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 1 BEFORE THE

 FLORIDA PUBLIC SERVICE COMMISSION

 2

 3 In the Matter of: DOCKET NO. 060172-EU

 4 PROPOSED RULES GOVERNING PLACEMENT OF

 NEW ELECTRIC DISTRIBUTION FACILITIES

 5 UNDERGROUND, AND CONVERSION OF EXISTING

 OVERHEAD DISTRIBUTION FACILITIES TO

 6 UNDERGROUND FACILITIES, TO ADDRESS

 EFFECTS OF EXTREME WEATHER EVENTS.

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 8 PROPOSED AMENDMENTS TO RULES DOCKET NO. 060173-EU

 REGARDING OVERHEAD ELECTRIC

 9 FACILITIES TO ALLOW MORE STRINGENT

 CONSTRUCTION STANDARDS THAN REQUIRED

 10 BY NATIONAL ELECTRIC SAFETY CODE.

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 15 PROCEEDINGS: RULE DEVELOPMENT WORKSHOP

 16 DATE: Friday, May 19, 2006

 17 TIME: Commenced at 9:35 a.m.

 Concluded at 4:02 p.m.

 18

 PLACE: Betty Easley Conference Center

 19 Room 148

 4075 Esplanade Way

 20 Tallahassee, Florida

 21 REPORTED BY: MARY ALLEN NEEL

 Registered Professional Reporter

 22

 23

 VOLUME 2

 24 Pages 119 – 225

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 1 (Transcript continued from Volume 1.)

 2 MR. HARRIS: We've brought in the big guns

 3 now. We've got Patti Daniel here to help answer some

 4 questions we're going to have on the next rule in the

 5 series, which is 25-6.046.

 6 Patti, do you want to go ahead and give an

 7 overview of what we're doing here?

 8 MS. DANIEL: I'll be glad to.

 9 Good afternoon. I'm Patti Daniel on staff

 10 with the Commission. My background is water and

 11 wastewater, but it is with CIAC, so I suppose that's why

 12 I was put in charge of giving you the overview of this

 13 particular part of the rule.

 14 Bob asked to have one formula, and I gave him

 15 one formula, and he didn't like it because it didn't

 16 read like it used to. Go figure. So this is my attempt

 17 to explain to you why the one formula hopefully is

 18 exactly the same type of information, just in a little

 19 bit different format. I've got an attachment at the

 20 back of the agenda, Attachment 2. It's got two maps and

 21 some talking points, and those are the talking points

 22 that I'll be using this afternoon.

 23 First of all, let me talk about part A of this

 24 diagram. This is the line extension. And in the prior

 25 formulas, the line extension was commingled in each of

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 1 the individual formulas with some information about the

 2 services, the drops or the laterals. And I just took

 3 that out and made it, this is what happens with line

 4 extensions, and the answer is, CIAC for a new overhead

 5 or underground line extension is the total cost of the

 6 line extension, and that's what the rule says.

 7 The next talking point there in the attachment

 8 is the CIAC for an upgraded overhead or underground line

 9 extension is, guess what, the total cost of the line

 10 extension plus the cost of the removal of the existing

 11 service less salvage. I hope that's exactly how it has

 12 always been and will continue in the future.

 13 On the next page of the attachment, new or

 14 upgraded overhead and underground service drops or

 15 laterals, this is talking about on the diagram B1, the

 16 service lateral, and it's also the service drop for the

 17 underground.

 18 My understanding is that a standard service

 19 lateral is maybe 75 feet. Can I get some indication

 20 that that's generally -- does anybody do something

 21 really substantially different?

 22 Okay. Good.

 23 My understanding is that for the service

 24 lateral, there's no CIAC for a standard overhead

 25 service, and that's what the rule says.

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 1 The CIAC for a new standard underground

 2 service lateral is the cost in excess of the cost of a

 3 standard overhead service drop, just the difference.

 4 And again, I'm just talking about a service lateral

 5 that's 75 feet or less.

 6 The third talking point, the CIAC for an

 7 upgrade to an existing service drop or lateral is the

 8 total cost of the upgrade plus the cost of removal of

 9 the existing service less salvage. You have to go to

 10 that second diagram to see the B1 and the B2, and I just

 11 wanted to show you that for the first 75 feet, the cost

 12 to the customer would be zero if it's overhead. If it's

 13 underground, it's going to be the difference. And then

 14 for 75 feet or greater, it's going to be the cost. And

 15 I think that's consistent with what you've always done.

 16 For the portion of the new overhead or

 17 underground service drop or lateral that exceeds the

 18 cost of a standard overhead service drop, the total --

 19 is the total cost of that portion of the service drop or

 20 lateral. That is a talking point. It is implied by the

 21 rule, but it's not express, so I hope that's your

 22 understanding of the intent of the rule. Yes? Okay.

 23 And then just another comment there. As has

 24 always been, the CIAC for new connections and upgrades

 25 to existing connections shall be reduced by four times

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 1 the expected incremental annual revenues. And, of

 2 course, if a customer doesn't pay a demand charge, then

 3 that part would be zero.

 4 Again, we've just reworked the rule into one

 5 formula and made little subparts, (a) through (d). And

 6 the intent was to keep things exactly as they were with

 7 just one formula, simplifying it so that when Joe

 8 Jenkins retires and as Connie and Bob approach or exceed

 9 30 years and the rest of us are left here to work with

 10 this rule, we too will be able to know what you are

 11 doing in the industry.

 12 With that, I'll take any questions or

 13 comments.

 14 MR. BUTLER: This is the time to start

 15 commenting on the rule, Larry, generally?

 16 MS. DANIEL: Just part (2).

 17 MR. BUTLER: Just part (2) being -- okay.

 18 MS. DANIEL: .064(2).

 19 MR. BUTLER: Okay. Well, a significant

 20 comment we have -- and honestly, when we saw what you

 21 proposed for the second time, we were beginning to

 22 conclude that you intended to modify the formula,

 23 because we had made some comments the first time, and it

 24 didn't seem like it had changed in directions that

 25 reflected those.

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 1 Let me try to explain what is at least one of

 2 the fundamental concerns by what -- in our view, what

 3 has happened here in collapsing the formulas, the two

 4 formulas into one.

 5 When there were two formulas, focusing on the

 6 issue of underground versus overhead, it wasn't

 7 possible, because the CIAC overhead component was either

 8 zero or a positive number. You would always collect at

 9 least the differential in cost between the underground

 10 and the overhead service.

 11 Under the formula as it's expressed in the

 12 staff proposal, the utility can end up collecting less

 13 than that if the revenues, the four times revenues,

 14 basically if it exceeds the cost of the standard

 15 overhead service that would be provided, because what

 16 you'll end up having is, the residual will end up

 17 offsetting part of the cost of the underground versus

 18 overhead differential. And in our minds, that's a

 19 fundamental change of the way the rule works and is

 20 really inconsistent with what we had understood this was

 21 trying to do and kind of the role of the four times

 22 revenues offset.

 23 In our mind, you know, utilities have an

 24 obligation to provide service, and at the other end of

 25 spectrum, where this service is kind of something out of

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 1 the ordinary, there is an expectation that the customer

 2 will help to pay for that. The four times revenues

 3 offset is kind of a rough balancing in between there.

 4 The utility has the obligation to provide the service,

 5 don't want the customer to get extraordinary service for

 6 nothing, and at the other end of the spectrum, don't

 7 want the customer to get the service for nothing, so

 8 between those two, you come to a middle ground.

 9 That obligation to provide basic service,

 10 least-cost service, in our mind, is typically something

 11 that is met by providing overhead service. If the

 12 customer wants underground, there's no obligation on the

 13 utility's part to provide underground service, and the

 14 customer ought to pay the full extra cost of that

 15 underground service.

 16 The way that the rule proposal works as staff

 17 has laid it out, there is a distinct chance that

 18 customers will end up paying less than the full

 19 underground-over-overhead differential. And there are

 20 some other things that we would like to talk about, but

 21 that one is probably worth just getting on the table and

 22 talking about first, because it's our perhaps most

 23 fundamental concern with the formula that shows up as

 24 your revised formula in section (2).

 25 MS. DANIEL: Let me see if I understand it.

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 1 And let me use this exhibit that's up here on the

 2 overhead. You're telling me that previously you had the

 3 differential plus the cost of the overhead less the four

 4 years of revenue. And at a minimum, you felt like the

 5 cost of the overhead less the four years of revenue

 6 would be no less than zero, and your concern today is

 7 that could go negative? Is that fundamentally what

 8 you're telling me?

 9 MR. BUTLER: That's how the math works out.

 10 When you had two formulas, there was a formula for

 11 calculating the CIAC overhead, and that took into

 12 account the four times revenue. The CIAC for

 13 underground was a separate formula, and it was the

 14 actual differential between the underground and overhead

 15 costs plus any CIAC overhead.

 16 MS. DANIEL: Limited to zero.

 17 MR. BUTLER: Yes. Certainly FPL's application

 18 of that, and I believe it has been pretty consistent

 19 everywhere, is that that was not something where you

 20 would use a negative number for the CIAC overhead,

 21 because certainly as you calculated and used the CIAC

 22 overhead, that's what you would do. If it turned out

 23 that that was a negative number and the customer wanted

 24 overhead, you wouldn't credit them with the difference.

 25 MS. DANIEL: I understand.

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 1 MR. BUTLER: And so fundamentally, by sort of

 2 collapsing this into one formula, that sort of

 3 limitation that the CIAC overhead can't be a negative

 4 number has effectively disappeared.

 5 MS. DANIEL: So the qualifier would be -- if

 6 we wanted to be hardheaded and stick with this rule, we

 7 would need to have a qualifier in there that if the four

 8 years of revenue exceeded the cost of the underground --

 9 overhead, I'm sorry, then it would never go below zero.

 10 MR. BUTLER: Right. You couldn't more than

 11 offset the cost of the basic overhead service; right.

 12 MS. DANIEL: Now, I have no idea if that's how

 13 you all have done it in the past, but let me just tell

 14 you, when I looked at these formulas -- and the reason I

 15 have this diagram set up the way I do with the line

 16 extensions and the service laterals separately, I looked

 17 at it mathematically, and I saw for the underground, the

 18 cost of the underground, and blah-blah-blah about the

 19 laterals or drops, minus the cost of the overhead,

 20 something about the laterals, plus the cost of the

 21 overhead, and I thought, "Well, those two cancel each

 22 other out."

 23 MR. BUTLER: If you can have a negative --

 24 MS. DANIEL: And you've got --

 25 MR. BUTLER: If you can have a negative value

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 1 for the CIAC overhead, you're right. But I would submit

 2 that's why they were stated separately in the first

 3 place, is to keep the --

 4 MS. DANIEL: I've never heard that argument.

 5 I'll look to Connie to tell me the answer on that. Is

 6 that something that has been your understanding, that it

 7 couldn't go below zero for the overhead?

 8 MS. KUMMER: To me, it doesn't make any sense

 9 that it would ever go below zero, because if your

 10 revenues outweighed your costs, there would be no CIAC.

 11 MR. BUTLER: For the overhead, for the

 12 overhead, that's right. If they did, you wouldn't

 13 collect any. But then if that same customer wants

 14 underground service, what we would do --

 15 MS. KUMMER: Then he would pay the underground

 16 differential.

 17 MR. BUTLER: I'm sorry?

 18 MS. KUMMER: Then he would simply pay the

 19 underground differential.

 20 MR. BUTLER: Right. And the underground

 21 differential would be the difference between the

 22 underground costs and the overhead costs. But the way

 23 the formula works with it having been collapsed, you

 24 could have it reduced below that differential, because

 25 you've got residual revenues that are now going to

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 1 offset part of that underground-versus-overhead

 2 differential.

 3 MS. KUMMER: Would it help then if we put a

 4 statement in here somewhere that CIAC will never be less

 5 than zero? I mean, that's the only way it makes it

 6 work.

 7 MR. BUTLER: It's not the CIAC being less than

 8 zero. It would have to be that the differential -- I

 9 mean, we actually proposed -- and one of the reasons,

 10 frankly, that we kind of thought that you must be

 11 intending to change the rule is that in our rule

 12 proposal submittal after the first workshop, we had a

 13 sentence that was intended to clarify that in no

 14 instance would the utility not collect the full

 15 underground/overhead cost differential, and staff didn't

 16 pick that up in its rule proposal. So that's kind of

 17 going the other direction of getting to what you were

 18 talking about rather than using two separate formulas.

 19 MR. BREMAN: If I may, could I ask that the

 20 utilities quantify the dollar amount that we're talking

 21 about, because I need to know -- I think it would be a

 22 good idea to know the materiality of what we're talking

 23 about.

 24 MS. DANIEL: How often would it happen that

 25 the four years of revenue would exceed the cost of the

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 1 overhead?

 2 SPEAKER IN AUDIENCE: Often -- (inaudible).

 3 MS. DANIEL: Often? By a substantial amount?

 4 SPEAKER IN AUDIENCE: (Inaudible.)

 5 MR. BUTLER: I don't think any of us have any

 6 statistics, but my sense is that when this rule is being

 7 applied for undergrounded facilities, that's often the

 8 case. The deal isn't the sort of overhead extension

 9 dollars, CIAC dollars. It's the underground-to-overhead

 10 differential cost that utilities are seeking to collect,

 11 and it could quite often be offset by this sort of

 12 residual revenue.

 13 MR. BREMAN: This would include residential

 14 customers as well as commercial and -- I mean, I sort of

 15 understand it on commercial/industrial installations,

 16 but this would be also true on residentials?

 17 MR. BUTLER: I think it could be, yes.

 18 MR. BREMAN: I would be interested in seeing

 19 the data.

 20 MS. KUMMER: Yes. I've never run across this

 21 situation either, and that's what's puzzling me. That's

 22 why it never occurred to me, because I have never seen a

 23 situation in which the revenues outweighed the CIAC.

 24 And again, in my mind, if the revenues outweigh the

 25 CIAC, the CIAC simply is zero. And maybe we can just

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 1 add something to that effect. Would that solve this

 2 thing?

 3 MR. BUTLER: No, but, Connie, it doesn't. Now

 4 you only have one formula for CIAC, and the CIAC in your

 5 rule is the only place that a differential between

 6 underground and overhead is collected.

 7 See, it used to be with the two formulas, it

 8 worked pretty neatly, because at least everybody

 9 understood and applied it that CIAC wouldn't be a

 10 negative number, and so if your overhead CIAC was less

 11 than zero, it sort of defaulted to zero, and then you

 12 had purely the formula of underground CIAC was the cost

 13 differential. But now, by collapsing the formulas, you,

 14 in effect, include the negative impact on the CIAC

 15 overhead in calculating how much can be collected as the

 16 CIAC underground.

 17 MS. DANIEL: Let me ask you if this would fix

 18 it. Tell me if this is still falling short. "For

 19 underground extensions, if the four years of revenue

 20 exceeds the overhead CIAC, the CIAC will equal the cost

 21 of the underground." If that were added to the rule,

 22 would that fix the problem? And let me repeat it.

 23 MR. BUTLER: I think what you said, except it

 24 has to be the underground-to-overhead differential.

 25 It's not the full cost of the undergrounding, because

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 1 what you're collecting is the differential between the

 2 undergrounding and the overhead.

 3 MS. KUMMER: For an extension? We're talking

 4 extension.

 5 MR. BUTLER: That's what this rule is. I

 6 mean, that just becomes --

 7 MS. KUMMER: So you're just worried about --

 8 MR. BUTLER: -- a word description as a --

 9 MS. DANIEL: I see. I see.

 10 MR. BUTLER: -- limitation that is what was

 11 achieved previously with the second formula. But that's

 12 fine. I mean, if you would prefer to do it that way, we

 13 certainly wouldn't have a problem.

 14 MS. DANIEL: I have it now. I'm doing it

 15 mathematically, and I'm with you now. For underground,

 16 if the revenue, the four years of revenue exceeds the

 17 overhead CIAC, then the CIAC will be the underground

 18 differential.

 19 MR. BUTLER: I don't know if that's --

 20 MS. DANIEL: No? Tell me the words.

 21 MR. GRIFFIN: This is Jesse Griffin from

 22 Progress Energy. That's J-e-s-s-e, G-r-i-f-f-i-n.

 23 Your formula would be correct if you replaced

 24 the word "CIAC" with "overhead job cost."

 25 MS. DANIEL: So give me the sentence.

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 1 MR. GRIFFIN: Would you repeat yours, and I'll

 2 just put in "overhead job cost" for "CIAC."

 3 MS. DANIEL: Well, let me see if I can do it.

 4 "For underground, if the four years of revenue exceeds

 5 the overhead job cost, then the CIAC will equal the

 6 underground differential."

 7 MR. GRIFFIN: That's correct.

 8 MS. DANIEL: I got it.

 9 MS. KUMMER: I hate to throw a monkey wrench

 10 in this, but I think this is -- that sounds to me

 11 exactly what you criticized us for last time, which is

 12 losing the cost of the extension. All you're paying is

 13 the differential for the extension. You're not

 14 capturing the cost of the extension.

 15 MR. BUTLER: No, but what's happening there

 16 is, if the -- sort of if the cost of the overhead

 17 extension is more than covered by the four times

 18 revenue, then --

 19 MS. KUMMER: Okay. All right. I just got the

 20 picture. Sorry.

 21 MS. DANIEL: Let me repeat it one more time.

 22 And this won't be precisely, but basically, "For

 23 underground, if the four years of revenue exceeds the

 24 overhead estimated work order job cost, then the CIAC

 25 for underground will be the differential between the

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 1 underground and the overhead."

 2 MR. GRIFFIN: That's correct, total job costs

 3 of both.

 4 MR. BRYANT: I think that -- this is Howard

 5 Bryant with Tampa Electric. I think that works, as long

 6 as the revenue does exceed the overhead cost component.

 7 But if it does not exceed it, then I'm not sure that it

 8 works.

 9 MS. DANIEL: Well, that if/then statement is

 10 only if the four years of revenue exceeds the total

 11 overhead job cost.

 12 MR. BRYANT: Okay. Then if I look at your

 13 formula and make the assumption that the -- well, if I

 14 look at this formula, it appears as if the revenue is

 15 being applied to both the overhead and the underground

 16 cost, when historically the revenue has only been

 17 applied to the overhead cost.

 18 MS. DANIEL: It's only intended to be applied

 19 once.

 20 MR. BRYANT: Okay. But I'm not convinced that

 21 we get there by looking at the formula and then going to

 22 paragraph (c), the top of page 9, line 1, (c). I think

 23 -- well, let me ask you, what is your intention with

 24 item (c) there?

 25 MR. WRIGHT: Patti, this is Schef. May I?

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 1 MS. DANIEL: Sure.

 2 MR. WRIGHT: I just can't resist. Trapp and I

 3 did the rule and the EIS for this years ago. May I make

 4 a suggestion?

 5 MS. DANIEL: Uh-huh.

 6 MR. WRIGHT: Here's my suggestion. Have it

 7 say, "For underground line extensions, the maximum

 8 credit shall be the cost of the equivalent overhead

 9 installation, including the cost of a standard overhead

 10 service drop." That seems to get where they want to

 11 get, while preserving the extension piece.

 12 MR. TRAPP: As a co-party to that past effort,

 13 I like two formulas now.

 14 MR. WRIGHT: I'm taking no position on the two

 15 formula issues, and this is just Schef Wright sharing.

 16 MR. BRYANT: We would like to propose that Bob

 17 has seen the light, and we want to go with what Bob is

 18 now saying. We think that's a beautiful idea.

 19 MR. STONE: This is Jeff Stone on behalf of

 20 Gulf Power Company. It appears to me, given the stated

 21 intention as simply simplification and not to change the

 22 result of the formula, that perhaps our attentions would

 23 be better spent on finishing the hardening aspects of

 24 this docket and reserving for a future date whether any

 25 modifications to the CIAC rule are needed in order to

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 1 accommodate whatever comes out of the hardening aspect.

 2 Perhaps we're trying to do too much at one time.

 3 MS. DANIEL: We've certainly talked about that

 4 notion.

 5 Let me get back to the point about part (c),

 6 whether the four years of revenue was intended to come

 7 out once or twice. It was intended to come out once.

 8 MR. BRYANT: Yes.

 9 CHAIRMAN EDGAR: Anytime you calculate CIAC

 10 for a customer, you're only going to remove the four

 11 years of revenue once.

 12 MR. BRYANT: Right.

 13 MS. DANIEL: And you're looking at (c), and

 14 you have a question about whether that's reflected

 15 there.

 16 MR. BRYANT: Well, if I go back to the formula

 17 on the previous page, the first item there is the cost

 18 of installing the facilities. Now, I'm making an

 19 assumption. That would be the overhead cost minus --

 20 I'm sorry, the underground cost minus the overhead cost.

 21 That is incorrect. Help us understand that, or me.

 22 MS. DANIEL: Part (a) says, "The cost of all

 23 new underground and -- overhead and underground line

 24 extensions shall be the total estimated work order job

 25 cost."

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 1 MR. BRYANT: Yes.

 2 CHAIRMAN EDGAR: What we were trying to do is

 3 describe that what is in the box that says, "Cost of

 4 installing the facilities," would be the total cost. If

 5 it's underground, it will be the total cost of the

 6 underground. If it's overhead, it will be the total

 7 cost of the overhead, not a difference.

 8 MR. BRYANT: Okay. Is there any interaction

 9 between what you have just said and item (c)?

 10 MS. DANIEL: That's for the service. The

 11 total cost of installing new underground service -- and

 12 perhaps I was not as articulate as I should be. I'm

 13 talking about a lateral -- underground, a drop, service

 14 drop shall be reduced by the cost of a standard overhead

 15 service lateral, that first 75 feet. That's the --

 16 MR. BREMAN: Howard, I don't know if this is

 17 going to help you, but that (c) is one sentence that

 18 replaces essentially two pages of the URD. It's just

 19 the service.

 20 MR. BRYANT: Okay. I'll keep thinking.

 21 MR. BUTLER: Beyond the basic formula, we've

 22 got a couple of other comments on section (2). And

 23 again, I will reiterate that we're making these -- if

 24 you stay with this approach, these are things we have

 25 concerns with. Our strong preference would be to go

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 1 back to the -- just leave the rule as it is for now

 2 rather than trying to --

 3 MS. DANIEL: Well, I would like to hear other

 4 examples of where this rule --

 5 MR. BUTLER: Okay. Let me tell you --

 6 MS. DANIEL: Just for my learning, help me

 7 understand where this rule takes you astray from what

 8 your current practice is.

 9 MR. BUTLER: Fair enough. The next thing we

 10 have a concern over is, in the formula, you have used

 11 the terminology "nonfuel energy charge" as opposed to

 12 "base energy charge." We have a concern about that,

 13 because at least a fair interpretation of that would

 14 mean that you would not include the fuel adjustment

 15 charge in there, but that other adjustments such as

 16 environmental, conservation, perhaps even the capacity

 17 charge, storm surcharges, things of that sort would be

 18 included in the energy charge. And if that were

 19 intended, I think it would be an inappropriate

 20 application, because certainly none of those monies

 21 would go to defray the sorts of distribution facility

 22 costs that we're talking about here. So I think the

 23 term "nonfuel energy charge" is probably not the right

 24 one to use for that purpose.

 25 MS. DANIEL: Is that what's in the current

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 1 rule?

 2 MS. KUMMER: Yes.

 3 MS. DANIEL: So you would like a change to the

 4 current rule in that regard?

 5 MR. BUTLER: Yes. We would like it to be base

 6 energy charge.

 7 MS. KUMMER: I don't have a problem with that.

 8 I think that's what we were trying to capture.

 9 MS. DANIEL: Instead of nonfuel, you want

 10 base? Is that it?

 11 MR. BUTLER: Now, in subsection (b), this

 12 seems to be, at least as I've been able to track this, a

 13 change that you are now stipulating that there's not a

 14 charge for the overhead transformer.

 15 MS. DANIEL: E as in egg?

 16 MR. BUTLER: No, B as in boy.

 17 MS. DANIEL: B as in boy. I'm sorry.

 18 Correct.

 19 MS. KUMMER: And that was taken as -- we were

 20 attempting to paraphrase on the next page the old

 21 formula that talks about excluding transformer service

 22 drops and meters. How is that different than the rule

 23 today?

 24 MR. BUTLER: I'm sorry. It's not different

 25 from today. I'm just -- why is it included? What is

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 1 the logic of including the overhead transformer as part

 2 of the cost that would be recovered through the -- I'm

 3 sorry, that would not be recovered through the CIAC,

 4 kind of the basic service to the customer's house?

 5 MS. KUMMER: You'll have to talk to Mr. Trapp.

 6 He wrote the original rule. We were just trying not to

 7 change too much the concepts of the original rule.

 8 MR. TRAPP: I think Schef wrote the original

 9 rule.

 10 MS. KUMMER: It always seemed a little strange

 11 to me too, but that's what was in the rule, and I

 12 assumed you all had agreed to it. Does anybody else

 13 have an opinion on that?

 14 MS. HOLDSTEIN: I'm Nancy Holdstein from

 15 Progress Energy, H-o-l-d-s-t-e-i-n.

 16 Our understanding of why we exclude the

 17 transformer and the service drop and the meter is

 18 because those costs are already compensated for

 19 elsewhere in rates. The service drop and the meter are

 20 in the customer charge, and the transformers are

 21 generally precapitalized and otherwise captured in

 22 rates.

 23 MS. KUMMER: Okay. Anything else?

 24 MR. WRIGHT: I think Tom Raines wrote that

 25 part of the rule.

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 1 MS. DANIEL: You know what this does? It puts

 2 something in the rule that we thought you were all

 3 already doing. And as I talked to staff to educate

 4 myself, it was interesting to see as I went from person

 5 to person how they varied in their understanding of what

 6 you do. So if nothing else, we've put together

 7 something that makes us come closer to making sure that

 8 we have consistent application among the utilities.

 9 MR. THOMPSON: May I?

 10 MS. DANIEL: Yes.

 11 MR. THOMPSON: Jim Thompson with Gulf Power.

 12 MS. DANIEL: Yes, sir.

 13 MR. THOMPSON: Two other just quick little

 14 comments about -- if we're still in that section (2) of

 15 .064.

 16 MS. DANIEL: I'm leaving when we get past

 17 section (2).

 18 MR. THOMPSON: Oh. Then I know we're still in

 19 that section. In (a), just as a suggestion, the costs

 20 of all the overhead and underground, perhaps the word

 21 "facilities" would be better there instead of "line

 22 extensions." It seems --

 23 MS. DANIEL: I agree.

 24 MR. THOMPSON: In (b), aside from and apart

 25 from Mr. Butler's comments, since we're talking there as

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 1 clarified above at line 20 about the definitions of

 2 costs, perhaps (b) could read "cost for transformer,

 3 service drops, et cetera, shall be excluded." And

 4 again, that's separate from, and I don't mean to

 5 contradict, Mr. Butler's suggestion there.

 6 MS. DANIEL: The cost for overhead --

 7 MR. THOMPSON: Cost for transformer, service

 8 drop and meter for new standard overhead installations

 9 shall be excluded, to continue the theme of costs in

 10 those sections.

 11 MS. DANIEL: I understand.

 12 MR. THOMPSON: Thank you.

 13 MS. HOLDSTEIN: This is Nancy Holdstein again.

 14 We would also like to add in subparagraph (a) the cost

 15 of all new or upgraded overhead and underground

 16 facilities.

 17 MS. DANIEL: Do you see (d) on the next page?

 18 Does that take care of it?

 19 MS. KUMMER: We broke that out because of the

 20 salvage component.

 21 MS. HOLDSTEIN: Yes.

 22 MS. DANIEL: You're good? Okay.

 23 MS. HOLDSTEIN: If I might offer some other

 24 clarifying comments on some of the issues, both what

 25 Mr. Wright said, what FP&L said, and what TECO has said.

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 1 The way we are interpreting the math, I think

 2 if we clarified, as consistent with your drawing, that

 3 the standard overhead service installation equivalent to

 4 your standard service lateral equals the transformer,

 5 the approximate 75 feet service drop, and the meter, if

 6 that were defined perhaps in section (b), to be defined,

 7 and then also we're okay with it being excluded, then

 8 when you get to section (c), the only thing you're

 9 pulling out is what has previously been defined as those

 10 three items. And we believe the math works correctly in

 11 a combined formula with the exception of adjusting for

 12 the revenue -- the overhead CIAC not going negative.

 13 MS. DANIEL: Can I just add the word "75 feet"

 14 in front of service drop and that will take care of it

 15 on (b)?

 16 MS. HOLDSTEIN: I would like to see standard

 17 overhead service installation defined, because it's then

 18 used in (c). And if the standard overhead service drop

 19 is previously defined as just the transformer, the

 20 75-foot service drop, and the meter, then you're only

 21 talking about that small amount and not including the

 22 whole line extension coming out when you do the

 23 underground calculation. Then we believe the math

 24 works.

 25 MS. DANIEL: Okay. Can you give me some

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 1 language to that effect in your comments?

 2 MS. HOLDSTEIN: Yes. We plan to provide you

 3 some mathematical calculations, a supporting schedule

 4 with some examples showing that it does work.

 5 MS. DANIEL: Okay.

 6 MR. TRAPP: There may be a concern with that,

 7 and I just raise it for your information as you develop

 8 your post-workshop comments. But it occurs to me, there

 9 is another rule on the books, and the number escapes me

 10 right now, that the 75-foot is derived from. My

 11 recollection is that it's a loose derivation. It's not

 12 -- in other words, the Commission I don't believe in its

 13 rules has precisely defined what a standard service is.

 14 I think what we've said in the rule I'm

 15 thinking about is that each utility shall specify a

 16 point of delivery. It will be on a close end of the

 17 house, more or less 75 feet within the property line, is

 18 the way I remember the rule, and that's about the

 19 specificity that's there. If we get real specific about

 20 what a standard service drop is, I don't think you have

 21 any latitude anymore. So I just caution you on that.

 22 MS. DANIEL: Other questions or comments?

 23 MR. BRYANT: One other question. On line 3,

 24 this would be (d) on page 9, is there a need to address

 25 remaining book value?

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 1 MS. DANIEL: Net book value?

 2 MR. BRYANT: Uh-huh.

 3 MS. DANIEL: I thought about that. Certainly

 4 when you get to the conversion rule, we talk about net

 5 book value.

 6 MR. BRYANT: If it's over there, yes, that

 7 might do it.

 8 MS. DANIEL: What do you do now?

 9 MR. BRYANT: The more I think about it, that

 10 might do it.

 11 MS. DANIEL: The conversion?

 12 MR. BRYANT: It is the case when you convert.

 13 This is strictly --

 14 MS. DANIEL: Right. This is an upgrade.

 15 MR. BRYANT: This is strictly extension.

 16 MS. DANIEL: Correct.

 17 MR. BRYANT: I'm with you.

 18 MS. DANIEL: That is an upgrade.

 19 MR. BRYANT: Right. But an extension can be

 20 an upgrade.

 21 MS. DANIEL: Yes.

 22 MR. BRYANT: Right.

 23 MS. DANIEL: Okay. So you're good with this?

 24 MR. BRYANT: I think so.

 25 MS. DANIEL: Okay.

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 1 MR. BUTLER: I have another question for you,

 2 going back to this question of what you're including and

 3 excluding from the calculation.

 4 MS. DANIEL: Yes, sir.

 5 MR. BUTLER: If you look at the underground

 6 formula that has been deleted, the comparison there is

 7 sort of all-in for underground versus all-in for

 8 overhead, all the way to the customer's house,

 9 basically, and you're comparing the cost of all of those

 10 pieces to get your differential.

 11 And it would seem like that the way we've been

 12 working toward the definition of what facilities we're

 13 talking about in this generic formula, that you're

 14 excluding the transformer, service drop, and meter from

 15 the costs that are being considered, and I'm not sure

 16 how one captures this all-in to all-in comparison that

 17 is contemplated in the CIAC underground formula in the

 18 current rule consistent with that idea of excluding

 19 transformer, service drop, and meter from the

 20 calculation when you're looking at the generic CIAC

 21 formula.

 22 MS. KUMMER: The underground formula, the old

 23 underground formula is not all-inclusive to

 24 all-inclusive. It's all-inclusive underground, but the

 25 CIAC overhead goes back to the preceding formula, which

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 1 excludes --

 2 MR. BUTLER: That's the CIAC overhead. That's

 3 if you had an excess of sort of the standard overhead

 4 service over the four times revenue as an adder to it.

 5 I'm talking about the first box in the formula. The

 6 first box in the formula, it's a lot of words there, so

 7 I won't read them all, but I think if you do, you'll see

 8 it's an all-in versus all-in, and that's what I'm

 9 talking about.

 10 As you're working toward this formula, the

 11 single formula, which is frankly sort of driven by how

 12 the old overhead formula was set up, it seems like that

 13 the definition of terms, what you're considering for the

 14 actual or estimated job cost part is something that's

 15 going to be excluding transformer, service, and meter

 16 costs. And if there is a differential in those costs,

 17 underground costs more for those components compared to

 18 the overhead equivalent for them, it looks like that's

 19 getting lost from what the utility would collect.

 20 MS. DANIEL: I would have to think about that,

 21 but I've given this a lot of thought, and my brain could

 22 not handle all of those variables running around at

 23 once, so I put it into a matrix like this, and I thought

 24 about what the existing rules said with regard to line

 25 extensions very carefully, all of them. And what I got

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 1 was, you're winding up with, for purposes of line

 2 extensions, the cost of the underground minus the cost

 3 of the overhead plus the cost of the overhead for line

 4 extensions. That's all I'm referring to. And what that

 5 means is, you're getting the cost of the underground for

 6 line extensions.

 7 And then I looked at the portions of the rule

 8 that address the transformers, the service drops, and

 9 the meters, and I got the cost of the underground drop

 10 minus the cost of the overhead drop, which is the

 11 differential. And that's what --

 12 MR. BUTLER: Where is that reflected here?

 13 MS. KUMMER: Item (c).

 14 MS. DANIEL: (c), the total cost of installing

 15 a new underground service drop shall be reduced by the

 16 cost of a standard overhead service lateral, if you

 17 will, installation.

 18 MR. BUTLER: But what ends up happening -- and

 19 maybe it's a matter of just clarification, but if you

 20 look back to (b), which just said that standard

 21 installations are excluding the transformer, service

 22 drop, and meter, it would --

 23 MS. DANIEL: That's for overhead; correct.

 24 For overhead, there's no charge for the transformer,

 25 service drop, and meter.

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 1 MR. BUTLER: Well, if you end up taking the

 2 total cost for the underground, including those

 3 components, that would actually be collecting more than

 4 what we are currently collecting. And we're not asking

 5 to collect the entire cost of the transformers, the

 6 service drop, and the meter. We're just saying if there

 7 is an increment, if the transformer, service drop, and

 8 meter for underground costs more than the transformer,

 9 service drop, and meter for overhead, that differential

 10 ought to be part of the equation.

 11 And combining (b) and (c), I would read it

 12 that either one -- you're looking at both of them

 13 excluding the transformer, service drop, and meter, or

 14 else it's in there for the underground cost and not in

 15 there for the overhead, which would sort of overstate

 16 how much the differential would be.

 17 MS. DANIEL: Let me back you up a little bit.

 18 And maybe I need to reword this still a little bit.

 19 Part (a) only goes to line extensions. Part (a) has

 20 nothing to do with transformers, services, or meters.

 21 Part (a) only goes to line extensions. If you have an

 22 overhead service, then you need to look at part (b) to

 23 get your transformer, service drop, and meter. If you

 24 have an underground service, you need to look at part

 25 (c) to get your transformer, service, and meter. If

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 1 you're underground, it's the difference, and if it's

 2 overhead, it's zero, if we're talking 75 feet or less.

 3 MR. BUTLER: That certainly -- I mean, I

 4 understand mathematically you could do it that way. I

 5 don't think that's what (b) and (c) say right now, at

 6 least to me.

 7 I mean, (b) seems to -- it ends with "standard

 8 overhead installation," and then (c) talks about

 9 standard overhead installation. And it seems like that

 10 a logical thing to do would be to assume that (c) is

 11 talking about what you just described in (b), and (b)

 12 excludes the transformer, service drop, and meter.

 13 You're saying that the total cost of the underground

 14 service would be used, which would be fine, but then

 15 you're excluding from it or you're subtracting from it

 16 to get the differential this, quote, unquote, standard

 17 overhead service, which seems to be excluding the

 18 transformer, service, and meter. And it's not --

 19 MS. KUMMER: I see the problem you're having.

 20 I think we can work on the wording. I don't think you

 21 disagree with what we're trying to say. You're reading

 22 this as cumulative, and we're not. That's our basic

 23 problem, and that's a wording issue, I think, more than

 24 anything else.

 25 MR. BUTLER: I mean, it's possible to handle

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 1 it that way. This just seems like it is developing the

 2 sort of Ptolemaic model of the solar system. You know,

 3 you could end up having it work a lot easier if things

 4 rotated around the sun, if you kept the two separate

 5 formulas instead of kind of trying to force corrections

 6 to it so it all works within one formula. But if you do

 7 it the one formula way, then certainly we would like to

 8 see clarification on that.

 9 MS. KUMMER: The other thing that we're trying

 10 to fix here, John, is that this rule only dealt with

 11 line extensions, nothing but line extensions. There was

 12 no CIAC formula for upgrades, and that was the question.

 13 The wall that we were running into was about the CIAC

 14 for upgrades, and we had no rule for upgrades, so that

 15 was one of the things we were trying to do in this rule,

 16 is move it beyond just simple line extensions to cover

 17 other situations.

 18 MS. HOLDSTEIN: I think I can offer a solution

 19 that will address the issues. If you put -- it you took

 20 out the word "standard" in (b), and backtracking on what

 21 Mr. Trapp said, don't pin down a definition as I

 22 requested earlier, take out the word "standard" in (b),

 23 and then in (c) just take out the cost of -- again

 24 strike is the word "standard" and say the cost of an

 25 overhead transformer, a standard service lateral, and a

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 1 meter, and the math is still going to work right. So

 2 then you've got the differential. That would provide

 3 for the differential between a pad-mount transformer and

 4 an overhead transformer, and the cost of an underground

 5 service lateral versus an overhead service lateral, and

 6 the meter is a wash.

 7 MS. DANIEL: When in (b) you take out the word

 8 "standard," then you're saying if that service drop is

 9 200 feet, you're good to go with no charge; correct? Do

 10 you want to think about that one?

 11 MS. HOLDSTEIN: Well, you could take out the

 12 standard service drop.

 13 MR. GRIFFIN: This is Jesse Griffin. There

 14 never will be an overhead service drop 200 feet long.

 15 It physically won't support itself and will sag. We

 16 would have supporting poles in it. And the last section

 17 of wire that we would consider service would be about 75

 18 feet to 80 feet, somewhere in that range.

 19 MS. DANIEL: So there's nothing but a

 20 standard? Is that what you're telling me? You never,

 21 ever do anything other than 75 feet or less?

 22 MR. GRIFFIN: It might be 80 or 85 feet.

 23 MS. DANIEL: But you would still consider

 24 it --

 25 MR. GRIFFIN: That would be -- if we have no

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 1 supporting poles between the transformer and the meter,

 2 that's our standard service drop.

 3 MS. KUMMER: And anything beyond that would

 4 fall under the line extension?

 5 MR. GRIFFIN: That's correct.

 6 MS. DANIEL: Then we can take out the word

 7 "standard." Then there is no (b)(2) then.

 8 MR. GRIFFIN: That's right. (b)(2) would only

 9 be a few feet and really not --

 10 MS. DANIEL: It's in my imagination. Okay.

 11 Good.

 12 As someone commented earlier, this probably is

 13 not the most important thing you want to spend your

 14 afternoon doing. If anybody else has any questions they

 15 wanted to give us or any radical changes to the rule

 16 other than what we've already heard, I would love to

 17 hear it. I think we can cover the rest of it in

 18 comments. Is that right?

 19 MS. KUMMER: As far as section (2). There are

 20 some other --

 21 MS. DANIEL: As far as section (2).

 22 MR. BUTLER: I would like to make the

 23 suggestion that if you decide that you do want to

 24 continue pursuing this approach of the combined formula,

 25 somehow or another we ought to have some opportunity for

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 1 dialogue on whatever you come up with as a way to fix

 2 the concerns we've been addressing and get that

 3 information back to you.

 4 MS. DANIEL: Yes, sir.

 5 MR. BUTLER: Simply so it doesn't end up

 6 getting carried forward as a further area of concern,

 7 because it's not central, but obviously, by the same

 8 token, it's very important to the utilities and how they

 9 calculate their CIAC. And the way things are currently

 10 structured to work, we wouldn't really have another

 11 formal opportunity to comment on your proposed fix. So

 12 I just throw that out for --

 13 MR. TRAPP: John, we are going to agenda June

 14 20th. The staff recommendation will be submitted June

 15 8th. You can take it up at agenda. You've got to fix

 16 it today. If it's not fixed today, your next

 17 opportunity is agenda.

 18 I think it's important that the Commission

 19 understand their CIAC rule. If the staff doesn't

 20 understand the CIAC rule and the utilities don't

 21 understand the CIAC rule, then we've got a problem. But

 22 we are going the agenda June 20th.

 23 MR. BUTLER: That's fine. I just think it

 24 would be kind of a shame to have this discussion again

 25 in front of the Commissioners for the agenda. That's

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 1 what I was hoping we could avoid.

 2 MS. DANIEL: My understanding of the

 3 rulemaking process is that as staff writes up the

 4 recommendation, it's incumbent on us to really spell out

 5 for the Commissioners what all of this means, and

 6 hopefully we'll get it right when we write that

 7 recommendation, and I look forward to seeing your

 8 comments on this part. We'll try to be as true to your

 9 comments as we can.

 10 Thank you.

 11 MR. HARRIS: That was section (2). There is a

 12 section (1). Let's backtrack a little bit. Are there

 13 any comments on section (1), application and scope?

 14 Not hearing much, let's jump on to section

 15 (3). If somebody notices something in (2), we can come

 16 back to it. Section (3).

 17 MS. KUMMER: Section (3) starts at the bottom

 18 of line 10 after all the strikeouts.

 19 MR. HARRIS: Page 10, line 25.

 20 MS. KUMMER: And I would just clarify, this

 21 was in response to a question we had last time about

 22 transmission primary and transmission voltage. This was

 23 our comment that it applies to any voltage level.

 24 MR. HARRIS: Not hearing anything, section

 25 (4). Not hearing anything –

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 1 MR. THOMPSON: I have some stuff on (4).

 2 Let's see. On -- oh, just above (4). I'm sorry.

 3 You're on line 3 of page 11?

 4 MR. HARRIS: Yes.

 5 MR. THOMPSON: Just above that, why would we

 6 change to the word "requesting" here instead of

 7 "requiring," especially in light of back on page 8, line

 8 8?

 9 MS. KUMMER: I caught it one place and didn't

 10 the other. That's the only thing I can think of. The

 11 idea of upgrades are usually requested. They're not

 12 necessarily required. It's not something the company

 13 would go in and say, "You have to do this." A customer

 14 can request an upgrade. But I agree they ought to be

 15 the same. They ought to be consistent.

 16 MR. BREMAN: Generally a utility when it does

 17 its own upgrades does it for its own reasons. Those are

 18 required upgrades. We're trying to distinguish that

 19 between a solicitation from a customer or an applicant.

 20 MR. THOMPSON: I was just curious about the

 21 difference between the two, if there was any difference

 22 intended there.

 23 MS. KUMMER: No. Would "requested" work in

 24 both places? Or "request," I guess, on page 8. Again,

 25 as Jim said, if you're going in and doing it on your

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 1 behalf, presumably you wouldn't require a CIAC from the

 2 customer if you're doing it for your own purposes.

 3 Okay. Did we get through (4)? This just says

 4 that however you estimate your costs, you'll construct

 5 here the same way you're required to in .034.

 6 MR. THOMPSON: I do have one small comment on

 7 (4). At page 11 at line -- well, starting at line 10,

 8 it may be that we could just put a period, or I would

 9 suggest we consider putting a period after the word

 10 "produce" on line 12 and stopping right there. The next

 11 phrase refers to a four-year time frame. That gets a

 12 little awkward at times. We're not really dealing with

 13 a four-year time frame. As is described on one of the

 14 previous pages, we're dealing with a one-year or an

 15 annual or one-year revenue projection which is then

 16 multiplied by four.

 17 The other reason I suggest stopping that whole

 18 paragraph there with the word "produce" is the

 19 awkwardness perhaps on line 13 of the phrase "estimated

 20 credit to the CIAC." I'm not certain what the credit to

 21 the CIAC is.

 22 MS. KUMMER: There was a lot of discussion

 23 about this last time, and my thinking is that the costs

 24 are the costs. I mean, the customer can't really

 25 dispute the costs. You've got invoices. You've got

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 1 materials costs that you can point to. The costs are

 2 pretty much defined. They're objective. What is

 3 subjective in the CIAC calculation is the estimate of

 4 the revenues, and that's what I was thinking might

 5 possibly be disputed. You say there's only going to be

 6 five houses, it turns out there's ten houses, and the

 7 first guy -- that was where I was going with this.

 8 MR. THOMPSON: Sure. Thank you, Connie. That

 9 refers to the revenue estimate.

 10 MS. KUMMER: Right.

 11 MR. THOMPSON: Then my final question about

 12 that paragraph would be -- and I'm told that perhaps

 13 this was discussed for the last workshop. If so, I

 14 apologize for revisiting it. Line 14, at the customer's

 15 request, is that to say that the utility could not in

 16 the future readdress whether or not the revenues had

 17 materialized?

 18 MS. KUMMER: That's an interesting question.

 19 I think this did come up last time, and I don't think

 20 that we ever really hashed out an answer one way or the

 21 other.

 22 Does anybody else have any thoughts? Bob?

 23 I'm not getting much support up here.

 24 MR. THOMPSON: I was really thinking, Connie,

 25 that perhaps on -- and I know this jumps ahead, but I

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 1 think they're related. On page 12 at line 14, unable to

 2 agree, that doesn't seem to terminate when they pay it

 3 up front. That opportunity there could suffice for

 4 either party two or three years later.

 5 MS. KUMMER: I hadn't looked at it that way,

 6 but I suppose it could be read that way. That was -- I

 7 was reading that as being an initial, you hand them a

 8 bill, they come to us and say, "That's too much."

 9 MR. BREMAN: What would you suggest? Within

 10 18 days of completing the work order, or what?

 11 MR. THOMPSON: No. Honestly, what I was

 12 thinking was back in my earlier offer to consider just

 13 putting a period after the word "produce" and let

 14 everything else after that be covered by the

 15 opportunities available on page 12 at line 14, just the

 16 way it's written or proposed.

 17 MR. BUTLER: FPL would support that. One of

 18 the things, Connie, that would be good about that

 19 addresses something that we were just conferring about

 20 over here that's -- one of our concerns about the way

 21 that subsection (6) now reads is that it seems like a

 22 customer could raise the dispute at sort of any point,

 23 including, say, at the very beginning, just say, "Tell

 24 you what, Utility. I want you to look at my actual

 25 consumption at the end of this time period, you know,

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 1 the best year in those five, whatever, and then

 2 recalculate the CIAC credit based on what it turns out

 3 to be," which would really be an administrative

 4 nightmare, because you would have to be tracking that

 5 amount and where the customer ends up and all those

 6 sorts of things; whereas, in subsection (10), you know,

 7 it's pretty much something where a customer will bring a

 8 dispute.

 9 And once that happens, then the utility knows

 10 it needs to go back and look at the records and see what

 11 the actual credit amount would be. And if they're

 12 disputing interesting the estimate versus the actual, I

 13 suppose you would look at that too. But you have

 14 something that's initiated by a customer at the point

 15 when the dispute arises, bringing it to the utility's

 16 attention, and you start looking into it.

 17 If you don't go that route, we would ask you

 18 to please clarify in (6) that this is something

 19 triggered by a dispute raised by a customer or a request

 20 made by a customer, you know, at the time that they seek

 21 to have this calculation made, not as something they

 22 could do up front, and then the utility has to keep

 23 track of it for the next five years or four years.

 24 MS. KUMMER: You don't think the language on

 25 line 14, collecting actual revenues at the end of the

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 1 four-year period over which the CIAC was estimated,

 2 captures that?

 3 MR. BUTLER: I don't, because it's certainly

 4 talking about at the end of the four-year period, but it

 5 seems like that the request could be made at any point.

 6 It's not specifically saying that the customer has to

 7 wait to the end of that period to make the request.

 8 MR. TRAPP: Well, what's wrong with that? If

 9 the customer insists on using actual data, what's wrong

 10 with using actual data? That's my question.

 11 MR. BUTLER: Well, it's keeping track of the

 12 fact that you need to be waiting until four years from

 13 now, you know, make the calculation at that point,

 14 remember to make the calculation at that point, and if

 15 the customer has moved, try to track them down and find

 16 them to do the true-up with them.

 17 MS. KUMMER: No, it says at the customer's

 18 request. If the customer doesn't come back and ask for

 19 the true-up, there would be no requirement for the

 20 utility to do a true-up.

 21 MR. BUTLER: I understand. But what we're

 22 reading this as having the potential is that just at the

 23 time that the customer pays the CIAC, they make the

 24 request then.

 25 MR. TRAPP: For a true-up, for the opportunity

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 1 of a true-up based on actual data, is the way I read it.

 2 MR. BUTLER: And we've got to keep track of

 3 that request and then keep track of where any true-up

 4 amount would get paid until the end of the four-year

 5 period.

 6 MR. TRAPP: What's wrong with that?

 7 MR. BUTLER: It just -- it's an unnecessary

 8 administrative burden. What's wrong with the other

 9 alternative of having the customer --

 10 MR. TRAPP: So you would rather overcharge the

 11 customer on the front end. That makes no sense.

 12 MR. BUTLER: Well, what's wrong with having

 13 the customer say, "Look, if you're concerned about this

 14 at the end of the time, just come back and" -- what's

 15 wrong with having the customer, you know, just have the

 16 right, as they do under section (10), to come back at

 17 the end and say, "Okay. My four years have gone by. I

 18 think I used a lot more power than you estimated, so I

 19 want you to make this recalculation"?

 20 I mean, that would work fine. There's nothing

 21 that would be inconsistent with (10), the customer doing

 22 that. And it's the customer's concern, so it seems fair

 23 for the customer to raise it once they've got the actual

 24 consumption to base it on.

 25 MS. KUMMER: Okay. So you don't object to the

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 1 concept of the true-up as long as the request comes at

 2 the end of the four-year period.

 3 MR. BUTLER: Yes, at the end, at whatever

 4 point. If the customer decided, I guess, after two

 5 years they kind of like what they've seen and they would

 6 like to have the true-up made at that point, they could

 7 do it there. But it's triggered by the customer coming

 8 in and saying, "Okay. Based on what's now historical

 9 data, do my true-up calculation."

 10 MS. KUMMER: Okay. I'll take a look at that.

 11 I understand your concerns and the idea of the fact that

 12 -- or the concept that (10) really covers everything

 13 anyway. Let me look at that a little bit more, because,

 14 frankly, this one I had trouble with. Like Bob said,

 15 it's the concept of the customer getting the pot right.

 16 And how you do that I realize is going to be somewhat

 17 difficult from the administrative end of it, and we

 18 struggled with how to word this.

 19 But by the same token, fairness to the

 20 customer, you've got this free rider -- we talk about in

 21 the conservation programs the free rider on the process.

 22 He pays the $25,000 to get the line, and next week three

 23 more houses come in.

 24 Okay. I hear what you're saying, and we'll

 25 take look at that. I think I understand where you're

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 1 coming from.

 2 Okay. Paragraph (7), that's truly intended

 3 again to be just a restatement of the situation, not a

 4 change in the treatment.

 5 MR. BRYANT: Connie, Howard Bryant. Very

 6 minor, very minor. The numbering probably got a little

 7 out of focus.

 8 MS. KUMMER: It did. It did.

 9 MR. BRYANT: So, you know, when we get the

 10 thing ultimately -- when you all get it ultimately

 11 cleaned up, you can just kind of fix it a little bit.

 12 MR. BREMAN: The heading is wrong too. I

 13 don't know if you noticed it, but it's May, not March.

 14 MS. KUMMER: We were doing this a little

 15 quickly the last couple of weeks, so minor niceties in

 16 these things kind of fell by the wayside, but we will

 17 fix them eventually. I'm surely our lawyers will catch

 18 us, if nothing else, next time around.

 19 Okay. Now, paragraph (8). This is the

 20 proration. And I have had suggestions, just for your

 21 information, from our accounting staff, which may ease

 22 some of your concerns. On line 4, rather than calling

 23 it an advance, call it a payment, require a payment

 24 equal to the full amount. And if you go down to line 7,

 25 strike that next phrase, "In the event projected

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 1 growth," all the way down through "period," and say,

 2 "the proration and collection for new customers shall

 3 cease at the end of the three-year period." That was

 4 the accountants correcting some of my terminology.

 5 Any comments on this one? And I will give

 6 credit or blame, as it may be, to TECO. They suggested

 7 -- started us down this road.

 8 MR. BUTLER: The one thing we have as kind of

 9 an administrative detail, somewhat similar to what we

 10 were just talking about, is this issue of tracking

 11 customers.

 12 MS. KUMMER: That's why I shortened it from

 13 five to three. I thought three years, the people were

 14 more likely to be there, especially in terms again of a

 15 subdevelopment where you've got the first guy with the

 16 first house pays the whole cost. Three years would not

 17 be an unreasonable period to expect somebody to stay in

 18 a location.

 19 MR. BUTLER: I think you're right that

 20 normally that would be the case. What would you expect

 21 to happen in the event that the customer has moved and

 22 is no longer contactable at the end of the three years?

 23 MR. TRAPP: Well, I noticed that the co-ops

 24 track capital credits for many, many, many years and

 25 manage to get that money back to the customer. That's

 166

 1 my observation.

 2 MS. KUMMER: And one would think there would

 3 have to be some kind of an agreement up front, and this

 4 is what comes in the last line that says, "shall file a

 5 tariff outlining its policies." There would have to be

 6 some agreement on what the amount was and what the

 7 proration would be, and the customer would sign up

 8 front. And if he wasn't there to give the money back

 9 to, apparently he wasn't real concerned about collecting

 10 it. I'm not sure how much of an effort --

 11 MR. BUTLER: Would it be fair to say that the

 12 customer would have a responsibility to notify the

 13 utility if he or she moved and expected to get the

 14 proration credit back?

 15 MS. KUMMER: I think would be reasonable. If

 16 somebody owes you money, it behooves you to let them

 17 know where you are. That's something that you could

 18 look at in your tariff or your contracts in setting up

 19 your procedure, but I think that would be reasonable.

 20 MR. BUTLER: Okay.

 21 MS. KUMMER: Anything else in this paragraph?

 22 Except for the fact most of you really don't like the

 23 rule at all, are we done with this one?

 24 MS. CROSS: This is Lori Cross from Progress

 25 Energy. It's L-o-r-i, C-r-o-s-s. And I just had one

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 1 more comment to make about this rule.

 2 In our written comments from the last workshop

 3 that we provided, we proposed language to gross up and

 4 collect from the contributor the federal and state

 5 income taxes on the CIAC, and I'm just wondering if

 6 staff gave any consideration to that proposal.

 7 MS. KUMMER: I will refer you to Mr. Bill Lowe

 8 sitting at the far table.

 9 MR. LOWE: I got drug into this thing

 10 yesterday afternoon, so you all bear with me if I'm not

 11 really up on all of this.

 12 My name is Bill Lowe, L-o-w-e, and I have a

 13 little bit of experience in gross-up of CIAC. We went

 14 -- the Commission went through this in the water

 15 industry, actually, all industries. It was a generic

 16 docket when 18(b) and (c) were repealed by Congress. It

 17 was very material in the water and wastewater industry.

 18 To the extent we did gross up contributions in

 19 aid of construction in the water and wastewater

 20 industry, it was a nightmare. It's an accounting

 21 nightmare. You need to look at what the Commission did

 22 in those cases and see whether you really want to go

 23 through that process, because it was a nightmare for the

 24 small water companies.

 25 There were -- in Order No. 23541, Docket No.

 168

 1 860184-PU --

 2 MS. CROSS: I'm sorry. Can you read that

 3 again?

 4 MR. LOWE: Let me do it backwards then.

 5 MS. CROSS: Okay.

 6 MR. LOWE: Docket No. 860184-PU, Order No.

 7 23541, issued October 1, 1990. And specifically within

 8 that order, pages 11 through 14 is a -- are some

 9 provisions called determination of need. And it goes

 10 through some stuff like demonstration of actual tax

 11 liability, cash flow statement, statement of interest

 12 coverage. I think that's probably the one that would

 13 affect the electric utilities the most. There was a two

 14 times -- let me get the language right. "The utility

 15 shall also provide a statement of its times interest

 16 earned, TIE ratio. The utility should demonstrate its

 17 TIE ratio is no more than 2 percent." I don't think

 18 that's going to affect y'all. And if the Commission

 19 were to continue with the precedent that was set in

 20 this, I don't think that they would allow you to do

 21 gross-up of CIAC.

 22 Now, the rest of this thing goes into -- all

 23 of this stuff was held subject to refund, and it was

 24 reviewed annually. Staff didn't like any of this when

 25 it was proposed, and we were so happy when we were

 169

 1 successful in getting 118(b) put back into the Internal

 2 Revenue Code, or I think it's 118(c) now, for the water

 3 and wastewater industries.

 4 But I thought you all should be aware that the

 5 Commission has been through this. At least one

 6 Commissioner is going to be very familiar with it,

 7 because he sat -- he was through all of this. So you're

 8 going to -- that would be an uphill battle to me. It

 9 doesn't matter to me, because as Ms. Daniel said

 10 earlier, I won't be here when you all do this. Okay?

 11 But I needed to let you all know where the Commission

 12 had been on this issue.

 13 MS. CROSS: Okay. Well, we'll take a look at

 14 that and review it. I guess the reason that we proposed

 15 the change, and I guess you guys are familiar with

 16 the -- what happens here is that when CIAC is taxable,

 17 the burden of the carrying costs on those income taxes

 18 is shifted to the general body of ratepayers, and we

 19 think that the CIAC contributor should be the one that

 20 is accountable for the carrying costs on those income

 21 taxes and pays the cost of those income taxes, and that

 22 was why we proposed it. We'll take a look at the

 23 history here and --

 24 MR. LOWE: In fact, in the order I gave you,

 25 the method that y'all proposed doing is discussed.

 170

 1 Okay?

 2 MS. CROSS: Okay.

 3 MR. LOWE: And the present value method where

 4 you're pulling the depreciation stream backwards was

 5 looked upon as not providing that to the general body of

 6 ratepayers. Okay?

 7 MS. CROSS: Okay.

 8 MR. LOWE: So you might want to look at --

 9 MS. CROSS: We'll review that.

 10 MR. LOWE: -- that particular order as to what

 11 was said there. And in fact, that order also goes that

 12 you refund the CIAC back to the person who did it, who

 13 you got it from, to keep that from happening also if you

 14 totally grossed it up. Okay?

 15 There's also an issue in there of tax on tax,

 16 because when you --

 17 MS. CROSS: Right.

 18 MR. LOWE: -- increase the tax for the CIAC,

 19 now you've just created another level of tax on there.

 20 So there's a number of problems with it that are all

 21 addressed in this issue -- in this order.

 22 MS. CROSS: Okay. Thank you. We'll take a

 23 look at it.

 24 MR. HARRIS: Anything else?

 25 Okay. Let's go ahead and roll on then to

 171

 1 25-6.078. We'll wrap the last one up and move on to a

 2 whole new area. I know that there is some

 3 interrelationship between .078 and .115. Again, we're

 4 going to try to keep them separate and go section by

 5 section through each of them, but if you have to refer

 6 from one to the other, you can do it, but try not to, if

 7 you can.

 8 I guess we're going to take a short break for

 9 the court reporter, just a couple of moments.

 10 (Off the record briefly.)

 11 MR. HARRIS: All right. We're ready to get

 12 going again. 25-6.078, Schedule of Charges, section by

 13 section, section (1).

 14 Section (2). This is a new section, I see,

 15 underlined.

 16 Subsection (3)?

 17 Subsection (4)?

 18 MR. SPOOR: This is Mike Spoor with FPL. We

 19 do have some comments, but John had to step out for one

 20 moment. I don't know if somebody else has some

 21 comments, but maybe we can start that way and work this

 22 way. Thanks.

 23 MS. CROSS: Lori Cross, Progress Energy. On

 24 subsection (4), where you start out and say,

 25 "Differences in operating and maintenance costs," when

 172

 1 you go on -- I know it's the next rule, but when you go

 2 on the next rule, 6.115, where you talk about

 3 differences in operating and maintenance costs there,

 4 you say the net present value, differences in the net

 5 present value of operating and maintenance costs. And

 6 we felt like that was a better, a more correct way to

 7 say it, and that it should be consistent. The language

 8 between the two rules should be consistent, so we would

 9 suggest that change.

 10 MR. TRAPP: Where would you put the change?

 11 MS. CROSS: It is section (4), first sentence.

 12 It starts out and says, "Differences in operating and

 13 maintenance costs, including average historical storm

 14 restoration costs." We are just suggesting that it

 15 should say, "Differences in the net present value of

 16 operating and maintenance costs." And I believe that

 17 language is consistent with the way you discuss it.

 18 MR. TRAPP: So it would read, "Differences in

 19 net present value of operating" --

 20 MS. CROSS: In the net present value of

 21 operating and maintenance costs, yes.

 22 MR. TRAPP: That term, net present value,

 23 implies a time frame; right?

 24 MS. CROSS: Yes.

 25 MR. TRAPP: Okay. I've got a historical

 173

 1 period over which I'm calculating restoration costs, and

 2 you're present valuing that period to apply to the O&M

 3 differential.

 4 MS. CROSS: (Nodding head affirmatively.)

 5 MR. TRAPP: Okay. I think I understand.

 6 MR. HARRIS: Anything else from TECO on that?

 7 No. I'm sorry. She's Progress. My mistake.

 8 All right.

 9 MR. GROSS: Larry, Michael Gross from FCTA.

 10 I'm going to inject something that's probably going to

 11 be controversial here, but --

 12 MR. HARRIS: Yea.

 13 MR. GROSS: Since this Commission is asserting

 14 jurisdiction that's impacting third-party attachers both

 15 in -- well, in this section, I guess we're talking about

 16 new installation of underground facilities in new

 17 subdivisions.

 18 There are provisions for cost recovery to the

 19 utility, but there's no provision for any cost recovery

 20 to the third-party attachers, who are also going to

 21 incur an increased expense. And we're proposing that

 22 there be some language added, and we'll try to draft up

 23 some language, that would require the applicant to also

 24 reimburse the third-party attachers for the increased

 25 cost of undergrounding their plant.

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 1 MR. TRAPP: I'm not sure I'm following that.

 2 This rule, as I understand it, has to do with brand new

 3 undeveloped subdivisions where totally new facilities

 4 are going in. What cost impact is there to third

 5 parties of the developer requesting underground service?

 6 MR. GROSS: Well, to the third-party

 7 attachers, there may be an increased cost in going

 8 underground as opposed to overhead in a new community.

 9 MR. TRAPP: But that's a developer's choice,

 10 not a utility's choice.

 11 MS. KUMMER: That would be between the cable

 12 folks and the developer. It wouldn't involve the PSC at

 13 all.

 14 MR. TRAPP: And furthermore, I don't

 15 understand what jurisdiction you think that we're

 16 asserting with respect to cost recovery clauses for the

 17 cable industry.

 18 MR. GROSS: Well, you're taking actions that

 19 impact third-party attachers and increase their costs,

 20 but there's no provision for cost recovery.

 21 MS. KUMMER: Again, it would go -- if a

 22 developer comes to you and says, "I want underground

 23 service," you would quote him a price, and he would pay

 24 it. We wouldn't be in the middle of it. It would be

 25 your contract with the developer for providing service

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 1 to his subdivision. Your cost recovery is from the

 2 developer.

 3 MR. BREMAN: Just a small point of

 4 clarification. We're making very minor changes to an

 5 existing rule, so this is not really any new policy.

 6 MR. GROSS: All right.

 7 MR. HARRIS: Michael, we welcome these

 8 comments. Propose your language, and we'll take a look

 9 at it.

 10 MR. GROSS: Well, I'll revisit this with my

 11 people. I just got some comments from them on very

 12 short notice.

 13 MR. HARRIS: Right, right. And we appreciate

 14 you bringing it up.

 15 MR. GROSS: I'll get back with them and see

 16 what the practical situation is in a new subdivision and

 17 what their actual experience is.

 18 MR. HARRIS: But we appreciate you bringing it

 19 up, and we encourage you to get with your clients and

 20 propose what you want to propose. And we will look at

 21 it. You know, that's the purpose of this workshop.

 22 MR. GROSS: I mean, it may be that what

 23 they're talking about applies more to the next section,

 24 which is the conversion from overhead to underground,

 25 because their plant is going to have to be moved.

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 1 Anyway, thank you.

 2 MR. HARRIS: Subsection --

 3 MR. BUTLER: Larry?

 4 MR. HARRIS: Yes, John.

 5 MR. BUTLER: I'm sorry. Are we on subsection

 6 (4)?

 7 MR. HARRIS: We're on -- I see that you're

 8 back, and we're on whatever subsection you need us to be

 9 on, up to and including (4).

 10 MR. BUTLER: (4) is where I had the comments.

 11 Thanks.

 12 A couple of things here on it. We are

 13 concerned about a mandatory provision for including the

 14 operating and maintenance cost differential in

 15 determining the CIAC, both here and in Rule .115, so I

 16 just raise it here since we've gotten there first.

 17 Our concern is that we don't see any

 18 meaningful way to put the comparison on equal footing

 19 without doing it over sort of a life cycle cost basis.

 20 There are differences in timing. There are some

 21 accounting differences. There are costs that are pretty

 22 similar in nature that end up being capitalized with

 23 respect to underground that are expensed with respect to

 24 the overhead facilities. You know, to get all of that

 25 to come out in the wash, the only way we can see that

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 1 that properly would be done is over a sort of total life

 2 cycle approach.

 3 But even if one can do that, what we see there

 4 as a real concern is over the need to project what those

 5 costs, or particularly the cost differential is going to

 6 be. And one good example of what we're talking about is

 7 that the company embarked some number of years ago on a

 8 program of direct burial of underground cable, and it

 9 has proven to have more O&M expenses from the accounting

 10 perspective, but operating and maintenance costs

 11 associated with them than FPL had anticipated would be

 12 the case, and I don't think FPL is unique in that

 13 situation.

 14 If we had looked at that at the time this was

 15 first starting to occur, it would have looked like there

 16 was quite a substantial offset, because the -- there was

 17 no expectation for there to be extra maintenance. The

 18 cost of installing the underground with the direct

 19 burial technique was pretty low, and it would have made

 20 it look like that the life cycle cost for underground

 21 facilities was closer to what it would be for overhead

 22 facilities than has turned out to be the case. That's

 23 use one example of what we're talking about here.

 24 But at least over a period of time, without

 25 collecting data specifically for this purpose, we're

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 1 pretty concerned that we won't get the pot right on what

 2 the overhead versus underground operating and

 3 maintenance cost differential will be, since it kind of

 4 has to be on a projected out through the life cycle

 5 basis to put them on equal footing.

 6 In contrast, we do support -- we recognize

 7 there are some uncertainties, but we all have to deal

 8 with that going forward -- that the historical storm

 9 restoration costs is something that it makes sense to

 10 take into consideration. In fact, that's basically what

 11 justifies the 25 percent adjustment factor that FPL has

 12 proposed as part of the storm security, and it's part of

 13 our .115 proposal, because you can look at some

 14 historical information usefully and gather some sense of

 15 what the appropriate differential should be for those

 16 storm restoration costs. So that's kind of one of the

 17 two main comments.

 18 The other one that we have deals with the

 19 provision for record keeping and accounting measures,

 20 and particularly the record keeping portion of this.

 21 It's a good idea, and obviously, as I was saying, one of

 22 the things that needs to happen is gathering additional

 23 information to be able to confirm what the differentials

 24 are.

 25 But we have a concern that record keeping not

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 1 be defined in a way that it is looking for kind of 100

 2 percent sample, forensic type information on system

 3 restoration, because of the fact that, one, it can end

 4 up interfering with the sort of central and primary

 5 purpose of the restoration efforts, which is to get the

 6 lights back on; and number two, if you're doing it on

 7 that broad a basis, you're necessarily having basically

 8 the crews that do the restoration work themselves

 9 collect the data. A lot of those are foreign crews, and

 10 even within FPL, what you have is a huge number of

 11 people with different senses of what they are seeing

 12 recording the data.

 13 Now, we think that a well-defined sampling

 14 program that will be conducted by people who are

 15 specifically tasked with and trained to be forensics

 16 personnel collecting data for the purpose of comparing

 17 the systems is not only going to be cheaper, it's going

 18 to be better, because it's going to give you more

 19 consistently comparable data.

 20 So I think those are really the two main

 21 things that we wanted to comment on about subsection

 22 (4).

 23 MR. TRAPP: Do you feel the wording of

 24 subsection (4) precludes you from defining sufficient

 25 record keeping, or at least defending that before the

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 1 Commission?

 2 MR. BUTLER: No. I think that if you

 3 understand that that's what we think may be the best way

 4 of doing it and we can defend that as making sense to

 5 the Commission, then you're right. It certainly doesn't

 6 preclude us in the existing wording from doing that.

 7 MR. TRAPP: So do you have any specific word

 8 changes to the new language that we've added, or is it

 9 just a matter of getting a good grasp on the

 10 interpretation we're putting on it?

 11 MR. BUTLER: On that point, on the record

 12 keeping, I think we can probably live with just a common

 13 understanding of what the words you've got mean. We do

 14 have an objection to having the mandatory requirement

 15 for taking differences in operating and maintenance

 16 costs into account, which actually would be a wording

 17 issue, because there I don't think we -- I'm not sure

 18 how we could work around what the words say, given the

 19 concern that we have.

 20 MR. TRAPP: And that's again the difference

 21 between the "may" and the "shall"?

 22 MR. BREMAN: Just to reiterate a comment that

 23 I think was said at the last workshop, I don't think

 24 staff would expect you to keep a greater detail than the

 25 number of management regions. If you have more detail

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 1 than by management region, I would be surprised. But I

 2 don't think we're looking for any greater granularity

 3 than by management region. And in some cases, I don't

 4 know that you would have it by management region. I

 5 don't know if that helps you or not.

 6 MR. BUTLER: Okay.

 7 MS. KUMMER: I would like to go back to

 8 something you talked about earlier in the first

 9 sentence. I understood you to say that you have, or you

 10 feel fairly comfortable using historical storm data to

 11 estimate storm restoration costs. Are you saying you

 12 don't have any overhead and underground O&M expenses

 13 separated that you could do on a historical basis? I

 14 know you've been installing underground for a very long

 15 time.

 16 MR. BUTLER: I don't think that we have

 17 something that we would consider appropriate. I mean,

 18 this is something, if you're looking at it, what you

 19 ought to be looking at is what would a new -- how would

 20 a new overhead system perform versus how would a new

 21 underground system perform, and what's the O&M or the

 22 operating and maintenance cost differential between

 23 those two.

 24 Yes, I think that's something where we would

 25 have to say we don't because of the fact that it needs

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 1 to be on the life cycle basis, which means you're

 2 necessarily projecting, which means you're needing to

 3 make some assumptions, some pretty heroic assumptions

 4 about how the two new systems are going to perform over

 5 their life cycles.

 6 MS. KUMMER: And you aren't comfortable using

 7 historical data to do that?

 8 MR. BUTLER: I mean, if we have to do it,

 9 that's what we'll have to do. But because the purpose

 10 of this is comparing sort of the new systems, we've got

 11 some concerns that that historical information isn't

 12 going to be very representative for its purposes.

 13 MR. SPOOR: This is Mike Spoor with FPL.

 14 Again, I guess the bottom line there, Connie, is that

 15 with the storm cost, it is historical. And as we read

 16 this, kind of the cost that would be applied in terms of

 17 how much we would have to spend to maintain either an

 18 overhead or underground system moving forward, there's

 19 certainly a lot of uncertainty there. But from a

 20 historical perspective, that's certainly, if doing it

 21 today, where we would have to start.

 22 MR. HARRIS: Are we ready to move on to

 23 section (5)?

 24 MR. WRIGHT: Larry?

 25 MR. HARRIS: Schef.

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 1 MR. WRIGHT: Just on (4), one, my clients,

 2 Palm Beach and Jupiter Island, agree that a life cycle

 3 cost is the appropriate way to look at these things.

 4 Two, regarding the average historical storm

 5 restoration costs, it would be my thought that it would

 6 be -- using historical storm restoration costs to

 7 project future storm restoration costs with escalation

 8 and then present valued back, I mean, I wonder if that's

 9 consistent with what FPL and anybody else who has

 10 thought about this is considering.

 11 I would just say, with regard -- naturally, as

 12 you know, we support the inclusion of consideration of

 13 storm restoration costs in calculating the CIAC for many

 14 of the same reasons you do. When it says including

 15 average historical storm restoration costs, I would just

 16 offer that it would be my thought that you would use

 17 average historical costs to estimate future costs with

 18 escalation and then present value them back in the

 19 computation of the CIAC. And I just posed the question,

 20 is that consistent with what others are thinking or not.

 21 You know, if you're going to factor in the possibility

 22 of a storm four years from now, using something that

 23 happened in 1992 is not going to be a -- if you just use

 24 the number, it's not going to be a good number. That's

 25 what I'm getting at.

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 1 MR. BUTLER: We were talking over here, and

 2 I'm not sure that this addresses your question directly

 3 or not, but I think the notion of storm restoration

 4 costs based on the historical data that we have is

 5 something that probably needs to be kept somewhat

 6 flexible so that you can take into account what your

 7 expectations about future storm experience, what your

 8 expectations about costs of restoration in future

 9 periods, those sorts of things into account.

 10 And the wording here may be a little bit

 11 narrower than it ought to be if it is intended to be

 12 sort of a rigid, take a certain number of years of

 13 history, total up the storm costs incurred in those

 14 years, and divide it by the number of years type of

 15 thing. We were thinking of this as more based upon

 16 historical storm experience rather than being just a

 17 mathematical exercise.

 18 MR. WRIGHT: Larry, if I could just talk to

 19 John. When you say that, you mean consider historical

 20 experience to make some projection of costs and then

 21 work that back into the calculation, conceptually

 22 anyway?

 23 MR. BUTLER: Yes.

 24 MR. WRIGHT: Okay. We're pretty close, in any

 25 event, maybe even closer than that. Thanks.

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 1 MR. HARRIS: Anything else on section (4)?

 2 Anyone else on section (5) then?

 3 MR. WRIGHT: Larry, I apologize. I have one

 4 brief comment on (5) that was actually addressed by my

 5 clients in a proposed new rule section. It says record

 6 keeping and accounting measures to identify O&M costs.

 7 And maybe this isn't the right place for this, but I'll

 8 mention it here anyway, and then I won't mention it

 9 again, and that is, we think that there ought to be

 10 record keeping to allow for comparison of reliability of

 11 overhead and underground. And I think we had addressed

 12 that in our proposed 25-6.117 or something like that,

 13 and maybe here, maybe not. We'll address it in our

 14 post-workshop next round of comments as well as we did

 15 this time.

 16 MS. KUMMER: Schef, I remember your comments,

 17 and I was thinking that might fit better in the

 18 reliability rules.

 19 MR. WRIGHT: .034?

 20 MS. KUMMER: If that's the number. I don't

 21 know, but --

 22 MR. WRIGHT: Standard of construction, that

 23 one, or --

 24 MS. KUMMER: Where they did the reliability

 25 reports.

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 1 MS. MOORE: .044.

 2 MS. KUMMER: They maintain records so they can

 3 track reliability by type of --

 4 MR. WRIGHT: Thanks. I'll --

 5 MS. KUMMER: That's where I thought it might

 6 fit better.

 7 MR. WRIGHT: Thanks for the suggestion. We'll

 8 look at it closely.

 9 MR. TRAPP: Well, not to get your hopes up or

 10 anything, but I'm not sure where we are with that

 11 particular rule. Maybe Chris can enlighten us about --

 12 we've had workshops and stuff like that on that already,

 13 and I just wondered how --

 14 MS. MOORE: A recommendation is due to be

 15 filed next week, and it's going to be on the June 6th

 16 agenda, I think.

 17 MR. TRAPP: So it's a little bit late to be

 18 introducing new concepts to that particular rulemaking.

 19 MR. WRIGHT: Well, arguably, it may with

 20 regard to that rule section, but we certainly have put

 21 that matter at issue in our previous comments.

 22 MR. TRAPP: I understand. That's why I'm

 23 saying rather than divorce it out of here --

 24 MR. WRIGHT: Okay.

 25 MR. TRAPP: I think Connie was offering that

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 1 as an alternative to including it here, but I think if

 2 you do that, we're getting in another time crunch, so it

 3 might be best to keep the subject matter in these

 4 dockets and --

 5 MS. KUMMER: But it doesn't fit very well.

 6 MR. TRAPP: I'm sorry, Connie?

 7 MS. KUMMER: It doesn't fit very well.

 8 MR. TRAPP: Well, I know it doesn't fit very

 9 well, but --

 10 MS. KUMMER: Okay. We'll look at it.

 11 MR. WRIGHT: Well, you know where we're coming

 12 from. You'll see what you see next Thursday in our

 13 comments. I'll look at .044 and maybe couch it in the

 14 alternative or something like that.

 15 MR. TRAPP: Fine. But let me just see if I

 16 understand what you're saying. In addition to just the

 17 straight rate operation and maintenance costs associated

 18 with storm-related activities, you're asking -- this

 19 goes to the reliability performance measurement type of

 20 concept --

 21 MR. WRIGHT: Yes, that's right.

 22 MR. TRAPP: -- in the rule, and then it's also

 23 a topic, I think, of discussion by the Commission in

 24 another docket which has to do with the utilities' plans

 25 on an ongoing basis, if I recall.

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 1 MR. WRIGHT: That's essentially correct, Bob.

 2 And I don't care where it gets into the rules.

 3 Naturally, I would like to see it in the rules in the

 4 best possible place for everybody's sake, and I don't

 5 care if it's in 25-6.117 or .044 or somewhere else.

 6 I'll try to find the best place for it and offer that in

 7 our comments next Thursday.

 8 MR. TRAPP: Okay. But again, in a rule

 9 context, you're introducing it as rule language here as

 10 opposed to the potential for order language in the

 11 approval of the utilities' plans coming on June 1st.

 12 You have a weight -- you know, either you feel as

 13 comfortable with order language as you do with

 14 rulemaking language, or how do we juggle the two

 15 dockets?

 16 MR. WRIGHT: I will give that close

 17 consideration as well.

 18 MR. TRAPP: Thank you.

 19 MR. WRIGHT: Thank you.

 20 MR. BUTLER: Larry, excuse me.

 21 MR. HARRIS: John.

 22 MR. BUTLER: I have -- I probably should have

 23 raised it at the beginning of .078, but this is really

 24 kind of a question to staff about the change to section

 25 (4).

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 1 Whatever you end up doing, if you do something

 2 either or both of these pieces about, you know,

 3 requiring differences in operating and maintenance and

 4 storm restoration costs to be included, the impact of

 5 that over time is going to be that utilities collect

 6 less CIAC, and rate base will end up being larger than

 7 it otherwise would be, because you've got some sort of

 8 offset to the -- a larger offset than you would now have

 9 to the CIAC, and therefore not as much that's credited

 10 against what otherwise would go into rate base. So

 11 ultimately, you've got the general body of customers who

 12 are going to have this somewhat larger rate base than

 13 they would have without this sort of mandatory

 14 provision.

 15 And in the case of the conversions, the next

 16 rule we're going to be talking about, what I think I

 17 understand is that kind of staff's motivation there is

 18 really wanting to provide some sort of mechanism to help

 19 encourage, or facilitate, or whatever you want to call

 20 it, conversions to move the system toward underground

 21 from its current overhead status.

 22 This rule is directed at customers who are

 23 almost certainly going to end up being served by

 24 underground anyway. It's new subdivisions. I think

 25 it's almost unheard of in Florida at this point for the

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 1 new subdivisions to be built with overhead service in

 2 them. And so from the standpoint of kind of bang for

 3 the buck, you know, are you getting extra underground

 4 system that you wouldn't otherwise be having in the

 5 utility's service area, this probably doesn't do very

 6 much.

 7 And I would just be interested to know what

 8 staff's views are as to why it is appropriate to be, in

 9 essence, diminishing the contributions from the

 10 developers of these subdivisions and therefore

 11 increasing the rate base that the rest of customers will

 12 end up paying for over time, in view of the fact that

 13 probably the great majority of these people would end up

 14 with underground service anyway.

 15 MR. TRAPP: John, I would like to respond to

 16 that first by saying I don't agree with any of your

 17 premise.

 18 MR. BUTLER: Okay.

 19 MR. TRAPP: I think we start off with the

 20 standard of construction rule that puts the

 21 responsibility on the utility to determine what areas

 22 should be hardened within their system. We've asked you

 23 to look at flooding issues with respect to

 24 undergrounding, which I assume will increase underground

 25 costs. We've asked you to look at hardening of wind

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 1 speed, which primarily affects overhead, which is

 2 probably going to increase some overhead costs. What

 3 the net effect of that is on underground/overhead

 4 differentials, I don't know.

 5 With respect to the underground rules

 6 themselves, they're based on the principle that the

 7 customer should pay the cost difference between overhead

 8 and underground. It's an inherent overhead standard

 9 rule. I don't think we've changed that. I think we've

 10 told you to do -- asked you to do what's prudent with

 11 respect to hardening in both underground and overhead,

 12 but I don't think we've changed any of the basic premise

 13 of overhead standard, pay for underground differential.

 14 So all the underground rules do is try to

 15 capture the true cost differential experienced by

 16 ratepayers, and that includes capital costs and O&M

 17 costs. And we're saying now that in addition to your

 18 O&M costs, we want you to factor in the effects of the

 19 standards of construction impacts on hardening to those

 20 costs that are borne by ratepayers. I don't know if

 21 they're going up. I don't know if they're going down.

 22 It's a matter of equity.

 23 So again, I don't agree with your premise.

 24 That was the intent from our perspective, was to capture

 25 all the direct costs, all the costs that are borne by

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 1 ratepayers in the cost differentials for both new

 2 facilities and extension facilities.

 3 MR. BUTLER: It sounds like we're talking

 4 about different sections. What I took most of your

 5 comments to be going to is subsection (2), where you

 6 would be looking at this estimated average cost

 7 differential and the impact on that of the requirements

 8 from .034. And I agree. It could end up going up or

 9 down, depending on the area and what the impacts on the

 10 cost of construction for overhead and underground. My

 11 comment was really directed at subsection (4), where

 12 you've changed it from permissive, you know, may include

 13 the cost differentials for O&M to shall include those,

 14 and --

 15 MR. TRAPP: My comments addressed (4).

 16 MR. BUTLER: I'm sorry?

 17 MR. TRAPP: My comments addressed (2) and (4).

 18 I believe both sections impact the cost differential

 19 between overhead and underground, given the new regime

 20 of a little more attention to hardening of both the

 21 underground and overhead facilities.

 22 You know, I believe staff is saying by using

 23 the word "shall" in section (4) that there are

 24 differences in cost that are affecting O&M costs, and

 25 storm restoration cost impacts on overhead and

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 1 underground facilities, and we want the utilities to

 2 capture those cost differentials. That's not a new

 3 message. That is a message we've been trying to state

 4 for years. The utilities have not been able to come up

 5 with any cost differential data. I'm not aware of what

 6 level of attempt there has been.

 7 My interest in the word "shall" is that it

 8 puts a little more fire under the pot to ensure that

 9 these cost differentials are appropriately studied by

 10 the industry. My personal opinion is there has been not

 11 enough attention to it by the industry. It's easy

 12 enough to collect a CIAC cost differential without doing

 13 the extra homework to understand what the impact is on

 14 the State of Florida of overhead and undergrounding.

 15 And we're charged in this docket to determine whether

 16 it's preferential in some instances or all instances to

 17 install facilities underground. I challenge you to come

 18 up with the data, and I use the word "shall." That's my

 19 position.

 20 MR. BREMAN: Mr. Butler, too, you mentioned

 21 that the staff was setting up a program that would cause

 22 a general increase in rate base over time. It gives the

 23 impression that FPL already has the analysis and knows

 24 the results, but I haven't seen them filed in this

 25 docket. That's point number one. And point number two,

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 1 I think FPL's 25 percent investment program does

 2 definitely increase base rates, or rate base at a

 3 minimum.

 4 MR. BUTLER: Well, you're right, Jim. It

 5 would have that effect. And that's a pretty good point

 6 of comparison, because that's frankly why we were

 7 bringing it up with respect to here. See, our view is

 8 that conversion is where there is the opportunity to

 9 have the impact, and it's where we wanted to target the

 10 program. What we see is different here. This isn't

 11 about conversions. This is about new subdivisions.

 12 And our view is -- and obviously, from what

 13 Bob is saying, it's not staff's, but our view is that

 14 this is -- at least part of what motivates these changes

 15 should be a question of providing incentives, you know,

 16 facilitating an increase in the percentage of

 17 underground service in a utility's service territory.

 18 We see giving incentives, creating opportunities in .115

 19 as having a lot of opportunity to do that. We don't see

 20 there being much impact through .078, just because it

 21 really is kind of directed at the stuff that -- you

 22 know, where the undergrounding is going to happen

 23 anyway.

 24 MR. TRAPP: Show me the numbers.

 25 MR. BUTLER: Okay.

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 1 MR. HARRIS: That was section (5)?

 2 MR. TRAPP: That was (4).

 3 MR. HARRIS: I was being a little hopeful. Do

 4 we have anything else on (4) then?

 5 Then if we're done with (4), anything for (5)?

 6 (6)?

 7 MS. CROSS: This is Lori Cross, Progress

 8 Energy. We have a question on (6). We know that the

 9 language here didn't change, but we just don't

 10 understand why there's no CIAC charge for undergrounding

 11 for multiple occupancy buildings. Could you -- could

 12 someone help us understand that?

 13 MR. TRAPP: Probably not, but -- this one

 14 dates back to the '70s, '78 maybe, at the latest. And

 15 my recollection, having to admit to being around then,

 16 is that the economies were such that the density -- I

 17 mean, there was no cost differential at that time.

 18 Maybe that needs to be revisited if cost relationships

 19 have changed.

 20 So again, if you have evidence to the

 21 contrary, show it to us, and we may need to modify the

 22 rule. But we didn't change it because we were not aware

 23 of any change in circumstances with respect to the

 24 densities associated with the -- excuse me, the

 25 economies associated with the densities of high, multi-

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 1 type stuff.

 2 MS. CROSS: Okay. We'll take a --

 3 MR. TRAPP: That's my recollection, at least,

 4 now. Probably --

 5 MS. CROSS: We'll take a look at it. Thank

 6 you.

 7 MR. TRAPP: Probably call Joe Jenkins.

 8 MS. CROSS: I'm sorry. What?

 9 MR. TRAPP: Call Joe Jenkins. He remembers

 10 probably better than I do.

 11 MS. CROSS: Okay. Thank you.

 12 MR. BREMAN: You've got about two and a half

 13 weeks. He's leaving.

 14 MR. HARRIS: (7), section (7)?

 15 Section (8)?

 16 Section (9)?

 17 And section (10). There is one addition. I

 18 think there are two additions in section (10).

 19 All right. Are there any comments for

 20 25-6.078 then before we move on to .115?

 21 All right. We've move on to the next rule,

 22 25-6.115. We'll start with section (1).

 23 Section (2)?

 24 Section (3).

 25 MR. WRIGHT: Larry, this is Schef. I just

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 1 have a question as to your thoughts about question (3).

 2 It seems -- section (3), not question (3). Sorry.

 3 Particularly with regard to (c), it seems that it has to

 4 contemplate a life cycle cost type of consideration of

 5 all differences in all costs as they will ultimately be

 6 borne by ratepayers.

 7 My sense is that that is consistent with what

 8 Bob was saying a few minutes ago. I would just ask if

 9 that's the case.

 10 MR. TRAPP: Section (3)?

 11 MR. WRIGHT: (3)(c), Bob.

 12 MR. TRAPP: "Such agreement is not expected to

 13 cause the general body of ratepayers to incur costs in

 14 excess of the costs the utility would incur for the

 15 installation." Your question was, that's calculated

 16 over a life cycle basis? And I guess my response is I

 17 don't know. It may be.

 18 MS. KUMMER: That change was my attempt to

 19 address -- someone pointed to the word "greater." The

 20 current rule says to incur greater costs. Somebody

 21 said, "What do you mean by greater?" And I was trying

 22 to clarify that. I'm not -- quite honestly, the idea of

 23 life cycle or nonlife cycle didn't enter into my through

 24 process at the time. I'm not saying it shouldn't, but

 25 I –

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 1 MR. WRIGHT: Okay. I'm mixing concepts.

 2 MR. TRAPP: Whatever it means now it means

 3 after the change; is that right?

 4 MR. BREMAN: Schef, this is Jim Breman. This

 5 paragraph is talking about the agreement between the

 6 utility and the customer, and it's not intended to bind

 7 these two to a particular methodology or tool. It says

 8 whatever you all agreed to is fine and dandy as long as

 9 you all can show or the utility can show that it doesn't

 10 cause excess costs to be incurred by the general body of

 11 ratepayers. So it allows you guys to negotiate it. It

 12 allows the applicant to negotiate with the utility.

 13 It's not prescriptive.

 14 MR. WRIGHT: I understand that. But it seems

 15 to me that it implicates whatever credit we are going to

 16 get back, which would have to be, I think, calculated

 17 consistent with the CIAC provisions. If we do the work,

 18 we're still supposed to get a credit based on the cost

 19 of the overhead facilities.

 20 MR. TRAPP: I don't know what degree, though,

 21 that you're trying to introduce the concept of

 22 externalities to this, because --

 23 MR. WRIGHT: At this point, Bob, I am not.

 24 MR. TRAPP: Okay.

 25 MR. WRIGHT: That's a separate issue that I

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 1 will address elsewhere, but not here.

 2 MR. TRAPP: But therein to me lies the real

 3 complication. I mean --

 4 MS. KUMMER: Schef, I remember your comments,

 5 and I was a little puzzled, because there's -- in my

 6 mind, and the utilities can correct me if I'm wrong, the

 7 credits that a customer is allowed for doing their own

 8 work is credit against the total bill. It is not a

 9 payment in money to the customer, and that's what the

 10 language seemed to imply.

 11 MR. WRIGHT: Oh, well, if we do the work, it

 12 is a payment to us. We pay the contractor, and FPL

 13 gives us -- in the case of my two clients, both of whom

 14 are served by FPL, if we hire Mastech or Asplundh or

 15 somebody else, Pike, to do the work, we pay them.

 16 MR. TRAPP: But you take a credit associated

 17 with --

 18 MR. WRIGHT: And then we a credit back from

 19 FPL based on the cost of overhead.

 20 MR. TRAPP: Based on their cost, though, is my

 21 understanding of how that works.

 22 MR. WRIGHT: That's correct.

 23 MR. TRAPP: And if that's correct, I really

 24 don't think I have a problem with this concept. It's

 25 only if we're trying to introduce externality economics

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 1 into this equation that I think the section becomes more

 2 complicated.

 3 MR. WRIGHT: In this section, in this

 4 calculation, I am not trying to introduce that. I just

 5 want to make sure we get full credit for the same O&M

 6 costs that would -- the same O&M differential costs and

 7 storm restoration costs that would otherwise be factored

 8 in.

 9 MR. TRAPP: Based on the costs that the

 10 company would experience and normally pass on to

 11 their --

 12 MR. WRIGHT: Exactly.

 13 MR. TRAPP: Well, actually, they wouldn't pass

 14 them on to their ratepayers, because they're collected

 15 through a CIAC from you.

 16 MR. WRIGHT: Well, what I'm saying is we

 17 should get a credit that incorporates future avoided O&M

 18 costs and future avoided storm restoration costs, and I

 19 just want to make sure that we're on board with that.

 20 MS. KUMMER: I don't think that's what this

 21 section --

 22 MR. TRAPP: I'm not sure I'm there. I've got

 23 to see the math of that. There again lies, I believe,

 24 the entry point into the discussion about externalities

 25 as it pertains to what I thought was a simple equation.

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 1 You can either have the company do the undergrounding,

 2 or you can have the applicant do the undergrounding, in

 3 which case the company wouldn't basically charge the

 4 applicant for the undergrounding because they've paid

 5 for it anyway.

 6 MS. KUMMER: That was my thought, that that's

 7 the way it would work.

 8 MR. TRAPP: And that's just straight cost --

 9 MR. WRIGHT: That's all true, but I believe

 10 we're still supposed to get a credit based on the cost

 11 the utility avoids. They don't build the overhead. We

 12 get a credit for the otherwise applicable equivalent

 13 overhead. And what I'm saying is I think we should also

 14 get a credit for O&M costs if we believe -- and at least

 15 FPL and we appear to agree that storm restoration costs

 16 are likely to be significantly less.

 17 MR. TRAPP: I don't think that plays in here.

 18 MS. KUMMER: Can some of you folks out there

 19 help us on how it works? You give a customer an

 20 estimate for an underground facility, and he says,

 21 "Well, okay. You want a million dollars to do this. I

 22 can hire somebody else to do it for 500,000." You

 23 credit -- how do you handle that? You pay him a credit

 24 for --

 25 MR. WRIGHT: Yes, and the overhead in your

 202

 1 example costs 200,000, Connie.

 2 MS. KUMMER: But the overhead has already been

 3 calculated, and it's already in the formula. It has

 4 already been taken out, is my understanding. Once you

 5 get a net -- am I making sense to anybody? You're all

 6 looking at me very blankly.

 7 MR. BREMAN: I don't know. Maybe the

 8 discussion on paragraph (c) should be suspended until we

 9 get to page 18, where we start talking about the actual

 10 costs to be included in the charges, and then we can

 11 come back and do a wrap-up on what the agreement is to

 12 include, because I think your discussion, Schef, is more

 13 pointed on what's to be included in the calculations,

 14 and paragraph (c) says after all these things are

 15 considered, whatever agreement the applicant and the

 16 utility strike is not going to harm the rest of the

 17 ratepayers.

 18 MS. KUMMER: My question was much simpler, and

 19 maybe you can throw it into your comments if you have

 20 time. If, again, you give the customer an estimate for

 21 some portion of the work, and they say, "No, we're going

 22 to do it ourselves," how is that handled? What does

 23 that do to the estimate? What does that do to what you

 24 charge them? How does the math work on that?

 25 MR. WRIGHT: Connie, there are two things.

 203

 1 There's the cost of the underground job, the cost of the

 2 overhead job, and the CIAC.

 3 MS. KUMMER: Which is the difference between

 4 the two.

 5 MR. WRIGHT: Yes. FPL will tell us the cost

 6 of the underground job and the cost of the overhead job,

 7 and we can obviously calculate the CIAC from that.

 8 MS. KUMMER: Right.

 9 MR. WRIGHT: Okay. But the question is, back

 10 to your example, is the million dollars the CIAC or is

 11 the million dollars the cost of the underground job?

 12 MS. KUMMER: That would be the CIAC.

 13 MR. WRIGHT: Okay. Well, see, I was viewing

 14 it as the cost of the underground job, but the same

 15 analysis applies ultimately. But we'll talk about it

 16 when we get to subsection (11).

 17 MS. KUMMER: I'll take Jim's suggestion and

 18 shut up and let you go to the other parts.

 19 MR. HARRIS: We were talking about paragraph

 20 (3). With the understanding we're going to move on in

 21 this discussion, anything else in paragraph (3)?

 22 Paragraph (4)?

 23 Paragraph (5)?

 24 (6)?

 25 (7)?

 204

 1 (8)?

 2 On to page 18, subsection (9).

 3 Subsection (10)?

 4 Subsection (11).

 5 MR. BUTLER: On (11)(a), let me just start

 6 with that. And I'll not talk at length about this,

 7 because it's really something we talked about with

 8 respect to the Boca Winds development at the beginning

 9 of the morning.

 10 We have -- FPL has a concern about making the

 11 differentials that are described in here, operating and

 12 maintenance costs, average historical storm restoration

 13 costs, available generally to conversions because of

 14 what we see as a very large differential in the impact

 15 on the operating and maintenance costs and on the storm

 16 restoration costs, depending on whether you're talking

 17 about a sort of individual or small number of customers

 18 who are converting in an area that remains substantially

 19 served by overhead or talking about some sort of large

 20 contiguous area where you no longer are having to go in

 21 there and do overhead restoration work after a storm, or

 22 for that matter, overhead maintenance work prior to the

 23 storm.

 24 And we think it's very important that this

 25 differential, if we're going to be using one at least,

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 1 or a differential, that it be calculated based on the

 2 assumption of a large contiguous area so that it will be

 3 substantial, and then that it be available only to those

 4 sorts of areas so that (1) you're getting a differential

 5 that's big enough to make a difference in the customer's

 6 CIAC costs, and then (2), on the other hand, that you

 7 don't have customers who really don't deserve that

 8 differential because they're one-off conversions that

 9 don't generate the savings benefiting from that

 10 calculated differential.

 11 So the approach we had taken, which we

 12 continue to recommend, is this idea of limiting whatever

 13 credit, however it is calculated, to the

 14 government-sponsored projects that would be fitting into

 15 this pattern of being the substantial contiguous area

 16 and not making this available, as is essentially

 17 implicit in (11)(a), to all customers who convert, no

 18 matter what their circumstances are.

 19 MR. TRAPP: I have the -- I guess I could make

 20 the same argument for your 25 percent reduction plan.

 21 It seems to me to be discriminatory, maybe not unduly

 22 discriminatory, because you've tied it to financing

 23 concerns, as I understand it. You've got to have a

 24 governmental entity to deal with, because you're surely

 25 going to pay for the project. But I don't see any

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 1 science behind the 25 percent. I do see some glimmer of

 2 the opportunity for science between these differentials.

 3 I do share with you, though, the scale

 4 problem. Do you get the same reliability and storm

 5 avoidance -- cost avoidance benefit from, you know,

 6 converting two blocks to underground as opposed to

 7 converting a whole neighborhood, county, region? I

 8 think staff is struggling with that also.

 9 Personally, I would defer more to the science

 10 of calculating the differentials, because we've worked

 11 with it longer and have more experience with it, and

 12 it's just an arbitrary 25 percent reduction to certain

 13 amounts of customers that's going to come back and be

 14 paid for by everybody in their rates anyway.

 15 MR. BUTLER: Of course, keep in mind, in our

 16 current proposal, we don't have the 25 percent.

 17 MR. TRAPP: That's correct.

 18 MR. BUTLER: The current proposal is to have a

 19 provision that would have utilities file tariffs that

 20 define both the applicability terms for the local

 21 governments as well as what the percentage factor would

 22 be.

 23 MR. TRAPP: I thought you had a tariff filed

 24 with us now that was under suspension that had a 25

 25 percent reduction in it.

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 1 MR. BUTLER: Well, we think that that is about

 2 right, and it is based on an evaluation of the storm

 3 restoration cost differential in those sorts of areas.

 4 You know, that's likely what we would ask you to

 5 consider as the tariffed amount. We would expect you to

 6 ask us to provide justification. If there was a

 7 different percentage that seemed appropriate, we might

 8 end up settling on something different.

 9 But I don't disagree with you, Bob, about the

 10 fact that it ought to be tied to some sort of measured

 11 differential.

 12 MR. TRAPP: But your argument started with a

 13 concern about scale, and I don't have see any difference

 14 in concerns about scale with respect to a 25 percent

 15 reduction to governments where governments can be

 16 defined by, you know, 10-customer pilot projects versus

 17 600 versus 6,000, communities. I don't see any

 18 difference with respect to the arguments involving

 19 scale.

 20 What I really need to know from the industry

 21 is what are the targeted areas where such incentives

 22 should be put in place. Are they coastal areas subject

 23 to flooding? Are they interior areas subject to wind

 24 damage, none of the above, all of the above? And that's

 25 pretty much the impetus for our movement in the

 208

 1 construction standard rule to putting the responsibility

 2 on the utility to identify those areas.

 3 MR. BUTLER: In our proposal as it currently

 4 stands, you know, one of the things that we would be

 5 bringing into the tariff evaluation is the issue of

 6 applicability. I mean, it's got to be a government.

 7 The reason for the government -- you're right,

 8 the government-sponsored doesn't necessarily imply a

 9 particular scale. In fact, I think you would find that

 10 the great majority of the projects would be for

 11 neighborhood size, contiguous areas that would at least

 12 meet the minimum threshold for the scale. But if they

 13 didn't, that might be something in an applicability

 14 requirement that would disqualify something that's

 15 otherwise government-sponsored from qualifying for the

 16 government assistance or adjustment factor.

 17 But the real reason for the government goes

 18 back to the issue of being in a position -- it's sort of

 19 an enforcement issue here. They can assemble the

 20 coalition kind of by fiat that will be the area which

 21 will be undergrounded in a way that generally a

 22 neighborhood without the resources of the government and

 23 the enforcement powers of the government can't do. We

 24 don't rule that out.

 25 What we wanted to do was to get started with

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 1 the government-sponsored projects, because that is the

 2 most obvious mechanism of making it happen. But, you

 3 know, if Boca Winds or whoever has something that will

 4 truly work that is an enforceable mechanism to be sure

 5 everybody is doing it and everybody is paying for it,

 6 then, you know, I think that's something that this could

 7 move to in time.

 8 But really, the key two elements are scale,

 9 and then a way to implement effectively and sort of

 10 uniformly the undergrounding within that contiguous area

 11 that has been identified, and that's where the

 12 government comes in.

 13 MR. TRAPP: And by doing that, by adopting

 14 that policy, you will answer the question of do we

 15 really get any benefit from this? I mean, the arguments

 16 that you made with respect to, "Why make us change out

 17 every pole to the high wind standards? It's not going

 18 to accomplish anything, just increase costs," it seems

 19 to me the same arguments would apply with respect to

 20 undergrounding. Where have you shown us that

 21 undergrounding is a preferred means of construction?

 22 MR. BUTLER: That would be the justification

 23 for the adjustment factor that would be approved in the

 24 tariff. We would expect you to require us, and we would

 25 expect to provide a differential, a cost differential

 210

 1 basis to justify what's going to end up being done.

 2 And rather than -- we started in our first

 3 proposal at 25 percent. We sort of realize that that's

 4 something that there's probably enough variation among

 5 different utilities as to that, and perhaps as to how

 6 they would want to define applicability in their areas,

 7 that it made more sense to be something that was

 8 tariffed rather than trying to specify one size fits all

 9 in the rule, and that's why our proposal reads the way

 10 that it does now.

 11 The big concern on the other side is that we

 12 think that your rule as it currently is proposed has

 13 sort of one size fits all in the other direction. It's

 14 everybody qualifies. You give the same thing to the

 15 individual conversion to accommodate a swimming pool in

 16 somebody's back yard as you do to a community that's

 17 going en masse from overhead to underground, and that

 18 doesn't seem like it's a good use of resources.

 19 MS. KUMMER: I've got two points that I would

 20 like to make on what you just said. The calculation

 21 supporting the 25 percent you said would include a

 22 number of things. Would that also include the

 23 rationale, the justification or identification,

 24 quantification of the benefits to the general body of

 25 ratepayers for that 25 percent that you're passing on to

 211

 1 them?

 2 MR. BUTLER: Yes.

 3 MS. KUMMER: Okay. And in terms of the scale,

 4 I guess is what you're tossing back and forth, the guy

 5 with the swimming pool versus the entire community,

 6 isn't that implicitly taken into account in (a), because

 7 if there's no operational or maintenance benefits, those

 8 numbers are zero?

 9 MR. BUTLER: But what -- I mean, that is a way

 10 you could interpret your rule, but the problem is that

 11 then it becomes this infinitely sliding scale of, I

 12 think, a real administrative burden. And our sense is

 13 that, first of all, when you really get down to the

 14 individual or very small number of conversions, the

 15 savings are pretty close to nothing.

 16 MR. BREMAN: Right.

 17 MR. BUTLER: So at that level, you're just not

 18 talking about having anything that applies. And then if

 19 you have to -- each time you look at a customer and

 20 calculate their CIAC, you have to separately figure out

 21 where that customer falls, or that group of customers,

 22 within a sort of pattern of how much savings is going to

 23 be generated, I think there's a real administrative

 24 burden and kind of an opportunity for disputes and just

 25 a slowdown of the process.

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 1 What we were trying to do was to focus on what

 2 clearly does give benefits or most clearly gives

 3 benefits, and to do that first, and to our minds, that's

 4 the large contiguous areas. I mean, you could do it the

 5 way you're talking about, but I think that if you did

 6 that, it would be something that would require a whole

 7 additional layer of decision-making on developing that

 8 scale.

 9 MR. TRAPP: How do you know that that single

 10 pole that that single customer converted to an

 11 underground installation is not the pole that takes out

 12 the community?

 13 MR. BUTLER: You can't know that. That's not

 14 what I'm trying to say, Bob. Obviously, you can't know

 15 about a particular pole. But what you really get is the

 16 situation that if the community of which that one

 17 customer is a part still has a lot of overhead

 18 facilities in it, then that area has to be maintained,

 19 and then after a storm, restored essentially as an

 20 overhead served area. And below a certain threshold,

 21 you don't really reduce the amount of -- you know, the

 22 number of trips by trucks and the amount of work that

 23 ends up being done for overhead restoration in those

 24 areas.

 25 MR. BREMAN: What is -- excuse me. This is

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 1 Jim Breman. What is that threshold? Is it 1,000 feet,

 2 99 feet, 55 feet? I would like each utility to answer

 3 that question. What is the minimum threshold that you

 4 have to have in order to have any kind of cost

 5 differential between overhead and underground O&M and

 6 storm restoration costs? I would like to move this

 7 discussion off the theoretical and start putting some

 8 analysis on it. Is that possible?

 9 MR. BUTLER: We can talk to it generally. I

 10 mean, we're not going to be able to give you a number,

 11 but -- Tom, do you want to speak to it?

 12 MR. BREMAN: If we have to do this thing on a

 13 1,000-foot increment or whatever, I mean, engineers can

 14 come up with numbers and methods of allocating costs. I

 15 think if we really try to get this thing down, we can.

 16 I really would like to see some sort of quantification.

 17 And I apologize to the rest of the panel here, but I

 18 sort of need to have some numbers to work from so I

 19 don't spend so much time talking about theory.

 20 MR. KOCH: This is Tom Koch from FPL, K-o-c-h.

 21 And, yeah, I mean, we're in the process of working on

 22 that right at the moment, and there's probably going to

 23 be differentials. There is not going to be -- you know,

 24 is there going to be a bright line for that type of

 25 thing? I would say probably not. There's not going to

 214

 1 be a bright line, but there's going to be a point where

 2 it's kind of clearly on one side, clearly on the other.

 3 And there's no way -- we're certainly getting

 4 no savings from having a couple of customers here, a

 5 couple of customers there. You're still going to have

 6 to roll vehicles in storm restoration mode. That's just

 7 absolutely going to happen.

 8 Is it going to be something where it's, you

 9 know, thousands and thousands of customers? No, it's

 10 not going to be that large either. And so we're working

 11 on honing the information right now.

 12 MR. BREMAN: And chances are the first time

 13 through, we won't have it perfect.

 14 MR. KOCH: That's correct.

 15 MR. TRAPP: I would just like to add that one

 16 of the advantages of averages is that you make -- you

 17 have the potential to make less people mad, or at least

 18 a little less mad. And I'm having a real struggle with

 19 the selective approach to providing discounts. I mean,

 20 let's face it, this is America. Everybody wants a

 21 discount. You know, when I go to Wal-Mart, I look for a

 22 discount.

 23 So I just don't know how you're going to keep

 24 the floodgates shut to, you know, the selective discount

 25 approach. However, if we can define within some range

 215

 1 of error a definitive valuation technique that can be

 2 applied on an individual customer basis, that to me

 3 would be more ideal.

 4 MR. KOCH: This is Tom Koch again. Let me

 5 speak to that maybe a little more concretely, because I

 6 might have been misinterpreted. You know, we're going

 7 to decide what that threshold is. I think that's going

 8 to be probably decided jointly. You're going to look at

 9 that. You're going to look at our analysis, and you're

 10 going to say, "This makes sense." Okay? So there is

 11 going to be a determination of what that is. You know,

 12 there's going to be part art and part science to it, is

 13 what it's going to involve.

 14 But I think -- let's take a practical look at

 15 this thing. You know, the folks that we're dealing with

 16 and who are looking to us to help them with

 17 undergrounding situations are customers like Mr. Wright

 18 represents. They aren't customers necessarily that are

 19 one-off type of things. What we don't want is an

 20 unintended consequence where we generate a bunch of

 21 other activity which kind of dilutes stuff, where we can

 22 clearly see a restoration, a storm restoration benefit

 23 from some, that it might be questionable, shall we say,

 24 and then we're left to -- it makes it very difficult for

 25 the utility to manage that activity as we go forward.

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 1 So I think that's what basically we're going to be

 2 looking at.

 3 And it is true also, and one of the reasons

 4 that there is the modification in what we filed back on

 5 the 3rd is that, you know, there are differences --

 6 recognizing there are differences between the utilities

 7 in terms of what they should expect as far as storm

 8 incidents, what they should expect as far as storm

 9 severity, the amount of customers affected, et cetera,

 10 et cetera, and what the individual companies'

 11 experiences have been. And there's going to be

 12 differences in assumptions that each company is going to

 13 apply as well.

 14 So that's the reason why we think it's the

 15 preferred method to go through the tariff thing. You

 16 have the rule kind of setting up the umbrella for it,

 17 and then basically you file tariffs that support that

 18 which are going to be basically individually company

 19 based.

 20 MR. TRAPP: But you seem to stand alone on

 21 this, and I would like input from the other parts of the

 22 industry, particularly Gulf Power, who probably had more

 23 experience than most with the hurricane effect on

 24 underground facilities. How do you all feel about what

 25 staff is proposing? Have we missed the mark? Do you

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 1 have a better mark for us to shoot for? Would you

 2 rather go with Power & Light's mark?

 3 MS. PINKERTON: My name is Sharon Pinkerton,

 4 S-h-a-r-o-n, P-i-n-k-e-r-t-o-n.

 5 And Gulf Power has previously communicated to

 6 you all that we believe in the customer's choice. If

 7 they decide to go underground, we try to educate them on

 8 the pros and cons of going underground, whether it's

 9 inland or on the coast.

 10 Specifically, the restoration costs along the

 11 coast would be substantially more, and that has been

 12 proven in Ivan, and even off our system in Katrina in

 13 Mississippi.

 14 So we're more along the lines of just allowing

 15 the customer to choose, and if they're willing to bear

 16 the differential, we work with them and go underground

 17 if they so choose to pay the differential.

 18 MR. TRAPP: So you see no inherent advantage

 19 underground to overhead in any instance?

 20 MS. PINKERTON: Well, I've seen underground

 21 survive on the coast, I've seen overhead survive on the

 22 coast, and I've seen both destroyed on the coast.

 23 MR. TRAPP: And with respect to restoration?

 24 MS. PINKERTON: Restoration depends on the

 25 availability of the underground materials. And

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 1 predominantly, the industry is an overhead industry, so

 2 the material -- gathering material such as your cable

 3 and your pad-mount switch gears probably would take

 4 longer, in our experience. I don't know FP&L's

 5 experience, but in our experience.

 6 We are currently converting Pensacola Beach to

 7 underground because that was the customer's choice.

 8 It's a substantial cost to them. We are taking some

 9 proactive measures, such as concrete duct banks, such as

 10 flush mount equipment. We don't know if that will

 11 survive the next storm, and that's what we're calling

 12 our pilot program.

 13 MS. KUMMER: And just to be clear, once the

 14 customer pays the initial CIAC for the undergrounding,

 15 they pay no additional restoration costs or anything

 16 else; correct?

 17 MS. PINKERTON: I will need to defer that.

 18 MR. STONE: I believe the arrangement we have

 19 with Pensacola Beach in their underground is that if it

 20 were to be destroyed, it would be the utility's option

 21 to rebuild overhead.

 22 MS. KUMMER: And again, if they wanted it

 23 underground, they would pay another differential?

 24 MR. STONE: That is -- I'm going on sketchy

 25 recollection of what that agreement was, but it was an

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 1 individually tailored agreement.

 2 MS. KUMMER: But in general, do you have a

 3 feel for --

 4 MR. STONE: Well, again, as Ms. Pinkerton

 5 referred to, that is a pilot program, so it would be

 6 hard for me to generalize beyond that pilot program at

 7 this point. And as we indicated, that's one that's

 8 under way as we speak.

 9 MS. KUMMER: Okay. Thank you.

 10 MR. HARRIS: I must admit to being a little

 11 confused by this entire discussion. But I guess my

 12 question is, not being an engineer, are we making

 13 progress with section (11) and getting us on toward

 14 section (12), or are we talking about things that sort

 15 of are important, but maybe aren't getting us to where I

 16 think we need to be, which is the staff receiving

 17 workshop comments so that we can get a rule out, a rule

 18 proposal to the Commissioners filed in a few weeks? And

 19 if we are, then let's keep on talking about it. If

 20 we're not, then let's try to sort of focus on subsection

 21 (11) and subsection (12) so we can sort of get this

 22 wrapped up and start working on the recommendation we're

 23 going to bring to the Commissioners. That would be just

 24 my suggestion, and I might be off base here.

 25 Not hearing anybody, are there specific

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 1 comments on subsection (11) that you all want to make at

 2 this point that we want to take time to listen to?

 3 MR. WRIGHT: Larry, I have just two questions.

 4 MR. HARRIS: Schef.

 5 MR. WRIGHT: Am I correct to interpret (a) --

 6 where it says the net present value of operating and

 7 maintenance costs and the average historical storm

 8 restoration costs, would that be the net present value

 9 of O&M cost differentials and the net present value of

 10 projected future storm restoration costs, or left to

 11 further flesh out, or what? That's question number one.

 12 MR. TRAPP: I'm an engineer, and I believe in

 13 present value, but --

 14 MR. WRIGHT: That's good enough for me, Bob.

 15 MR. TRAPP: I think that's a reasonable

 16 interpretation, Schef, unless we -- I mean, you know,

 17 there's always an opportunity for somebody to make a

 18 better argument.

 19 MR. WRIGHT: Sure. And my other question is,

 20 in (b), where you all say all costs, including overhead

 21 assignments, was that attempting to address our

 22 comments?

 23 (Simultaneous affirmative responses.)

 24 MR. WRIGHT: Thank you.

 25 MR. HARRIS: Anything else on subsection (11)?

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 1 Okay. Subsection (12) then, we'll move on

 2 there. Any comments on staff's proposed rule language

 3 for subsection (12)?

 4 Last would be subsection (13). Any comments

 5 on subsection (13?

 6 Okay. Are there any final comments from

 7 anybody on Rule 25-6.115, with the understanding that

 8 I'm asking this question to help us develop a rule, a

 9 recommendation that we can propose to the Commissioners?

 10 By "us" I mean staff.

 11 Okay, as Mr. Trapp mentioned a couple of

 12 times, we feel like we're on a time line here, and we're

 13 making our pain felt to you, and the way we're doing

 14 that is -- I understand that in general, we give a fair

 15 amount of time for workshop comments. Staff wants to go

 16 to a June 20th agenda conference, which means we have to

 17 have a recommendation filed by June 8th. In order to do

 18 that, we have to get comments from you all.

 19 The date we're proposing and we would like you

 20 all to commit to is May 25th to get your proposed

 21 workshop comments. And that does not give us a lot of

 22 time to go through them and try to make whatever changes

 23 and then get a recommendation written.

 24 So I understand that that's not a lot of time

 25 for you all, but I hope you see that it's not a lot of

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 1 time for us to take and digest them and try to get a

 2 recommendation written on this issue that will assist

 3 the Commissioners in making their decision whether to

 4 propose rule amendments or not. And so unless someone

 5 tells me that they can't have comments in by the 25th,

 6 that's what I'm going to ask from you all.

 7 MR. BUTLER: Is there any chance of doing that

 8 on the 26th, Friday of next week instead of Thursday,

 9 just to give us the full week?

 10 MR. TRAPP: Do you have a calendar?

 11 MR. HARRIS: I don't have a calendar, Bob.

 12 MR. WRIGHT: Second.

 13 MR. TRAPP: I thought that was a Friday.

 14 MR. HARRIS: Just one day later. I mean, do

 15 we have a --

 16 MR. TRAPP: Is that a Friday?

 17 MR. HARRIS: Yes, the 26th is a Friday.

 18 MR. TRAPP: Well, you know, we won't see it.

 19 MR. HARRIS: We're going to meet on the 26th,

 20 so it can come in so that staff can take it home and

 21 look at it over the weekend. I think we can do that

 22 probably, because I know, speaking for one staff member,

 23 this is going to be good reading for me over the

 24 Memorial Day weekend.

 25 MR. BUTLER: Okay.

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 1 MR. HARRIS: Perfect. We are having this

 2 transcribed. The transcript will be posted as soon as

 3 it can be, for those of you who will look it up. You

 4 all will get the comments in the way we did last time.

 5 I think there was some question about also

 6 financial information. Bob, do you want to address that

 7 a little bit more? We have the same date, and we can

 8 move that to noon on Friday also, noon on the 26th.

 9 MR. TRAPP: I hope you've had some time since

 10 the submission of the last workshop comments to think

 11 more about the cost impact of some of the proposals.

 12 And given that we've really only talked about two basic

 13 proposals, kind of a mandatory approach and then a more

 14 discretionary approach, I think you all started down the

 15 right path. If you could perhaps devote a little more

 16 attention to the cost impacts so that we can see if

 17 there truly is a difference between the two approaches,

 18 that would be helpful.

 19 Again, I'm sorry for the short turnaround, but

 20 June 8th is the filing date for staff. That means we've

 21 got internal drafts and all that kind of stuff that have

 22 to be approved even before me.

 23 MR. HARRIS: And the SERC is only good as the

 24 data we get, and so in order to give the Commissioners

 25 the fullest view of the impact of the amendments that we

 224

 1 are going to recommend yo them, we really are asking you

 2 all for good data.

 3 Is there anything else anyone wants to bring

 4 up at this workshop before we go ahead and close it?

 5 Okay. Hearing nothing, we're going to go

 6 ahead and adjourn. Thank you all for your attention

 7 today, and thank you all for your time. I know it went

 8 longer than we had all hoped. Have a good day.

 9 (Proceedings concluded at 4:02 p.m.)

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 1 CERTIFICATE OF REPORTER

 2

 3 STATE OF FLORIDA:

 4 COUNTY OF LEON:

 5 I, MARY ALLEN NEEL, Registered Professional

 6 Reporter, do hereby certify that the foregoing

 7 proceedings were taken before me at the time and place

 8 therein designated; that my shorthand notes were

 9 thereafter translated under my supervision; and the

 10 foregoing pages numbered 119 through 224 are a true and

 11 correct record of the aforesaid proceedings.

 12 I FURTHER CERTIFY that I am not a relative,

 13 employee, attorney or counsel of any of the parties, nor

 14 relative or employee of such attorney or counsel, or

 15 financially interested in the foregoing action.

 16 DATED THIS 31st day of May, 2006.

 17

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