

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: December 26, 2007

TO: Commission Clerk (Cole)

FROM: Division of Economic Regulation (Colson, Bulecza-Banks, Kummer, Lee, Slemkewicz) JS
Office of the General Counsel (Brown) MCB J.M.C.

RE: Docket No. 060638-EI – Petition for approval of storm cost recovery surcharge to recover costs associated with mandatory storm preparedness initiatives, by Florida Public Utilities Company.

AGENDA: 01/08/08 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060638.RCM.DOC

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Case Background

On April 25, 2006, the Commission issued Order No. PSC-06-0351-PAA-EI in Docket No. 060198-EI, requiring all investor-owned electric utilities to file plans and estimated implementation costs for ten (10) ongoing storm preparedness initiatives. On May 31, 2006, Florida Public Utilities Company (“FPUC” or the “Company”) filed its response to the Order. FPUC’s response estimated the annual incremental cost associated with implementing the storm hardening initiatives at \$425,000. FPUC also stated that the incremental cost of each initiative would have a substantial financial impact on the Company. FPUC proposed that the Commission provide the Company with rate relief to reduce the financial hardship and proposed

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two methods for doing so. First, FPUC proposed that the Commission modify base rates, in the form of a storm surcharge, temporarily or until the next rate proceeding, to cover the annual cost of storm hardening. As an alternative, FPUC proposed to use its storm reserve funds to cover any incremental increase in annual recurring storm related or preparedness cost over existing levels from FPUC's last rate case.

On July 14, 2006, staff met informally with FPUC and the other IOUs to discuss the storm preparedness plans that had been filed and to seek clarification where needed. Subsequent to this meeting, on July 26, 2006, FPUC made another filing which projected that the incremental cost of implementing the ten storm preparedness initiatives for a period of ten years would average approximately \$700,000. That filing made no mention of cost recovery.

On September 20, 2006, FPUC filed a petition for approval of a storm cost recovery surcharge to recover costs of implementing storm preparedness initiatives. On October 19, 2006, staff held a conference call with FPUC to discuss the Company's petition and its options for seeking recovery of costs associated with storm preparedness. On October 27, 2006, FPUC filed an amended petition for recovery of costs of implementing storm preparedness initiatives, primarily requesting a limited proceeding to increase base rates in lieu of a cost recovery clause. Alternatively, FPUC requested recovery by way of a ten year surcharge, the use of storm reserve funds, or temporary deferral of storm related costs until the next rate proceeding.

The Commission held two customer meetings in FPUC's service territory to explain the amended petition and the process the Commission would use to review and make a decision on the amended petition. The meeting for the Northwest Division was held in Marianna, Florida on May 1, 2007. Five customers spoke at the meeting and expressed concern about the possibility of their electric bill increasing. Customers were also angry that FPUC had recently required them to pay an additional deposit to secure their account. Customers said that FPUC should already be performing maintenance such as tree trimming and pole inspections as normal business practices and consequently should not incur increased costs to perform these functions. Customers were also concerned that they would be paying for system upgrades in other parts of FPUC's service territory (Northeastern Division) rather than upgrades to the Marianna area (Northwestern Division).

The meeting for the Northeast Division was held in Fernandina Beach, Florida on May 2, 2007. Four customers offered comments, including the Utilities Manager for the City of Fernandina Beach. The Utilities Manager read a City Commission resolution opposing FPUC's petition to recover costs associated with mandatory storm preparedness initiatives and requesting that the Office of Public Counsel (OPC) represent the City in the limited proceeding. The City Commission believes that a storm hardening plan should be developed prior to any rate increase so facilities may be relocated, replaced or otherwise protected by means other than massive tree trimming efforts. The City has formed an Underground Utilities Committee to recommend a course of action concerning overhead utility lines. The City would like to work with FPUC to develop a storm hardening plan for their community. Two customers were concerned that FPUC would over-trim trees, "hat-rack" trim, damage heritage live oaks, or otherwise harm the aesthetic value of their community. One customer was concerned about cross-subsidization between FPUC's two service areas and wanted assurances that any rate increase would result in

equitable benefits across the divisions. The customer felt that if one geographic area was more susceptible to storms or hurricanes than another, that it was not fair to expect all customers to pay higher rates to cover the increased costs FPUC would incur to storm-harden that area. Finally, one customer, a former FPUC employee, stated that during his time with the Company it had sought to keep costs low and to maintain good customer relations.

At the June 5, 2007, Agenda Conference, staff recommended that FPUC's storm initiative implementation costs be temporarily deferred with interest and recorded in a deferred debit account until the cost can be explored within the context of a full rate case. The Commission deferred staff's recommendation, with the understanding that staff would continue to work with OPC and with FPUC, taking in account the Commission's discussions and concerns.

The Company filed its Minimum Filing Requirements and testimony for its application for a permanent rate increase on August 30, 2007, utilizing a 2008 projected test year. Docket No. 070304-EI has been opened to process the forthcoming general rate increase proceeding.

On October 10, 2007, in Docket No 070300, FPUC filed a Petition for Amendment of Storm Hardening Plan. The alternative plan was offered based on the increased cost associated with a three-year feeder tree trimming cycle and a three year lateral tree trimming cycle (3/3 trimming cycle). FPUC now seeks to amend its pending storm hardening plan to incorporate a three-year feeder tree trimming cycle and a six year lateral tree trimming cycle (3/6 trimming cycle).

The upcoming rate case provides an opportunity to examine FPUC's storm hardening costs, thus, staff's recommendation suggests all costs associated with the storm hardening be taken up in FPUC's upcoming rate case and also addresses FPUC's amendment petition. The Commission has jurisdiction over this subject matter pursuant to Sections 366.04, 366.05, and 366.076, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve FPUC's proposed three year vegetation management cycle for main feeders and a six year cycle for laterals (3/6 trimming cycle) in both divisions?

Recommendation: Yes. If approved, FPUC has agreed to withdraw its request for a storm cost recovery surcharge. The reliability impact and all costs associated with FPUC's implementation of its storm hardening plan should be addressed in the upcoming rate case. (Colson, Brown)

Staff Analysis: FPUC currently has two tree trimming crews in NE Florida to maintain 100 miles of overhead distribution and 21.5 miles of overhead transmission and three tree trimming crews in NW Florida responsible for 850 miles of overhead distribution. FPUC is currently on a four-and-a-half to five year trim cycle on both main feeders and laterals. Pursuant to the requirements of the Commission's storm hardening order, Order No. PSC-06-0351-PAA-EI, FPUC used the following assumptions to analyze the incremental crews needed to comply with the three-year vegetation management cycle (3/3 trimming cycle). First, FPUC projected that tree trimming crews can average 50 miles of lines per year for distribution and that one additional crew is needed to address danger trees that are identified that are not in the normal trim cycle. Based on these averages, FPUC believes that two tree trimming crews will be sufficient in NE Florida for both distribution and transmission facilities. In NW Florida, FPUC projects that it will take a minimum of six tree trimming crews to achieve the 3/3 trimming cycle, which would require an addition of three new crews. FPUC has no data to support the requirement of a 3/3 trimming cycle as being cost-effective or being more reliable than a 3/6 trimming cycle.

In its petition to amend its storm hardening plan filed on October 19, 2007, FPUC proposes a 3/6 trimming cycle in both divisions. FPUC believes that this proposal will meet the vegetation management requirements in the most cost efficient manner and would maintain the reliability of service to its customers. Again, FPUC lacks reliability and cost data to show that the 3/6 trimming cycle will benefit its ratepayers. With this petition, FPUC seeks to amend its current storm hardening plan to incorporate the 3/6 trimming cycle. This is projected to reduce annual expenses by \$117,000, as a result of a reduction in the number of crews needed to perform the work compared to the 3/3 trimming cycle. The plan modification proposed by FPUC is similar to that which the Commission approved for Gulf Power Company in Order No. PSC-06-0947-PAA-EI, issued November 13, 2006,¹ and Florida Power and Light in Order No. PSC-07-0468-FOF-EI, issued May 30, 2007.²

If the 3/6 trimming cycle is approved for this docket, FPUC has agreed to withdraw its request for a storm cost recovery surcharge and to let all costs incurred because of the storm hardening order be addressed in the upcoming rate case. The OPC has stated that it has no objections to this issue and also believes that all costs associated with the storm hardening order

¹Issued November 13, 2006, in Docket No. 060198-EI, In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation cost estimates.

²Issued May 30, 2007, in Docket No. 060198-EI, In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation cost estimates.

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should be addressed in the upcoming rate case. OPC points out that the Commission's approval of the amendment to FPUC's plan does not approve the recovery of the particular costs associated with the amended plan. Those will be considered in FPUC's rate case.

Staff recommends that FPUC's proposed three year vegetation management cycle for main feeders and a six year cycle for laterals in both divisions be approved subject to review in the upcoming rate case. All costs associated with FPUC's implementation of its storm hardening plan should be addressed in the upcoming rate case.

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Issue 2: Should this docket be closed?

Recommendation: Yes, if no protest is filed within 21 days of the proposed agency action order by a person whose interests are substantially affected, no further action will be required and this docket should be closed upon the issuance of a consummating order. (Brown)

Staff Analysis: If no protest is filed within 21 days of the proposed agency action order by a person whose interests are substantially affected, no further action will be required and this docket should be closed upon the issuance of a consummating order.