

FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

June 12, 1997

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

FROM: DIVISION OF ELECTRIC & GAS (GING) *PAZ*
DIVISION OF LEGAL SERVICES (JOHNSON) *RVE For VDI RLT*

RE: DOCKET NO. 970552-EM - CITY OF ST. CLOUD - PROPOSED
TARIFF RESULTING FROM INTERLOCAL AGREEMENT BETWEEN CITY
OF ST. CLOUD AND ORLANDO UTILITIES COMMISSION CONCERNING
MANAGEMENT OF ELECTRIC OPERATIONS OF CITY OF ST. CLOUD

AGENDA: 06/24/97 - REGULAR AGENDA - TARIFF FILING - INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\970552EM.RCM

CASE BACKGROUND

Orlando Utilities Commission (OUC) has supplied St. Cloud (City) with its full energy requirements since November 8, 1994. As of May 1, 1997 OUC has taken over all of the City's power supply responsibilities associated with the supply of electricity at the retail level pursuant to an interlocal agreement. An interlocal agreement relates to the cooperation of local government units to make the most efficient use of their powers by enabling them to cooperate with other localities on the basis of mutual advantage. Interlocal agreements are permitted under Section 163.01, Florida Statutes "Florida Interlocal Cooperation Act of 1969." House Bill 637 passed by the legislature this year authorizes OUC to construct, maintain, and operate energy services and water facilities within Orange and Osceola counties. It appears that the legislation was not necessary for OUC and the City to enter into their interlocal agreement. The legislation only acts to reinforce and further support their interlocal agreement. The intent of this interlocal agreement is to provide the benefits of economies of scale and more efficient utilization of the existing resources owned by the City and OUC. It is envisioned that the ultimate consolidation of electric utility functions will provide further economies ultimately resulting in approximate rate parity between

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the retail rates of OUC and the City. This agreement should provide for more economical and reliable electric service to the customers of the City.

Staff usually approves municipal tariff changes administratively when there is an improvement in rate structure. Because this tariff change is done in a unique context, staff decided to docket the item and bring it before the Commission to answer any related questions.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the revision of all of the City's existing tariffs with tariffs that mirror those of the OUC plus an additional adder to pay for system upgrades?

RECOMMENDATION: Yes, the Commission should approve the revision of all of the City's tariffs. The City's revised tariffs will lower rates to all classes of customers and will improve the City's rate structure.

STAFF ANALYSIS: Pursuant to the interlocal agreement, the City will retain ownership of its electric infrastructure and remain a municipal utility while OUC will maintain and operate the City's system. OUC will provide maintenance for the City's existing distribution system as well as maintenance and upgrades for transmission services. OUC also intends to provide the following services for the City: generation, system engineering, construction, operations, maintenance, billing, customer services, and metering services. All existing employees of the City will be retained by OUC, subject to most of the terms and conditions of OUC's employee benefits plans and policies.

The interlocal agreement provides that the City's tariffs be revised such that the City's new rates are identical to OUC's with the exception of an adder that will be used by OUC to pay for improvements to the City's distribution system. The improvements include: transmission tie line upgrades, transformer additions, new transmission lines, and an additional substation. The adder will be reduced every year for seven years as the City's distribution system improvements are made. At the end of seven years, the adder will be reduced to a 4 percent differential between OUC's rates and the City's rates. Thereafter, the 4 percent differential is expected to remain indefinitely.

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Because the Commission's jurisdiction over municipal utilities is limited to rate structure, staff limited its analyses to the effects the interlocal agreement will have on the City's rate structure. Rate structure is improved when rate changes move in the direction of greater rate parity between customer classes. The rate structure of Investor Owned Utilities are used as a proxy when evaluating a muni or co-op's rate structure. In this case, the City's rate structure improves relative to Florida Power and Light's and Florida Power Corporation's rate structures which are neighboring utilities. The City's rates for all rate classes will be lower and its rate structure will be improved for all rate classes. Staff, therefore recommends approval of the City's new tariffs as filed with the Commission. According to the City, it intends to reduce the adder 7 more times in as many years beginning on October 1, 1998. Staff expects the City to file new tariffs in each of those years subject to Commission approval.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed. If a protest is filed within 21 days from the issuance date of the order, the tariff should remain in effect, pending resolution of the protest.

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed. If a protest is filed within 21 days from the issuance date of the order, the tariff should remain in effect, pending resolution of the protest.