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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 110094-EI

PETITION FOR APPROVAL OF REVISED
UNDERGROUND RESIDENTIAL AND
COMMERCIAL DIFFERENTIAL TARIFFS,
BY FLORIDA POWER & LIGHT COMPANY.

PROCEEDINGS: COMMISSION CONFERENCE AGENDA
ITEM NO. 5

COMMISSIONERS
PARTICIPATING: CHAIRMAN ART GRAHAM
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, October 4, 2011

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

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P R O C E E D I N G S

MS. ROBERTS: Good morning, Commissioners.
My name is Arlisha Roberts with Commission staff.

Item Number 5 is FPL's petition to revise their URD and UCD charges -- to update their URD and UCD charges. Staff is available to answer any questions that the Commission may have. FPL is also here available to answer any questions that the Commission has.

CHAIRMAN GRAHAM: Florida Power and Light.

MR. BUTLER: Good morning, Mr. Chairman and Commissioners. John Butler on behalf of FPL. Also with me here from FPL is Eric Dilinkoffer (phonetic). We are here to answer questions. We support staff's recommendation.

CHAIRMAN GRAHAM: Commission board.
Commissioner Edgar.

COMMISSIONER EDGAR: Mr. Chairman, I was the one that had some additional questions on this item. I had some questions when I first looked at it, and then met with staff and discussed it further, and they put together a little more information that I think has been passed out to all of the offices and was put in the docket file with some additional information as well from the

1 utility. And that did address most of my questions,
2 but I thought it might be helpful to point some of
3 that out, and have a little discussion about it this
4 morning.

5 And the two primary questions that I had
6 when I discussed it with staff and that I would pose
7 to FPL is that I noticed when I looked at the
8 numbers that the costs for labor were going up. And
9 the percentages got my attention of the percentage
10 increase for the labor costs, and it just seemed
11 counterintuitive to me at this time that some of the
12 cost that is construction related, that the labor
13 costs would be increasing on an annual basis to that
14 degree.

15 And then the other question I had is that
16 when you look at the trend over time, the costs that
17 are coming in under the tariffs fluctuate. You
18 know, one year they are higher, then they are lower,
19 then they are higher again. And, again, it seemed
20 counterintuitive to me as to why that would be the
21 case. So I would like to ask the utility to address
22 those two points, please.

23 **MR. BUTLER:** Thank you. Excuse me,
24 Commissioner Edgar, I would be happy to address
25 them. To your first question, you know, one of the

1 things that is odd about this exercise is that when
2 you are looking at percentage increases, you are
3 looking at percentage increases in something that is
4 kind of the result of a two-step subtraction
5 process, and so the final number increase you will
6 see is a very large percentage increase, but it
7 doesn't reflect the size of the percentage increases
8 to the two basic numbers, the overhead
9 preconstruction costs and the underground
10 preconstruction costs that kind of lead to that
11 subtraction exercise.

12 But there is about a 5 percent increase in
13 labor on both sides. It really affects the -- in
14 terms of percentages, it affects the overhead and
15 underground about the same. It's basically
16 increases in, for the FPL labor, the sort of
17 standard increase is built into the contract with
18 the bargaining unit. For the outside contractors,
19 it's the result of RFPs that we have for the
20 electrical contractors we use. And, unfortunately,
21 there have been some modest increases there.

22 The other thing about it is that labor,
23 the term includes actually some additional charges
24 that are wrapped in with the labor charge. For the
25 sake of the calculation, you have got vehicle

1 expense and that is one that is probably one of the
2 easiest to understand. All of the fuel that is used
3 in the vehicles that the crews drive around to do
4 this work is rolled into the labor charge. And, of
5 course, we have seen some really significant
6 increases over time in the fuel charges. Charges
7 for incidental equipment and incidental supplies
8 like cranes that are rented, sod, that sort of
9 thing. And we just -- we have seen increases in
10 those.

11 And I know that it is sort of frustrating
12 with a down cycle for construction work that one
13 sees these types of increases, but, of course, first
14 of all, these people aren't and can't be just every
15 day laborer or construction workers. It has got to
16 be people with the specific, you know, expertise of
17 working on power supply electrical systems, which is
18 a little bit more of a specialized scale, and, you
19 know, has not seen decreases in the labor costs
20 associated with that work.

21 But to your question about the reason for
22 the increase, I think that's really a fairly good
23 summary of why we have been seeing those increases.
24 And, you know, I just will add the fact that this is
25 all based on actual costs we're experiencing. This

1 isn't a projection of what we think we might see,
2 we're looking at what we have actually experienced
3 over the immediate past.

4 To your second question about the odd
5 pattern. Yes, it is. You know, there was, I think,
6 a 46 percent decrease last year, and then somewhere
7 in the 20 or 25 percent roughly increase in the
8 differential this year. You really have to go back
9 to the same point I started with, the fact that you
10 are looking at the result of the subtraction
11 exercise. And last year, the single easiest thing
12 to understand and what drove this is that FPL had
13 in -- I guess it would have been 2009, what drove
14 the 2010 differential that we reported and had
15 approved by the Commission, there was a very
16 substantial increase in costs for poles, wire, some
17 of the other commodities that are used on overhead.
18 But because it is on overhead and overhead is what
19 is subtracted -- I mean, is subtracted from the
20 underground, it actually drove down the
21 differential.

22 This year, sort of in the
23 no-good-deed-goes-unpunished category, FPL has been
24 successful in diversifying its sources for poles and
25 has driven down the pole cost that it pays

1 substantially, and some of the other costs have been
2 able to, you know, drive those down, as well. But,
3 again, lower overhead charges result in a higher
4 differential. And that is probably the easiest way
5 I can explain the sort of anomaly of seeing a
6 significant decrease in the differential one year,
7 and then see it go back up again in the next year.

8 **COMMISSIONER EDGAR:** Thank you.

9 **CHAIRMAN GRAHAM:** Commissioner Balbis.

10 **COMMISSIONER BALBIS:** Thank you, Mr.
11 Chairman. And thank you, Commissioner Edgar, for
12 pulling this. I had very similar questions and
13 concerns. And, Mr. Butler, if you can elaborate a
14 little bit. You mentioned on the labor costs that
15 for FPL labor that you have included raises or
16 increases that are part of the collective bargaining
17 unit contracts. Can you explain a little bit how
18 long are those contracts in place for and what those
19 increases are?

20 **MR. BUTLER:** I don't know the length of
21 the contracts. I believe we have just renegotiated
22 a new one, although I am expecting that the
23 increases that are shown here would have been
24 experienced under the expiring one because of, you
25 know, the fact that we are looking at historical

1 data. I believe that the increases are relatively
2 modest, somewhere in the -- is it about 2 percent?
3 Is that right?

4 I have heard the figure of approximately
5 2, 2-1/2 percent on the FPL collective bargaining
6 unit labor costs. That is clearly subject to check.
7 I don't have a precise figure for you.

8 **COMMISSIONER BALBIS:** What percentage of
9 FPL labor is covered by a bargaining unit that
10 includes these increases?

11 **MR. BUTLER:** I believe that for the work
12 we are talking about here, the great majority of it.
13 I mean, certainly for FPL labor overall that may not
14 be as much the answer, but for here where you are
15 actually talking about the work done installing
16 distribution facilities, I believe that that is the
17 great majority of it.

18 **COMMISSIONER BALBIS:** And you mentioned
19 that you have third-party contractors. I assume you
20 have seen a decrease in this type of work with the
21 economy slowing down and new development slowing
22 down. What percentage of the work is given to
23 third-party contractors, roughly, and what
24 percentage is done by FPL labor?

25 **MR. BUTLER:** I'm sorry, I don't have a

1 percentage for you. I could get that information,
2 but I don't -- you know, I would expect, sort of
3 going to your point that it may be going down simply
4 because there is a lower volume of the work, and
5 able to do more of it with the FPL, sort of, fixed
6 labor force, although FPL has seen a significant
7 decrease in its own internal workforce, in, you
8 know, part of our cost control measures. So it's
9 possible that that has offset or perhaps even more
10 than offset the overall reduction in the level of
11 the activity.

12 **COMMISSIONER BALBIS:** I guess my concern
13 is that, you know, if the costs for third-party
14 contractors to do the work fluctuates more with the
15 economy, when contractors have less work they are
16 going to, you know, provide lower costs in order to
17 win the work, which I think would mimic how the
18 economy is working. Whereas with using FPL labor,
19 you have, again, these built-in increases. And so
20 it sounds like you mentioned that the first choice
21 is to use FPL labor, and then with additional work
22 to dole it out to third-party contractors. Do you
23 find that using FPL labor is cheaper than going
24 outside?

25 **MR. BUTLER:** Well, of course, the FPL

1 workforce, unless and until it has been reduced, and
2 as I say, there has been a reduction in the
3 workforce that does this type of work for FPL. But,
4 you know, that's a force that is kind of, you know,
5 available on the payroll, if you will, and I think
6 will be used to the extent that those personnel are
7 available. But there has been a significant
8 decrease in that workforce. And, of course, to the
9 extent that the volume of work continues, then that
10 would necessarily require a greater use of outside
11 contractors.

12 **COMMISSIONER BALBIS:** Okay. And one last
13 question. I assume that the contractor or developer
14 could install a portion of this infrastructure
15 themselves and negotiate these tariffs, is that
16 correct, or no?

17 **MR. BUTLER:** Well, provisions for
18 installing the service, sort of the portion of this
19 underground service that is actually kind of the
20 underground equivalent of the service drop, you
21 know, from the transformer to the customer's home, I
22 don't believe that FPL's tariff provides for the
23 private contractor to install the portion of the
24 system that this is referring to. This is actually
25 the, you know, primary voltage side on sort of the

1 high side of the transformer, and then the
2 transformers. And this is a service that FPL
3 performs as it does with its other electrical system
4 in -- I wouldn't say unequivocally all
5 circumstances, but the great majority of them.
6 Where you get a fair amount of contractor
7 involvement is on the lower voltage side of the
8 transformers where frequently contractors will end
9 up doing that work, and they have the option of
10 having FPL do it, but they will often do that work
11 themselves if they feel they can do it cheaper.

12 **COMMISSIONER BALBIS:** Okay. Then I must
13 have misunderstood. I thought that a contractor is
14 available whether it is the high voltage side of
15 putting in at least the conduit, or doing the
16 excavation, et cetera, in order to defray a lot of
17 those costs. I know in my previous life, we have
18 worked closely with FPL, and when I was at the City
19 of West Palm Beach in installing as much of it as we
20 could, and then having FPL pull the wire and do the
21 high voltage side.

22 **MR. BUTLER:** I was just advised that FPL
23 does permit the customer using contractors to
24 install the conduit and will get a credit for the
25 cost of that conduit against what would otherwise be

1 the differential charge.

2 **COMMISSIONER BALBIS:** Okay. Thank you. I
3 have no further questions.

4 **CHAIRMAN GRAHAM:** Commissioner Edgar.

5 **COMMISSIONER EDGAR:** Thank you.

6 I appreciate the discussion and the
7 follow-up questions from Commissioner Balbis. I was
8 going to come back to that point, but I think you
9 rounded it out for me. Because of my discussions
10 with staff, I understood that developers and others
11 in need of the service, city, et cetera, did have
12 the opportunity to perform if not all, most of the
13 work themselves. So I'm glad for that
14 clarification. Thank you.

15 And if there are no further questions, I
16 would move staff on all issues.

17 **CHAIRMAN GRAHAM:** It has been moved and
18 seconded, staff recommendation on all issues on Item
19 Number 5. Any further discussion?

20 Seeing none. All in favor say aye.

21 (Vote taken.)

22 **CHAIRMAN GRAHAM:** Any opposed?

23 By your action you have approved Item
24 Number 5.

25 **MR. BUTLER:** Thank you.

1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTER

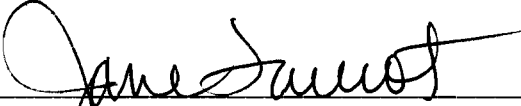
3 COUNTY OF LEON)

4
5 I, JANE FAUROT, RPR, Chief, Hearing Reporter
6 Services Section, FPSC Division of Commission Clerk, do
hereby certify that the foregoing proceeding was heard
at the time and place herein stated.

7 IT IS FURTHER CERTIFIED that I
8 stenographically reported the said proceedings; that the
9 same has been transcribed under my direct supervision;
and that this transcript constitutes a true
transcription of my notes of said proceedings.

10 I FURTHER CERTIFY that I am not a relative,
11 employee, attorney or counsel of any of the parties, nor
12 am I a relative or employee of any of the parties'
attorney or counsel connected with the action, nor am I
financially interested in the action.

13 DATED THIS 7th day of October, 2011.

14
15 
16 _____
17 JANE FAUROT, RPR
Official FPSC Hearings Reporter
(850) 413-6732