensure that the Company's distribution facilities once installed, are not damaged, destroyed, or otherwise disturbed during the construction of the project. This responsibility shall extend not only to those in his employ, but also to his subcontractors. Should damage occur, the Applicant shall be responsible for the full cost of repairs.

6.2.9 PAYMENT OF CHARGES. The Company shall not be obligated to install any facilities until payment of applicable charges, if any, has been completed.

**6.3 UNDERGROUND DISTRIBUTION FACILITIES FOR
NEW RESIDENTIAL SUBDIVISIONS**

6.3.1 AVAILABILITY. After receipt of proper application and compliance by the Applicant with applicable Company rules and procedures, the Company will install underground distribution facilities to provide single phase service to new residential subdivisions of five (5) or more building lots.

6.3.2 CONTRIBUTION BY APPLICANT.

- (a) Prior to such installations, the Applicant and the Company will enter into an agreement outlining the terms and conditions of installation, and the Applicant will be required to pay the Company in advance the entire cost as described below:

| <u>Option</u> | <u>Low Density</u> | <u>High Density</u> |
|--|------------------------------------|------------------------------------|
| | <u>Subdivision</u> (\$ per lot) | <u>Subdivision</u> (\$ per lot) |
| 1. Gulf supplies and installs all primary, secondary, and service trench, duct, and cable. | \$402 | \$521 |
| 2. Applicant installs primary and secondary trench and duct system. Gulf supplies primary and secondary duct and supplies and installs service duct. Gulf supplies and installs primary, secondary, and service cable. | \$209 | \$384 |
| 3. Applicant supplies and installs primary and secondary trench and duct. Gulf supplies primary and secondary cable. Gulf supplies and installs service duct and cable. | \$90 | \$289 |

All construction done by the Applicant must meet the Company's specifications. All installations must be approved by the Company's authorized representative.

- (b) The Applicant is required to pay a charge per foot and a cost differential for transformers and services (see "Three Phase Lift Station" charts below) for three phase commercial loads requiring 120/240 volt open delta, 120/208 volt wye, or 277/480 volt wye service in new residential subdivisions for each three phase service. This average cost will be added to the advanced payment in 6.3.2(a) above.

ISSUED BY: S. W. Connally, Jr.



Section No. IV
Seventeenth Revised Sheet No. 4.26
Canceling Sixteenth Revised Sheet No. 4.26

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6.3.2 (continued)

THREE PHASE LIFT STATION

COSTS TO PROVIDE 3 PH SVC TO LIFT STATION W/IN TYPICAL SUBDIVISION - OPTION 1

CUSTOMER REQUEST: 120/208 or 277/480

| MOTOR SIZE | AVAILABLE UNDERGROUND FACILITIES | | |
|----------------|---|---|---|
| | SINGLE PHASE | TWO PHASES | THREE PHASES |
| < 5HP | \$21.85 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service | \$15.30 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service |
| 5HP < X < 25HP | \$8.98 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$10.81 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |
| > 25HP | \$4.50 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service | \$2.42 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service |

CUSTOMER REQUEST: 120/240 OPEN DELTA

| MOTOR SIZE | AVAILABLE UNDERGROUND FACILITIES | | |
|----------------|--|--|--|
| | SINGLE PHASE | TWO PHASES | THREE PHASES |
| < 5HP | \$11.04 per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service |
| 5HP < X < 25HP | \$2.08 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |
| > 25HP | \$2.08 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |

ISSUED BY: S. W. Connally, Jr.



Section No. IV
Fifth Revised Sheet No. 4.26.1
Canceling Fourth Revised Sheet No. 4.26.1

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6.3.2 (continued)

THREE PHASE LIFT STATION

COSTS TO PROVIDE 3 PH SVC TO LIFT STATION W/IN TYPICAL SUBDIVISION - OPTION 2

CUSTOMER REQUEST: 120/208 or 277/480

| MOTOR SIZE | AVAILABLE UNDERGROUND FACILITIES | | |
|----------------|---|---|---|
| | SINGLE PHASE | TWO PHASES | THREE PHASES |
| < 5HP | \$21.14 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service | \$14.90 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service |
| 5HP < X < 25HP | \$8.26 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$10.43 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |
| > 25HP | \$3.79 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service | \$2.03 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service |

CUSTOMER REQUEST: 120/240 OPEN DELTA

| MOTOR SIZE | AVAILABLE UNDERGROUND FACILITIES | | |
|----------------|--|--|--|
| | SINGLE PHASE | TWO PHASES | THREE PHASES |
| < 5HP | \$10.71 per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service |
| 5HP < X < 25HP | \$1.75 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |
| > 25HP | \$1.75 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |

ISSUED BY: S. W. Connally, Jr.



Section No. IV
Fifth Revised Sheet No. 4.26.2
Cancelling Fourth Revised Sheet No. 4.26.2

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6.3.2 (continued)

THREE PHASE LIFT STATION
COSTS TO PROVIDE 3 PH SVC TO LIFT STATION W/IN TYPICAL SUBDIVISION - OPTION 3

CUSTOMER REQUEST: 120/208 or 277/480

| MOTOR SIZE | AVAILABLE UNDERGROUND FACILITIES | | |
|----------------|---|---|---|
| | SINGLE PHASE | TWO PHASES | THREE PHASES |
| < 5HP | \$18.61 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service | \$13.64 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service |
| 5HP < X < 25HP | \$5.73 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$9.16 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |
| > 25HP | \$1.26 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service | \$0.77 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service | \$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service |

CUSTOMER REQUEST: 120/240 OPEN DELTA

| MOTOR SIZE | AVAILABLE UNDERGROUND FACILITIES | | |
|----------------|--|--|--|
| | SINGLE PHASE | TWO PHASES | THREE PHASES |
| < 5HP | \$9.44 per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service |
| 5HP < X < 25HP | \$0.49 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |
| > 25HP | \$0.49 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service | \$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service |

ISSUED BY: S. W. Connally, Jr.



Section No. IV
Ninth Revised Sheet No. 4.28
Canceling Eighth Revised Sheet No. 4.28

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6.5 OTHER UNDERGROUND DISTRIBUTION FACILITIES

6.5.1 APPLICABILITY. This subpart applies to requests for underground facilities addressing the conversion of existing overhead facilities. In order for the Company to take action pursuant to a request for conversion:

- (1) the conversion area must be at least two contiguous city blocks or 1000 feet in length;
- (2) all electric services to the real property on both sides of the existing overhead primary lines must be part of the conversion; and
- (3) all other existing overhead utility facilities (e.g. telephone, CATV, etc.) must also be converted to underground facilities.

6.5.2 NON-BINDING COST ESTIMATES. An Applicant may obtain a non-binding estimate of the charges the Applicant would be obligated to pay in order for the Company to provide underground distribution facilities. This non-binding estimate will be provided to the Applicant without any charge or fee upon completion of the Application for Underground Cost Estimate set forth in Section VII of this tariff, Standard Contract Forms, at Sheet No. 7.43.

6.5.3 BINDING COST ESTIMATES. An Applicant, upon payment of a non-refundable deposit and completion of the Application for Underground Cost Estimate set forth in Section VII of this tariff, Standard Contract Forms, at Sheet No. 7.43, may obtain an estimate of the charges for underground distribution facilities, which estimate the Company would be bound to honor as provided below. The deposit amount, which approximates the engineering costs for underground facilities associated with preparing the requested estimate, shall be calculated as follows:

Conversion

| | |
|---------------------|------------------------------------|
| Urban Commercial | \$4,640 per overhead primary mile |
| Urban Residential | \$7,554 per overhead primary mile |
| Rural Residential | \$6,130 per overhead primary mile |
| 210 Lot Subdivision | \$5,814 per overhead primary mile |
| 176 Lot Subdivision | \$10,166 per overhead primary mile |

ISSUED BY: S. W. Connally, Jr.