

July 7, 2005

Blanca Bayo Director Division of the Commission Clerk and Administrative Services Florida Public Service Commission 2540 Shamard Oak Boulevard Tallahassee, Florida 32399-0850

Dear Ms. Bayo,

Enclosed please find a revised line extension policy for Choctawhatchee Electric Cooperative Inc. ("CHELCO"). CHELCO is modifying its line extension policy to better reflect the costs contained in its base rates. The policy is designed to give customers an allowance that is supported by CHELCO's base rates while ensuring that new customers also make some contribution to the fixed, or "backbone", costs of the distribution system. Therefore, we are proposing that customers receive a line extension allowance that represents a portion, but not all, of the distribution costs supported through base rates. If the allowance represents *all* of the distribution costs supported by base rates, then the marginal revenue received from the customer through base rates would only cover the line extension costs and would make no contribution to other fixed costs. Under this scenario, current customers on CHELCO's system would receive no benefit, and perhaps could be harmed, from growth on the system.

CHELCO's new line extension policy will help ensure that new customers receive a reasonable line extension allowance without being subsidized by current customers. Our proposed policy will also help mitigate upward pressure on base rates due to growth on the system. Because the new policy ensures that the revenue received from new customers also make some contribution to CHELCO's fixed costs, all ratepayers receive some benefit from growth.

### Cost Support for the New Line Extension Policy

CHELCO's new line extension policy provides each customer with an allowance toward the cost of a line extension that is based on 2.5 times the customer's expected net revenue (total revenue less purchased power). The cost of a line extension is the total cost of extending facilities to serve a customer excluding the cost of a standard meter, service line, and transformer. A standard meter, service line, and transformer will be provided by CHELCO at no additional charge to the customer. If a portion of the cost of the line extension is for system upgrade purposes, those costs will also be excluded when determining the amount of the customer's contribution.

For small general service and residential customers the 2.5 times net revenue allowance was converted to a dollar amount to make the administration of the policy

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CHOCTAWHATCHEE ELECTRIC

COOPERATIVE, INC.

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FPSC-COMMISSION CLERK

**COCCHENT NEMERIC CAST** 



manageable for these customers. These customers will receive \$625.00 per customer toward the cost of a line extension. The customer will make a contribution toward any costs above \$625.00.

The policy for large customers and developments will use the straight 2.5 times net revenue test to determine the customer allowance. We chose not to convert the revenue test to a dollar amount for these customers because of the diversity seen within this group. Large customers and developments can vary significantly with respect to the size of their load and the cost of extending distribution facilities to provide service.

The 2.5 times net revenue used in the policy was determined through a revenue requirement analysis, which is shown in Attachment A. The revenue requirement analysis is used to determine the amount of investment that can be supported through base rates. The analysis indicates that CHELCO's base rates would support an investment up to 4.54 times a customer's annual net revenue. In order to ensure that the revenue from a new customer makes a contribution to CHELCO's fixed costs, or "backbone" system, an allowance of 2.5 times net revenue was selected. This will help ensure that current customers are not subsidizing new customers.

Attachment B shows how the 2.5 times revenue was converted to a dollar amount for use in the line extension policies applicable to small general service and residential customers. In the analysis, we calculated net revenue per customer for small general service and residential customers. From that revenue we removed the cost of meter reading, billing, and the carrying cost associated with the meter, service line, and transformer. The remainder is revenue that would be available to cover the cost of a line extension. We applied the 2.5 times revenue amount to the remaining revenue to calculate the equivalent dollar amount of construction allowance that is supported by base rates, resulting in a allowance of \$625.00 per customer.

CHELCO's Board of Directors approved the line extension policy contained in this filing at its board meeting on May 26, 2005. CHELCO's new policy will ensure that new customers receive a reasonable line extension allowance without being subsidized by current customers, will help mitigate upward pressure on base rates due to growth on the system, and will ensure that the revenue received from new customers also make some contribution to CHELCO's fixed costs. We believe that the proposed policy is fair, just and reasonable and is in the public interest. CHELCO, therefore, respectfully requests that the Commission approve the policy included in this filing and make it effective September 1, 2005.

Respectfully submitted,

JESmith

J. E. Smith CEO and General Manager

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CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.

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Phone 850.892.2111 Toll-Free 800.342.0990 Fax 850.892.9560 Web www.chelco.com Attachment A

#### SECOND REVISED SHEET NO. 5.1 CANCELING FIRST REVISED SHEET NO. 5.1

NAME OF UTILITY \_\_\_\_\_ CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.

# **Electric Line Extension Policy**

# **Residential and Non-Demand General Service**

A line extension, for purposes of this policy, shall include all incremental capital costs associated with connecting a new customer to the delivery system, excluding the cost of a standard transformer, service line (the connection between the transformer and the meter), and meter.

# (A) <u>Extensions to Single Customers</u>

- (1) Choctawhatchee Electric Cooperative, Inc. in extending service to a permanent customer that will be served pursuant to its Residential Rate RS or General Service Non-Demand Rate GS shall charge a contribution in aid of construction ("CIAC") on the cost of providing service in excess of \$625.00.
- (2) If, within a 5 year period, additional customers take service (i.e. transformer, service line and meter) from the original line extension, but not laterals or extensions there from, the original applicant shall be refunded the lesser of the original contribution or \$625.00 for each additional customer taking service, up to the amount of the original applicant's contribution. In no event shall the original applicant be refunded an amount greater than the initial CIAC. The original applicant must continue to own the property for which service was requested to be eligible for refunds. It is the responsibility of the applicant to request refunds from the Cooperative.

# (B) <u>Multiple Applications for Service</u>

(1) When two or more applications result in the applicants receiving permanent service from the same extension, the amount of extension installed at no charge shall be the number of applicants times \$625.00.

Issued by: James E. Smith CEO and General Manager

#### THIRD REVISED SHEET NO. 5.2 CANCELING SECOND REVISED SHEET NO. 5.2

### NAME OF UTILITY \_\_\_\_\_ CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.

(Continued from Sheet No. 5.1)

(2) If, within a 5 year period, additional customers take service (i.e. transformer, service line and meter) from the original line extension, but not laterals or extensions thereof, the original applicants shall be refunded an equal share of \$625.00 or the amount of the original contribution, which ever is less, for each additional customer taking service, up to the amount of the original applicant's contribution. In no event shall the original applicants be refunded an amount greater than their initial contribution. The original applicant must continue to own the property for which service was requested to be eligible for refunds. It is the responsibility of the applicant to request refunds from the Cooperative.

# (C) <u>Electric Extension to a Development</u>

(1) When service is requested to a development prior to actual construction or occupation of the project, CHELCO shall charge a CIAC based on an estimate of expected net revenue from the number of lots that CHELCO expects to be occupied at the end of five years from the date of construction. Net revenue is the annual expected revenue from a customer less the purchase power costs associated with serving that customer.

If the cost of extending service to the development is less than 2.5 times the estimated annual net revenue, no CIAC is required from the developer. If the cost of extending service to the development is greater than 2.5 times the estimated annual net revenue, the developer shall be required to make a CIAC toward the total installed cost of extending service. The developer's CIAC shall be determined by subtracting from the cost of extending service, an amount equal to 2.5 times the estimated annual net revenue determined above.

(2) Any and all line extension contracts and agreements between CHELCO, and any developer existing as of the effective date of this policy shall remain in effect unless cancelled by either party in accordance with the terms of the existing agreement.

Issued by: James E. Smith CEO and General Manager

#### SECOND REVISED SHEET NO. 5.3 CANCELING FIRST REVISED SHEET NO. 5.3

# NAME OF UTILITY \_\_\_\_\_ CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.

(Continued from Sheet No. 5.2)

### (D) Extension to a Condominium or Apartment Building

(1) When service is extended to a Condominium or Apartment building, CHELCO shall charge a CIAC based on an estimate of expected net revenue from the number of units that CHELCO expects to be occupied at the end of five years from the date of construction. Net revenue is the annual expected revenue from a customer less the purchase power costs associated with serving that customer.

If the cost of extending service to the condominium or apartment building is less than 2.5 times the estimated annual net revenue, no CIAC is required from the developer. If the cost of extending service to the condominium or apartment building is greater than 2.5 times the estimated annual net revenue, the developer shall be required to make a CIAC toward the total installed cost of extending service. The developer's CIAC shall be determined by subtracting from the cost of extending service, an amount equal to 2.5 times the estimated annual net revenue determined above.

#### (f) Extension to a Non-Residential Structure

- (1) When service is extended to a non-residential structure (which includes, but is not limited to, electric fences, water pumps, sheds, hunting camps, and fish camps), the applicant will make a CIAC equal to the total installed cost of extending service.
- (2) If, within a 5 year period, additional customers take service (i.e. transformer, service line and meter) from the original line extension, but not laterals or extensions there from, the original applicant shall be refunded the lesser of the original contribution or \$625.00 for each additional customer taking service, up to the amount of the original applicant's contribution. In no event shall the original applicant be refunded an amount greater than the initial CIAC. The original applicant must continue to own the property for which service was requested to be eligible for refunds. It is the responsibility of the applicant to request refunds from the Cooperative.

Issued by: James E. Smith CEO and General Manager

#### FIRST REVISED SHEET NO. 5.4 CANCELING ORIGINAL SHEET NO. 5.4

NAME OF UTILITY \_\_\_\_\_ CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.

(Continued from Sheet No. 5.3)

#### **General Service Demand and Large Power**

CHELCO, in extending service to a permanent customer that will *not* be served pursuant to Residential Rate RS or General Service Non-Demand Rate GS shall charge a CIAC equal to the total installed cost of extending electric service to the customer. After the initial 30 months (2.5 years) of service, CHELCO shall perform a revenue test to determine what amount, if any, of the original contribution that will be refunded to the customer. CHELCO shall refund to the customer an amount equal to the customer's actual net revenue during the initial 30 months of service, up to but not exceeding the customer's original CIAC. The customer's actual net revenue shall be determined by subtracting purchase power costs from the customer's total bill before taxes for the first 30 months.

If the customer requesting service has similar existing facilities in other locations that would allow CHELCO to accurately forecast the customer's annual net revenue, CHELCO may not collect the full cost of the extension prior to the customer receiving service. Instead CHELCO would perform a revenue test to determine the amount of the initial CIAC. If the cost of extending service to the customer is less than 2.5 times the customer's estimated annual net revenue, no CIAC is required from the customer. If the cost of extending service to the customer is greater than 2.5 times the customer's estimated annual net revenue, the customer shall be required to make a CIAC toward the total installed cost of extending service. The customer's CIAC shall be determined by subtracting from the cost of extending service, an amount equal to 2.5 times the customer's estimated annual net revenue.

However, in the event that the full cost of extending service is not collected prior to the customer taking service, CHELCO will, at the end of the initial 30 months of service, perform a revenue test to determine if a CIAC will be required from the customer. If the initial cost of extending service to the customer is less than the customer's actual net revenue for the first 30 months, no additional CIAC is required from the customer's actual net revenue for the first 30 months, an additional CIAC may be required from the customer. The additional CIAC, if any, shall be determined by comparing the Contribution amount determined by applying 2.5 times the estimated net revenue when the customer initially took service, and the contribution amount determined by examining the customer's actual net revenue for the first 30 months for the first 30 months and the other first 30 months and the determined by applying 2.5 times the estimated net revenue when the customer initially took service, and the contribution amount determined by examining the customer's actual net revenue for the first 30 months are additional to a mount determined by applying 2.5 times the estimated net revenue when the customer initially took service, and the contribution amount determined by examining the customer's actual net revenue for the first 30 months for the first 30 months are additional customer's actual net revenue for the first 30 months for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual net revenue for the first 30 months are additional customer's actual

Issued by: James E. Smith CEO and General Manager

NAME OF UTILITY CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.

(Continued from Sheet No. 5.4)

service. If the contribution amount determined from the customer's actual net revenue is greater than the contribution amount determined using the customer's estimated net revenue, the customer shall make an additional CIAC equal to the difference in the contribution amount determined from the customer's actual revenue and the contribution amount determined from the customer's estimated revenue. In no case shall any of the customer's initial contribution be refunded.

Issued by: James E. Smith CEO and General Manager

# CHELCO Present Value **Revenue Requirement Analysis**

# Capital Structure:

Capital Structure:						
				Weighted		Adjusted
	 Amount	Percent	Rate	COC	Tax Rate	Rate
Debt	\$ 18,444,444	39.47%	7.00%	2.76%	0.00%	2.76%
Preffered Equity	0	0.00%	0.00%	0.00%		0.00%
Common Equity	\$ 28,286,190	60.53%	7.00%	4.24%		4.24%
	\$ 46,730,634			7.00%		7.00%

#### CHELCO Present Value Revenue Requirement Analysis

Revenue	Requirement	Analysis

Year	Investment		Book Depre	ciation	Residual Plant	Tax Depr		Residual Plant		ferred come Tax	Accumul Deferred Income 1	1	Rate	e Base	Interest	Equi	ity	0&M	м	Propert Taxes		income Taxes	Re	nual venue quirement	Present Value Interest Factor	lue Value erest Revenue		Present Value Revenue Requirement		Annual Carrying Charge Rate
	0\$	1,000,000											\$	-	-	\$	-			-	-	-	\$	-	1.00000		-	\$	-	
	1		\$	33,333	\$ 966,667			\$ 962,50		-	\$	-	\$	966,667	26,707.83	\$	40,959		96,000		637	-	\$	204,637	0.93458		191,249		191,249	20.46%
	2			33,333	933,333		72,190	890,31		-	\$	-	\$	933,333	25,786.87		39,546		99,360		373	-	\$	205,400	0.87344		179,404		370,654	20.54%
	3			33,333	900,000		66,770	823,54		-	\$	-	\$	900,000	24,865.91	\$	38,134		102,838		110	-	\$	206,281	0.81630		168,387		539,040	20.63%
	4			33,333	866,667		61,770	761,77		-	\$	-	Ş	866,667	23,944.96		36,722		106,437		847	-	\$	207,284	0.76290		158,136		697,176	20.73%
	5			33,333	833,333		57,130	704,64		-	\$	-	\$	833,333	23,024.00				110,162		583	-	\$	208,412	0.71299		148,595		845,771	20.84%
	6			33,333	800,000		52,850	651,79		-	ş	-	\$	800,000	22,103.04		33,897		114,018		320	-	\$	209,671	0.66634		139,713		985,484	20.97% 21.11%
	7			33,333	766,667		48,880	602,91		-	\$ 5	-	ž	766,667 733,333	21,182.08 20,261.12		32,485		118,009 122,139		,057 ,793	-	\$ \$	211,065 212,599	0.62275		131,441 123,734		1,116,924	21.11%
	8			33,333 33,333	733,333 700,000		45,220 44,620	557,69 513,07		-	s	-	÷	700,000	19,340.16		29,660		126,414		530		è	212,599	0.54393		123,734		1,357,211	21.20%
4	9			33,333	666,667		44,610	468,46		-	ŝ	-	é	666,667	18,419.20		29,000		130,838		267	-	ŝ	216,105	0.50835		109,857		1,467,068	21.61%
	1			33,333	633,333		44,620	423,84			š	-	ě	633,333	17,498.24		26,835		135,417		003	-	ŝ	218,087	0.47509		103,612		1,570,680	21.81%
	2			33,333	600,000		44,610	379,23		-	ŝ	-	š	600,000	16,577,28		25,423		140,157		740	-	š	220,230	0.44401		97,785		1,668,465	22.02%
	3			33,333	566,667		44,620	334,61		-	ŝ	-	š	566,667	15,656.32		24,010		145.063		477	-	ŝ	222,539	0.41496		92,346		1,760,811	22.25%
1	4			33,333	533,333		44,610	290,00		-	Ś	-	Ś	533,333	14,735.36		22,598		150,140	\$ 4	213	-	Ś	225,020	0.38782	Ś	87,267		1,848,077	22.50%
1	5			33,333	500,000		44,620	245,38	0 \$	-	\$	-	\$	500,000	13,814.40	\$	21,186	\$	155,395	\$ 3	950	-	\$	227,678	0.36245	\$	82,521	\$	1,930,598	22.77%
1	6			33,333	466,667	\$	44,610	200,77	0 \$	-	\$	-	\$	466,667	12,893.44	\$	19,773	\$	160,833	\$ 3	687	-	\$	230,520	0.33873	\$	78,085	\$	2,008,683	23.05%
1	7			33,333	433,333	\$	44,620	156,15	0\$	-	\$	-	\$	433,333	11,972.48		18,361		166,463	\$ 3	423	-	\$	233,553	0.31657		73,937	\$	2,082,620	23.36%
1	8			33,333	400,000		44,610	111,54		-	\$	-	\$	400,000	11,051.52				172,289		160	-	\$	236,782	0.29586		70,055		2,152,676	23.68%
1	9			33,333	366,667		44,620	66,92		-	\$	-	\$	366,667	10,130.56				178,319		,897	-	\$	240,216	0.27651		66,422		2,219,097	24.02%
	0			33,333	333,333		44,610	22,31	0\$	-	\$	-	\$	333,333	9,209.60		14,124		184,560		633	-	\$	243,860	0.25842		63,018		2,282,115	24.39%
	1			33,333	300,000		22,310	-	\$	-	\$	-	\$	300,000	8,288.64				191,020		370	-	\$	247,723	0.24151		59,828	Ş	2,341,944	24.77%
	2			33,333	266,667		•	-	\$	-	\$	-	ş	266,667	7,367.68		11,299		197,705		107	-	ş	251,812	0.22571		56,837	ş	2,398,781	25.18%
	3			33,333	233,333		-	-	\$	-	\$	-	ş	233,333	6,446.72		9,887		204,625		843	-	ş	256,135	0.21095		54,031		2,452,812	25.61%
	4			33,333	200,000		-	-	5	-	\$	-	\$	200,000	5,525.76				211,787		580	-	\$	260,700	0.19715		51,396	\$	2,504,208	26.07%
	5			33,333	166,667		•	-	*	-	\$	-	*	166,667 133,333	4,604.80		7,062		219,200		317	-	\$ \$	265,516	0.18425		48,921 46,595		2,553,129 2,599,724	26.55% 27.06%
	6 7			33,333 33,333	133,333		-	-	2	-	s	-	s s	100,000	3,683.84 2,762.88		5,649 4,237		226,872 234,812		,053 790	-	3 5	270,592 275,935	0.17220		46,595		2,599,724	27.06%
	8			33,333	100,000 66,667		•	-	- P - C	-	s	-	÷	66,667	1,841.92		2,825		243,030		527	-	\$		0.15040		44,400		2,686,477	28.16%
	9			33,333	33,333			-	ě	-	ŝ	-	÷	33,333	920.96				251,537		263	-	ŝ	287,467	0.14056		40,407	ŝ	2,726,884	28.75%
	0			33,333		) \$		-	š	-	ŝ	-	ŝ	33,333 (0)			(0)		201,007	ŝ	(0)		ŝ	33,333	0.13137		4,379		2,731,263	3.33%
3						ŝ			š		š	-	š	(0)			(0)		-	š	(0)	-	š	(0)			4,0,0		2,731,263	0.00%
	2			-		ŝ		-	ŝ	-	š	-	š	(0)			(0)		-	ŝ	(0)	-	š	(0)			(0)		2,731,263	0.00%
	3			-		\$	-	-	\$	-	\$	-	ŝ	(0)			(0)		-	\$	(0)	-	Ś	(0)			(0)		2,731,263	0.00%
	4			-		\$	-	-	\$		\$		\$	(0)			(0)		-	\$	(0)	-	\$	(0)			(0)		2,731,263	0.00%
3	5			-		\$	-	-	\$	-	\$	-	\$	(0)			(0)		-	\$	(0)	-	\$	(0)	0.09366	\$	(0)		2,731,263	0.00%
3	6			-	(0)	)\$	-	-	\$	-	\$	-	\$	(0)	(0.00)	\$	(0)	)	-	\$	(0)	-	\$	(0)	0.08754	\$	(0)	\$	2,731,263	0.00%
	7			-		)\$	-	-	\$	-	\$	-	\$	(0)			(0)		-	\$	(0)	-	\$	(0)			(0)		2,731,263	0.00%
	8			-		)\$	-	-	\$	-	\$	-	\$	(0)			(0)		-	\$	(0)	-	\$	(0)			(0)		2,731,263	0.00%
	9			-		)\$	-	-	\$	-	\$	-	\$	(0)			(0)		-	\$	(0)	-	\$	(0)			(0)		2,731,263	0.00%
	0			-	(0)	)\$	-	-	\$	-	\$	-	\$	(0)	(0.00)	\$	(0)	)	-	\$	(0)	-	\$	(0)	0.06678		(0)	\$	2,731,263	0.00%
4	1																									\$	2,731,263			

Cumulative

# Attachment B

#### CHELCO

Determination of Line Extension Amount Provided Without Contribution From Customer Residential and General Service

	Residential	General Service		Combined
Estimated Residential Revenue From Proposed Rates	\$ 34,319,039.15	\$ 4,704,795.48	\$	39,023,835
Less: Purchase Power Cost	\$ 21,409,202.19	\$ 3,172,450.62	\$	24,581,653
Net Revenue	\$ 12,909,836.96	\$ 1,532,344.86	\$	14,442,182
Average Number of Customers	 28,246	 3,273	<u></u>	31,519
Average Non-Fuel Revenue Per Customer	\$ 457.05	\$ 468.18	\$	458.20
Less: Average Annual Meter Reading and Billing Cost	\$ 39.98	\$ 39,98	\$	39.98
Carrying Cost on Meter, Service, & Transformer	\$ 167.52	\$ 170.65	\$	167.85
Average Net Revenue Per Customer	\$ 249.54	\$ 257.55	\$	250.37
Amount Times Net Revenue Rate will Support	4.54	4.54		4.54
Amount Times Net Revenue Selected to Ensure Contribution to Fixed Cost	2.50	2.50		2.50
Cost of Line Extension Provided With No Contribution	\$ 623.85	\$ 643.87	\$	625.93

# CHELCO Determination of Average Residential Meter Reading & Billing Expenses

902 Meter Reading Expenses 903 Records and Collections	\$ 301,289 970,167
Total Cost-of-service Allocation to Residential	\$ 1,271,455 0.88824
Residential Allocation	\$ 1,129,358
Average Number of Customers Annual Cost of Meter Reading and Billing	\$ <u>28,246</u> 39.98

### CHELCO

Determination of Carrying Costs on Meter, Service, and Transformer Residential and General Service

			Res Allocator	Residential Allocation	Gen Ser Allocator	General Service Allocation	Combined
368 Line Transformers Demand	\$	6,398,706	0.81461 \$	5,212,450	0.10478	\$ 670,456	\$ 5,882,906
368 Line Transformers Customer	\$	6,475,954	0.89299 \$	5,782,962	0.10346	\$ 670,002	\$ 6,452,964
369 Services	\$	9,805,448	0.88162 \$	8,644,679	0.11238	\$ 1,101,936	\$ 9,746,615
370 Meters	\$	1,980,022	0.9388 \$	1,858,844	0.04809	\$ 95,219	\$ 1,954,064
Total	\$	24,660,130	\$	21,498,935		\$ 2,537,614	\$ 24,036,549
Average Number of Customers				28,246		3,273	 31,519
Average Cost of Tranformer, Service, and	\$	761.13	9	\$ 775.32	\$ 762.60		
Annual Carrying Charge Rate (From Level	ized Ca	lc)		22.01%		22.01%	22.01%
Annual Revenue Requirement			\$	167.52	9	\$ 170.65	\$ 167.85