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Public Service Commission

BY FACSIMILE

July 31, 2006

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06 AUG - 1 AM 10:56
COMMISSION
CLERK

Mr. Scott Boyd, Executive Director
Joint Administrative Procedures
Committee
Room 120 Holland Building
Tallahassee, FL 32399-1300

RE: Docket Nos. 060172-EU and 060173-EU - Rule Nos. 25-6.034, 25-6.0341,
25-6.0342, 25-6.0343, 25-6.0345, 25-6.064, 25-6.078, 25-6.115, F.A.C.

Dear Mr. Boyd:

Enclosed is a supplement to the statement of facts and circumstances justifying the above
proposed rules.

Sincerely,

Christiana T. Moore

Christiana T. Moore
Associate General Counsel

- CMP _____
- COM _____ Electric infrastructure JAPC2.ctm.doc
- COM _____ Enclosure
- CTR _____ cc: Division of the Commission Clerk and Administrative Services
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- OTH _____

DOCUMENT NUMBER - DATE
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FPSC-COMMISSION CLERK

SUPPLEMENT TO STATEMENT OF FACTS AND CIRCUMSTANCES
JUSTIFYING RULE

On January 23, 2006, the Commission held a staff workshop to discuss the damage to electric utility facilities incurred as a result of recent hurricanes and to explore ways of minimizing future storm damage to electric infrastructure and resulting outages to customers. State and local government officials, independent technical experts, and Florida's electric utilities participated in the workshop. On January 30, 2006, post-workshop comments were received from the participants. Based on the comments received at the January 23, 2006 workshop, at the February 27, 2006 Internal Affairs, the Commission approved a number of specific short-term and long-term actions to prepare Florida's electric infrastructure to better withstand severe storms in the future.

The Commission directed staff to begin rulemaking proceedings to:

- (1) Address requiring distribution facility construction standards higher than the National Electrical Safety Code (NESC); and
- (2) Look at the cost and reliability of installing underground electric facilities, with specific emphasis on identifying areas and circumstances where underground facilities may be appropriate.

Docket Nos. 060173-EU and 060172-EU, respectively, were opened to initiate rulemaking in these two areas.

A draft of proposed rule changes was discussed at a rule development workshop held on April 17, 2006. Post-workshop comments were received on May 3, 2006 from Florida Power & Light (FPL), Progress Energy Florida, Inc. (PEF), Tampa Electric Company (TECO), Gulf Power Company (GULF), the Florida Electric Cooperatives Association, Inc. (FECA), the Florida Municipal Electric Association, Inc. (FMEA), the Town of Palm Beach and the Town of Jupiter Island (the Towns), Time Warner Telecom of Florida, L.P. (Time Warner), and H.M. Rollins Company, Inc. (Rollins). On May 15, 2006, a revised draft of proposed rule changes was circulated and a second rule development workshop was held on May 19, 2006. Post-workshop comments were received on May 26, 2006, from FPL, PEF, TECO, GULF, FECA, FMEA, Lee County Electric Cooperative, Inc. (LCEC), the Towns, Florida Cable Telecommunications Association (FCTA), Time Warner, BellSouth Telecommunications, Inc. (BellSouth), Verizon Florida Inc. (Verizon), Embarq Corporation (Embarq), and TDS Telecom/Quincy (TDC). Electric utility cost data for the Statement of Estimated Regulatory Cost (SERC) was also provided on May 26, 2006.

Rule 25-6.034, F.A.C., pertaining to standards of construction: The current rule broadly requires investor-owned utilities to construct, install, maintain, and operate their facilities in accordance with generally accepted engineering practices. The proposed rule changes seek to add specificity to this broad policy statement, particularly with regard to impacts associated with extreme weather. The changes are needed to ensure the provision of adequate

and reliable electric service for operational and emergency purposes in Florida. The requirement for utilities to adopt construction standards that take into consideration the cost-effective targeting of essential overhead and underground distribution facilities for hardening will enhance the ability of utilities to reduce restoration costs and outage times resulting from extreme weather conditions.

Rule 25-6.0341, Florida Administrative Code, Location of the Utility's Electric Distribution Facilities: This rule is needed to encourage electric utilities to economically locate distribution facilities in accordance with the provision of adequate and reliable electric service for operational and emergency purposes in Florida. Utilities will be encouraged to place their facilities in readily accessible locations that take into consideration the cost-effective targeting of essential overhead and underground distribution facilities for hardening to enhance the ability of utilities to reduce restoration costs and outage times resulting from extreme weather conditions.

Rule 25-6.0342, Florida Administrative Code, Third-Party Attachment Standards and Procedures: This new rule is needed to encourage electric utilities to avoid premature pole failures due to pole attachments in accordance with the provision of adequate and reliable electric service for operational and emergency purposes in Florida. Utilities will be encouraged to pursue pole attachment agreements that enhance the ability of utilities to reduce restoration costs and outage times resulting from extreme weather conditions.

Rule 25-6.0343, Florida Administrative Code, Standards of Construction – Municipal Electric Utilities and Rural Electric Cooperatives: This rule requiring municipal and cooperative electric utilities to establish standards of construction for all overhead and underground electrical transmission and distribution facilities is needed to increase the reliability of the electrical grid to ensure the provision of adequate and reliable electric service for operational as well as emergency purposes. The rule is also written to allow utilities to make a showing that, in their particular situation, good reasons exist why higher construction standards should not be required. This would allow Municipals and Cooperatives to show, for example, that their current construction practices under the Rural Electric Standards are reasonable and adequate, or that for a given Municipal or Cooperative, the costs of complying with the standards would outweigh the safety and reliability impacts of failure during a severe weather event. As an example, the Municipals and Cooperatives have stated that their restoration times after previous years' storms were days, not weeks. Upon petition by a Cooperative or Municipal, the Commission could find this evidence satisfies the requirements of the Rule.

Due to the interconnection of Florida's electrical grid, establishing one set of standards for investor owned electric utilities but not for Municipals and Cooperatives may not achieve the goals of increased statewide reliability. For some areas of the state, it may be possible to isolate a Municipal or Cooperative system, and allow the surrounding areas to be energized without any adverse impacts. For other areas of the state, however, there may be interconnections where such isolation is not possible.

Rule 25-6.0345, Florida Administrative Code, Safety Standards for Construction of New Transmission and Distribution Facilities.

Rule 25-6.0345 sets the electric utility reporting requirements pursuant to the Commission's safety jurisdiction and adopts the 2002 edition of the National Electrical Safety Code as the minimum applicable safety standards for transmission and distribution facilities subject to the Commission's safety jurisdiction. A change to the rule is needed to incorporate the

words “at a minimum” consistent with 2006 legislative modification of Section 366.06, Florida Statutes. (Chapter 2006-230, Laws of Florida) Editorial changes to other subsections are made for clarity and subsection (3), which establishes the content and format of the utility’s quarterly reports that list completed work orders, eliminates the requirement for utilities to provide the Kv rating and contiguous characteristics associated with each work order because these data are not needed to select and perform safety inspections.

Rule 25-6.064, Florida Administrative Code, Extension of Facilities:

Most of the recommended changes to the rule are for clarification and ease of application and do not represent changes in current policy. Rule 25-6.064 addresses the calculation of contributions-in-aid-of-construction (CIAC) for line extensions, excluding new subdivisions, which are covered in Rule 25-6.078, and conversions of existing overhead to underground facilities, which are covered in Rule 25-6.115. Changes to the rule are needed to include: (a) adding upgrades to existing facilities, (b) including transformer costs, (c) including system hardening costs, (d) requiring a true-up of the CIAC, and (e) requiring that the CIAC be prorated to future customers in certain cases.

Rule 25-6.078, Florida Administrative Code, Schedule of Charges: Changes are made to clarify existing language and make the rule consistent with the changes proposed in Rules 25-6.034, 25-6.064, and 25-6.115. Current cost differentials are based on initial installation costs and generally indicate that underground construction is more expensive than comparable overhead facilities. However, utilities have indicated that, while underground installation may be more expensive initially, there may be savings in maintenance or storm restoration activities over time, compared to overhead installations. Changes in the rule are intended to capture those longer term costs and benefits.

Today, utilities allege separate overhead and underground operational costs cannot be considered because they are not readily available. The proposed language would require utilities to establish and maintain adequate record keeping and accounting measures so these costs can be tracked.

Rule 25-6.115, Florida Administrative Code, Facility Charges for Conversion of Existing Overhead Investor-owned Distribution Facilities:

Rule 25-6.115 addresses conversion of existing overhead distribution facilities to underground facilities. This rule was originally adopted to codify what would be included in estimates for requested conversions. The changes to the rule are needed to clarify existing language and to make the rule consistent with the changes proposed in Rules 25-6.034, 25-6.064, and 25-6.078.

The 180-day deadline to accept an original estimate in subsection (6) was included in the rule because costs change over time, and the utility and its ratepayers should not be held to an estimate seriously out of date with current costs. However, the parties and the utilities agree that in some circumstances delays are unavoidable and should not require a new estimate or contract. Therefore, a provision has been included allowing the 180 days to be extended upon mutual agreement. Clarifications and additions are also included to make this rule consistent with 25-6.064 and 25-6.078. Life cycle costs and benefits for operational costs including storm restoration for conversions are added to subsection (11)(a) of this rule for consistency of treatment. This will better reflect the total costs of installing or converting overhead facilities to

underground facilities. Subsection (11)(b) recognizes that if a customer chooses to construct or install a portion of the requested facilities, the utility does not incur certain costs.

The proposed language in subsection (12) is identical to the language in subsection (7) of Rule 25-6.064 and subsection (10) of Rule 25-6.078, and allows the waiver of all or a portion of the CIAC if the Commission determines that commensurate benefits accrue to the general body of ratepayers. Investment in facilities that are not paid for through a customer-specific CIAC become part of rate base. A higher rate base can result in higher rates to all customers. Unless it can be shown that all customers benefit from the construction, these costs should be recovered from the customer requesting the construction. This change allows the Commission to consider a discount or credit mechanism such as the change proposed by FPL in Docket No. 060150-EI, if it deems it appropriate.