



ORIGINAL

**Javier J. Portuondo.**  
Manager, Regulatory Accounting

September 3, 1998

Mr. Timothy Devlin  
Director Auditing & Financial Analysis  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Dear Mr. Devlin:

In response to your request at the workshop held on August 12<sup>th</sup> on Docket No. 980643-EI "Generic Investigation of Cost Allocation and Affiliated Transactions for Electric Utilities" I have attached the responses to the questions which were not addressed.

If you have any questions, please feel free to contact me at (727) 820-5835.

Sincerely

- ACK \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LEG \_\_\_\_\_
- LIN \_\_\_\_\_
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC   1
- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

JJP:jjp

Attachments

Xc: Parties of Record  
Blanca S. Bayo' (Division of Records & Reporting)

DOCUMENT NUMBER-DATE

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REGULATORY ACCOUNTING

**Responses to the questions not addressed at the workshop:**

- Q8. How are charges allocated to the affiliate when regulated utility personnel are used to audit or lend accounting or technical expertise to the affiliate?
- A8. When the utility performs services, such as audits, tax work and computer services upon request from affiliated companies; the costs associated with these services are tracked via job orders (Misc. Deferred Debits - FERC 18600). All services are priced at the same cost as would be charged to the company had the company performed the service itself. Applicable loading for fringe benefits is applied to any labor billed out.
- Q9. How are charges allocated to the regulated utility when affiliate personnel are used to audit or lend accounting or technical expertise to the regulated utility?
- A9. When affiliate personnel are used to perform services upon the request of the utility, the utility is billed for the costs associated with these services. All services are priced at the same cost as would be charged to the company had the company performed the service itself. Applicable loading for fringe benefits is applied to any labor billed out.
- Q10. Are there any instances of transactions between affiliates for which a portion of the related expenses are assessed to a regulated activity? If so, please describe in detail.
- A10. The transactions referred to above are those in which the utility is a third party between two other affiliates. Florida Power Corporation currently does not have any transactions what would fall into this category.
- Q11. Provide a list of all allocation bases and explain why they are appropriate to use as allocators for each item allocated.
- A11. Direct charge of estimated employee time. (Dept. and/or activity; CFO, Treasury, Part of Fin. Reporting, Controller's Admin, H/R Admin, General Counsel)
- The cost of departments that can account for their time by benefiting affiliate is allocated to the affiliate based on the prior month's summary of actual time spent on each entity.

Equity Method (Dept. and/or activity; Part of Fin. Reporting, Risk Mgmt, Tax Admin., Trust Investment Admin., Investor Relations)

- The equity method is used to allocate costs of departments or activities that benefit all subsidiaries or a certain group of subsidiaries in a manner that cannot otherwise be measured.

Number of Employees (Dept. and/or activity; Payroll, Employee Benefits)

- The costs allocated under this method are such that the expense has a direct correlation to the number of employees of the affiliate requesting the service.

Plan Participation (Dept. and/or activity; Trust Investment Retirees & Savings Plan, Trust Planning)

- The costs allocated under this method are such that the expense has a direct correlation to the percent participation of the affiliate for which the service is being provided.

Q12. What is the utility's definition of, and what criteria does the utility use, to determine:

"above the line"  
"below the line"  
"non-regulated"  
"regulated"  
"nonutility"  
"utility related"  
"affiliate"  
"subsidiary"

A12. Definition as it related to Florida Power Corporation:

"above the line" - All income statement items of revenue and expense included in determining net operating income.  
"below the line" - All income statement items of revenue and expense not included in determining net operating income.  
"non-regulated" - Activity for which the Florida Public Service Commission nor FERC have jurisdiction. Sale of product or service takes market share from competitors. The revenues or the transactions generating the revenues are consummated entirely outside of Florida Power's service territory.  
"regulate" - Activities for which the FPSC and/or FERC have jurisdiction as prescribed by the FPSC Rules and Regulations and the Code of Federal Regulation

respectively. Sale of products and/or services on the utility side of the meter.

- "nonutility" - used interchangeably with non-regulated
- "utility related" - used interchangeably with regulated
- "affiliate" - A legal entity whose voting stock is owned by the parent company Florida Progress Corporation.
- "subsidiary" - A legal entity whose voting stock is owned by Florida Power Corporation.

Q13. How does the utility determine the price of assets and intangibles when they are transferred to affiliates.

A13. The price of personal property assets and intangibles when transferred to affiliates is done a net book value. All other assets and intangibles are transferred at the greater market or net book value.

Q14. How does the affiliate determine the price of assets and intangibles when they are transferred to the utility.

A14. The price of personal property assets and intangibles when transferred to the utility is done a net book value. All other assets and intangibles are transferred at the lower of market or net book value.

Q15. Do you have any formal written procedures governing "standard of conduct"? If so, please provide a copy of these standards.

A15. Florida Power Corporation does not have formal written procedures governing "standard of conduct" as it relates to regulated vs. non-regulated activities. Florida Power Corporation uses the FERC Code of Federal Regulations as the underlying procedure/standard of conduct for accounting for such activities.

Q16. Do you inform customers or potential customer for services provided by an affiliate, that such services are not regulated? If so, how does the utility do it?

A16. Florida Power Corporation currently does not have any affiliates that would be offering services to utility customers.

Q17. Is business information or other information obtained by the regulated utility routinely shared with the non-regulated affiliates, i.e. information on potential customers? If so, please describe the policies and procedures.

A17. Florida Power Corporation does not share customer usage data obtained in the normal course of business with any non-regulated affiliates.

Q18. Should the PSC promulgate rules that would provide uniformity in the accounting related to the interaction of regulated and non-regulated activities?

A18. Florida Power Corporation believes that FERC and FPSC currently provides sufficient accounting rules as to the treatment of regulated and non-regulated activities and that the volume of activity is not currently significant enough for the PSC to promulgate additional rules. If the PSC were decided on pursuing this course of action than Florida Power Corporation would not be against broad policy or guidance by the Commission but would not be infavor of a detailed list of rules.

**DRAFT RULE:**

25-6.1351 Cost Allocations & Affiliate Transactions.

Cost Allocation.

- (1) To the maximum extent possible, costs should be collected and classified on a direct basis for each service and product provided.
- (2) Indirect costs will be charged on a methodology determined by the investor-owned utility to be prudent for the service or product provided but should be on a fully allocated cost basis. The methodology used will be reviewed during audit to make a determination as to whether the costs involved are reasonable and prudent.
- (3) Each investor-owned utility shall apply the allocation procedures to all affiliate companies.
- (4) The accounting for allocation procedures should track the USOA accounts and to the extent possible, subaccounts.

Affiliate Transactions

- (1) Transfer of assets from the utility to an affiliate should be at the greater of market or net book value. Transfer of assets from an affiliate to the utility should be at the lower of market or net book value.
- (2) The price for services and products provided by an affiliate company to the regulated entity should be at the lessor of fully allocated costs or market.
- (3) The price for services and products provided by the regulated entity to an affiliate company should be at fully allocated costs. Pricing below fully allocated costs but above incremental costs may be appropriate given market prices. Utilities should provide adequate market information that justifies pricing below fully allocated costs.

Diversification Reports.

(1) Each investor-owned electric utility shall file information on its affiliates and affiliated transactions on Commission Form PSC/AFA 16 (12/94) which is incorporated into this rule by reference. Form PSC/AFA 16, entitled "Analysis of Diversification Activities", may be obtained from the Commission's Division of Auditing and Financial Analysis.

(2) Definitions

(a) Affiliate -- Any entity that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the utility. Ownership of 5 percent or more of the voting securities of an entity shall be conclusively deemed to constitute the control thereof.

(b) Affiliated Transaction -- Any transaction in which both a utility and an affiliate thereof are each participants other than transactions related to the filing of consolidated tax returns.

(3) Within 45 days of coming under the jurisdiction of the Commission, each investor-owned electric utility shall file Schedules 1, 7, and 8 of Form PSC/AFA 16 with the Division of Auditing and Financial Analysis.

(4) Each investor-owned electric utility shall file Schedules 1 -- 6 of Form PSC/AFA 16 as an attachment to its annual report.

(5) Each investor-owned electric utility shall keep a detailed backup report of the summary report to facilitate auditing and analysis. Each investor-owned electric utility shall maintain a clear audit trail from the summary report through the general ledger to the source documents supporting the transaction.

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