State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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RECEIVED-FPSC 00 APR -6 AM 10:32 RECORDS AND REPORTING

DATE: APRIL 6, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF APPEALS (HELTON)
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (CAUSSEAUX, DEVLIN, HEWITT, LEE, MAILHOT, MERTA, REVELL, L. ROMIG, SALAK, WRIGHT)
DIVISION OF ELECTRIC AND GAS (WHEELER)
DIVISION OF LEGAL SERVICES (ELIAS)

RE: DOCKET NO. 980643-EI - PROPOSED AMENDMENTS TO RULES 25-6.135, F.A.C., ANNUAL REPORTS; 25-6.1351, F.A.C., COST ALLOCATION AND AFFILIATE TRANSACTIONS; AND RULE 25-6.0436, F.A.C., DEPRECIATION

AGENDA: 4/18/00 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

RULE STATUS: PROPOSAL MAY BE DEFERRED

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\APP\WP\980643PR.RCM

CASE BACKGROUND

Pursuant to Rule 25-6.1351, Florida Administrative Code, the Commission currently requires electric investor-owned utilities to file information concerning their affiliates and affiliate transactions on an annual basis as set out in Schedules 1-6 of Form PSC/AFA 16, entitled "Analysis of Diversification Activities." The information which must be reported includes changes in corporate structure; updated organizational charts; synopses of new or amended contracts, agreements, or arrangements with affiliates; specifics concerning affiliated transactions exceeding $500,000 on an annual basis; specifics concerning affiliated transactions exceeding $300 on a cumulative basis for the reporting period; summaries of affiliated transactions involving asset transfers or

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the right to use assets; and information concerning employees transferred between a utility and an affiliate.

Staff is recommending that the Commission amend Rule 25-6.1351 to prescribe procedures utilities must follow when allocating costs between utilities and affiliates. The intent is to ensure that ratepayers do not subsidize nonregulated operations. To accomplish this objective, staff is also recommending amendments to Rules 25-6.135, Annual Reports, and 25-6.0436, Depreciation.

A notice of proposed rule development was published in the Florida Administrative Weekly on July 16, 1999. A workshop was requested and held on August 24, 1999. Florida Power & Light Company (FPL), Florida Power Corporation (FPC), Tampa Electric Company (TECO), Gulf Power Company (Gulf), Florida Public Utilities Company (FPUC), TECO Energy Corporation, Florida Industrial Power Users Group, Florida Association of Plumbing, Heating and Cooling Contractors, Florida Association of Air Conditioning Contractors, Refrigeration and Air Conditioning Contractors Association, Gulf Coast Air Conditioning Contractors Association, and Commission staff participated in the workshop.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission propose amendments to Rules 25-6.135, 25-6.1351, and 25-6.0436, Florida Administrative Code?

RECOMMENDATION: Yes, the Commission should propose the attached amendments to Rules 25-6.135, 25-6.1351, and 25-6.0436, Florida Administrative Code.

STAFF ANALYSIS: The Florida Legislature has directed the Commission to take action "to ensure that a utility's ratepayers do not subsidize nonutility activities." Sections 366.05(9) and 366.093(1), Florida Statutes. In addition, the Commission must consider the cost of service when setting rates. Sections 366.041(1) and 366.06(1), Florida Statutes. The Commission also has the authority to prescribe a uniform system and classification of accounts. Sections 350.115 and 366.04(2)(a), Florida Statutes. It is clearly the intent of the Legislature that ratepayers are not to pay for nonutility activities. The attached recommended amendments further this legislative intent.

Because of their nature, staff has always believed that affiliated transactions deserve close scrutiny and consideration. Historically, affiliated transactions have been reviewed during rate cases or as a part of the Commission's surveillance program. Today rate cases for the large electric companies are virtually nonexistant. As the electric industry evolves, affiliated transactions and nontariffed services are becoming more prevalent. Staff believes that rules are necessary to treat the affiliated transactions consistently and to follow the mandate of the statutes to ensure that the ratepayers are not harmed by the affiliated transactions. In addition, the rules are available for the utilities to use in their decision-making deliberations dealing with affiliates. Therefore, staff recommends that the Commission propose the following amendments to Rules 25-6.1351, 25-6.135, and 25-6.0436:

Rule 25-6-1351, Cost Allocation and Affiliate Transactions:

Subsection (1): Staff recommends that the Commission include a purpose section which provides:

> The purpose of this rule is to establish cost allocation requirements to ensure proper accounting for affiliate transactions and utility nonregulated activities so that these transactions and activities are not subsidized by utility ratepayers.

The purpose section also exempts affiliate transactions for the purchase of fuel and related transportation services from application of the rule as long as they are subject to Commission review and approval in cost recovery proceedings. Since a prudence review is already made concerning these transactions, staff did not think it necessary to require compliance for these fuel related transactions.

Subsection (2): Staff recommends revising the definitions for "affiliate" and "affiliate transaction," and adding definitions for "cost allocation manual (CAM)," "direct costs," "fully allocated costs," "indirect costs," "nonregulated," "prevailing price valuation," "regulated," and "subsidize." The addition of these definitions will ensure consistent application of the rule by all the affected utilities.

Subsection (3): Staff recommends adding a section on non-tariffed affiliate transactions. This subsection establishes the cost methodology that must be employed by a utility when involved in non-tariff affiliate transactions to ensure that utilities uniformly treat affiliate transactions. The goal is to have ratepayers pay *no more than fully allocated or market prices*. This subsection also prescribes record retention requirements to ensure that there is sufficient documentation of affiliate transactions for auditing purposes.

Subsection (4): Staff recommends adding a subsection dealing with cost allocation principles. This subsection will ensure that all utilities apportion direct and indirect costs in a uniform manner.

Subsection (5): Staff recommends keeping the same reporting requirements that are currently in the form "Analysis of Diversification Activities" and adding one additional schedule that would require the utilities to report information concerning all non-tariffed services and products provided by the utility.

Subsection (6): Staff recommends that each utility be required to maintain a Cost Allocation Manual (CAM). In earlier drafts, staff had included a requirement that utilities must hire an independent auditor to comment on the utility's compliance with its CAM at least every three years. After discussing this requirement with the utilities, staff decided that the better course of action would be to drop the audit requirement with the understanding that Commission staff auditors would audit utility CAM compliance on a regular basis. This auditing process should result in more meaningful information being brought to the Commission's attention.

Rule 25-6.135, Annual Reports: The form "Analysis of Diversification Activities" is being merged into the form "Annual Report of Major Electric Utilities." The only substantive change brought on by this merger is the addition of the additional schedule discussed above for subsection (5) of Rule 25-6.1351. Utilities had been filing their diversification reports simultaneously with the Annual Reports required by the rule. The rule must be amended to reflect the merger of the forms plus the addition of the new schedule.

Rule 25-6.0436, Depreciation: Staff recommends adding definitions for "net book value" and "reserve (accumulated depreciation)" to the depreciation rule. These definitions affect the value of transactions between affiliated companies. Staff also recommends adding language dealing with the treatment of depreciation reserve accounts associated with transfers of property between affiliates in paragraph (2)(c).

Statement of Estimated Regulatory Costs: All five of Florida's investor-owned utilities would be affected by staff's attached recommended amendments. There should be no impact on the Commission or local government entities other than the Commission's rulemaking costs. Ratepayers, including small businesses, small cities, and small counties, should benefit if they do not subsidize utility affiliates.

Several utilities have expressed concerns that the rule amendments are unnecessary and the costs prohibitive. FPL stated that it could not estimate the costs of complying with the rule because the rule applies to future transactions. FPC stated that the cost of compliance would be negligible. TECO estimated a start-up cost of $35 million and ongoing O&M costs of $2 million per year. Gulf stated that it would cost $50,000 to $100,000 to administer the rule on an annual basis, and that the start-up costs would be greater than the annual cost. FPUC stated that it would cost $2,600 initially, and $500 annually to comply with the rule.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: *Yes, if no requests for hearing or comments are* filed, the rule amendments as proposed should be filed for adoption with the Secretary of State and the docket be closed.

STAFF ANALYSIS: Unless comments or requests for hearing are filed, the Rules as proposed may be filed with the Secretary of State without further Commission action. The docket may then be closed.

25-6.1351 Cost Allocation and Affiliate Transactions ~~Diversification Reports~~.

(1) Purpose. The purpose of this rule is to establish cost allocation requirements to ensure proper accounting for affiliate transactions and utility nonregulated activities so that these transactions and activities are not subsidized by utility ratepayers. This rule is not applicable to affiliate transactions for purchase of fuel and related transportation services that are subject to Commission review and approval in cost recovery proceedings.

~~(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 a ~~the~~ utility. As used herein, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is

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established through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, associated companies, contracts or any other direct or indirect means. ~~Ownership of five 5 percent or more of the voting securities of an entity shall be conclusively deemed to constitute the control thereof.~~

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

(c) Cost Allocation Manual (CAM) - The manual that sets out a utility's cost allocation policies and related procedures.

(d) Direct Costs - Costs that can be specifically identified with a particular service or product.

(e) Fully Allocated Costs - The sum of direct costs plus a fair and reasonable share of indirect costs.

(f) Indirect Costs - Costs, including all overheads, that cannot be identified with a particular service or product.

(g) Nonregulated - Refers to services or products that are not subject to price regulation by the Commission or not included for ratemaking purposes and not reported in surveillance.

(h) Prevailing Price Valuation - Refers to the price an affiliate may charge a regulated utility for products and services, which equates to that charged by the affiliate to third parties. To qualify for this treatment, sales of a particular

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asset or service to third parties must encompass more than 50 percent of the total quantity of the product or service sold by the entity. The 50 percent threshold is applied on an asset-by-asset and service-by-service basis, rather than on a product line or service line basis.

(i) Regulated - Refers to services or products that are subject to price regulation by the Commission or included for ratemaking purposes and reported in surveillance.

(j) Subsidize - The act of regulated utility operations paying more than their fair and reasonable share of costs associated with affiliate transactions and utility nonregulated activities.

(3) Non-Tariffed Affiliate Transactions

(a) The purpose of subsection (3) is to establish requirements for non-tariffed affiliate transactions impacting regulated activities.

(b) A utility must charge an affiliate the higher of fully allocated costs or market for all non-tariffed services and products purchased by the affiliate from the utility. Except, a utility may charge an affiliate less than fully allocated costs if the charge is above incremental cost and equivalent to market prices. If a utility charges less than fully allocated costs, the utility must maintain documentation to support and justify doing so would benefit regulated operations.

(c) When a utility purchases services and products from an affiliate and applies the cost to regulated operations, the utility shall apportion to regulated operations the lesser of fully allocated costs or market price. Except, a utility may apportion to regulated operations more than fully allocated costs if the charge is less than or equal to the market price. If a utility apportions to regulated operations more than fully allocated costs, the utility must maintain documentation to support and justify doing so would benefit regulated operations and would be based on prevailing price valuation.

(d) When an asset used in regulated operations is transferred from a utility to a nonregulated affiliate, the utility must charge the affiliate the greater of market or net book value. When an asset to be used in regulated operations is transferred from a nonregulated affiliate to a utility, the utility must record the asset at the lower of market or net book value. An independent appraiser must verify the market value of a transferred asset with a net book value greater than $1,000,000.

(e) Each affiliate involved in affiliate transactions must maintain all underlying data concerning the affiliate transaction for at least three years after the affiliate transaction is complete. This paragraph does not relieve a regulated affiliate from maintaining records under otherwise applicable record retention requirements.

(4) Cost Allocation Principles

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(a) Utility accounting records must show whether each transaction involves a product or service that is regulated or nonregulated.

(b) Direct costs shall be assigned to each non-tariffed service and product provided by the utility.

(c) Indirect costs shall be distributed to each non-tariffed service and product provided by the utility on a fully allocated cost basis. Except, a utility may distribute indirect costs on an incremental or market basis if the utility can demonstrate that its ratepayers will benefit. If a utility distributes indirect costs on less than a fully allocated basis, the utility must maintain documentation to support doing so.

(d) Each utility must maintain a listing of revenues and expenses for all non-tariffed products and services.

(5) Reporting Requirements. Each utility shall file information concerning its affiliates, affiliate transactions, and nonregulated activities on Form PSC/AFA 19 (xx/xx) which is incorporated by reference into this rule. Form PSC/AFA 19, entitled "Annual Report of Major Electric Utilities," may be obtained from the Commission's Division of Auditing and Financial Analysis.

(6) Cost Allocation Manual. Each utility involved in affiliate transactions or in nonregulated activities must maintain a Cost Allocation Manual (CAM). The CAM must be organized and indexed so that the information contained therein

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can be easily accessed.

~~(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.~~

Specific Authority 366.05(1), 350.127(2) FS.

Law Implemented 350.115, 366.04(2)(a) and~~,~~ (f), 366.041(1), 366.05(1), (2), and (9), 366.06(1), 366.093(1) FS.

History--New 12-27-94, Amended ___________.

25-6.135 Annual Reports.

(1) Each investor-owned electric utility shall file annual reports with the Commission on Commission Form PSC/AFA 19 (xx/xx ~~12/94~~) which is incorporated by reference into this rule. Form PSC/AFA 19, entitled "Annual Report of Major Electric Utilities", may be obtained from the Commission's Division of Auditing and

Financial Analysis. These reports shall be verified by a responsible accounting officer of the utility making the report and shall be due on or before April 30 for the preceding calendar year. A utility may file a written request for an extension of time with the Division of Auditing and Financial Analysis no later than April 30. One extension of 31 days will be granted upon request. A request for a longer extension must be accompanied by a statement of good cause and shall specify the date by which the report will be filed.

(2) The utility shall also file with the original and each copy of the annual report form, or separately within 30 days, a letter or report, signed by an independent certified public accountant, attesting to the conformity in all material respects of the schedules and their applicable notes listed on the general information page of Form PSC/AFA 19 with the Commission's applicable uniform system of accounts and published accounting releases.

Specific Authority 366.05(1), 350.127(2) FS.
Law Implemented 350.115, 366.04(2)(f), 366.05(1), (2)(a) FS.
History--New 12-27-94, amended ___________.

25-6.0436 Depreciation.

(1) For the purposes of this part, the following definitions shall apply:

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(a) Category or Category of Depreciable Plant -- A grouping of plant for which a depreciation rate is prescribed. At a minimum it should include each plant account prescribed in Rule 25-6.014(1), F.A.C.

(b) Embedded Vintage -- A vintage of plant in service as of the date of study or implementation of proposed rates.

(c) Mortality Data -- Historical data by study category showing plant balances, additions, adjustments and retirements, used in analyses for life indications or calculations of realized life. Preferably, this is aged data in accord with the following:

1. The number of plant items or equivalent units (usually expressed in dollars) added each calendar year.
2. The number of plant items retired (usually expressed in dollars) each year and the distribution by years of placing of such retirements.
3. The net increase or decrease resulting from purchases, sales or adjustments and the distribution by years of placing of such amounts.
4. The number that remains in service (usually expressed in dollars) at the end of each year and the distribution by years of placing of such amounts.

<u>(d) Net Book Value - The book cost of an asset or group of assets minus the accumulated depreciation or amortization reserve associated with those assets.</u>

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(e) ~~(d)~~ Remaining Life Method -- The method of calculating a depreciation rate based on the unrecovered plant balance, less average future net salvage and the average remaining life. The formula for calculating a Remaining Life Rate (RLR) is:

$$RLR = \frac{100\% - \text{Reserve } \% - \text{Average Future Net Salvage } \%}{\text{Average Remaining Life in Years}}$$

(f) Reserve (Accumulated Depreciation) - The amount of depreciation/amortization expense, salvage, cost of removal, adjustments, transfers, and reclassifications accumulated to date.

(g) ~~(e)~~ Reserve Data -- Historical data by study category showing reserve balances, debits and credits such as booked depreciation, expense, salvage and cost of removal and adjustments to the reserve utilized in monitoring reserve activity and position.

(h) ~~(f)~~ Reserve Deficiency -- An inadequacy in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(i) ~~(g)~~ Reserve Surplus -- An excess in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(j) ~~(h)~~ Salvage Data -- Historical data by study category showing bookings of retirements, gross salvage and cost of removal used in analysis of trends in gross salvage and cost of removal or for calculations of realized salvage.

(k) ~~(i)~~ Theoretical Reserve or Prospective Theoretical Reserve -- A calculated reserve based on components of the proposed rate using the formula:

Theoretical Reserve = Book Investment - Future Accruals - Future Net Salvage

(l) ~~(j)~~ Vintage -- The year of placement of a group of plant items or investment under study.

(m) ~~(k)~~ Whole Life Method -- The method of calculating a depreciation rate based on the Whole Life (Average Service Life) and the Average Net Salvage. Both life and salvage components are the estimated or calculated composite of realized experience and expected activity. The formula is:

$$\text{Whole Life Rate} = \frac{\text{100\% - Average Net Salvage \%}}{\text{Average Service Life in Years}}$$

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(2)(a) No utility <u>shall</u> ~~may~~ change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval.

(b) No utility <u>shall</u> ~~may~~ reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior Commission approval.

<u>(c) When plant investment is booked as a transfer from a regulated utility depreciable account to another or from a regulated company to an affiliate, an appropriate reserve amount shall also be booked as a transfer. When plant investment is sold from one regulated utility to an affiliate, an appropriate associated reserve amount shall also be determined to calculate the net book value of the utility investment being sold. Appropriate methods for determining the appropriate reserve amount associated with plant transferred or sold are as follows:</u>

<u>1. Where vintage reserves are not maintained, synthesization using the currently prescribed curve shape may be required. The same reserve percent associated with the original placement vintage of the related investment shall then be used in determining the appropriate amount of reserve to transfer.</u>

<u>2. Where the original placement vintage of the investment being transferred is unknown, the reserve percent applicable to the account in which the investment being transferred resides may be assumed as appropriate for</u>

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<u>determining the reserve amount to transfer.</u>

<u>3.</u> <u>Where the age of the investment being transferred is known and a history of the prescribed depreciation rates is known, a reserve can be determined by multiplying the age times the investment times the applicable depreciation rate(s).</u>

<u>4.</u> <u>The Commission shall consider any additional methods submitted by the utilities for determining the appropriate reserve amounts to transfer.</u>

(3)(a) Each utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed by Rule 25-6.014(1), F.A.C. Utilities may maintain further sub-categorization.

(b) Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.

(4) A utility filing a depreciation study, regardless if a change in rates is being requested or not, shall submit to the Commission Clerk's office fifteen copies of the information required by paragraphs (6)(a) through (6)(f) and (6)(h) of this rule and at least three copies of the information required by paragraph (6)(g).

(5) Upon Commission approval by order establishing an effective date, the utility <u>shall</u> ~~may~~ reflect on its books and records the implementation of the proposed rates, subject to

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adjustment when final depreciation rates are approved.

(6) A depreciation study shall include:

(a) A comparison of current and proposed depreciation rates and components for each category of depreciable plant. Current rates shall be identified as to the effective date and proposed rates as to the proposed effective date.

(b) A comparison of annual depreciation expense as of the proposed effective date, resulting from current rates with those produced by the proposed rates for each category of depreciable plant. The plant balances may involve estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.

(c) Each recovery and amortization schedule currently in effect should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.

(d) A comparison of the accumulated book reserve to the prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which depreciation rates are to be applied.

(e) A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions, necessitating a revision in rates.

(f) An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It should also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.

(g) The filing shall contain all calculations, analysis and numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, or transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. To the degree possible, data involving retirements should be aged.

(h) The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained.

(7)(a) Utilities shall provide calculations of depreciation rates using both the whole life method and the remaining life method. The use of these methods is required for all depreciable categories. Utilities may submit additional studies or methods for consideration by the Commission.

(b) The possibility of corrective reserve transfers shall be investigated by the Commission prior to changing depreciation rates.

(8)(a) Each company shall file a study for each category of depreciable property for Commission review at least once every four years from the submission date of the previous study unless otherwise required by the Commission.

(b) A utility proposing an effective date of the beginning of its fiscal year shall submit its depreciation study no later than the mid-point of that fiscal year.

(c) A utility proposing an effective date coinciding with the expected date of additional revenues initiated through a rate case proceeding shall submit its depreciation study no later than the filing date of its Minimum Filing Requirements.

(9) As part of the filing of the annual report pursuant to Rule 25-6.014(3), F.A.C., each utility shall include an annual status report. The report shall include booked plant activity

(plant balance at the beginning of the year, additions, adjustments, transfers, reclassifications, retirements and plant balance at year end) and reserve activity (reserve balance at the beginning of the year, retirements, accruals, salvage, cost of removal, adjustments, transfers, reclassifications and reserve balance at end of year) for each category of investment for which a depreciation rate, amortization, or capital recovery schedule has been approved. The report shall indicate for each category that:

(a) There has been no change of plans or utility experience requiring a revision of rates, amortization or capital recovery schedules; or

(b) There has been a change requiring a revision of rates, amortization or capital recovery schedules.

<u>(10)</u> For any category where current conditions indicate a need for revision of depreciation rates, amortization or capital recovery schedules and no revision is sought, the report shall explain why no revision is requested.

~~(10)~~(a) Prior to the date of retirement of major installations, the Commission <u>shall</u> ~~may~~ approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

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(b) The Commission <u>shall</u> ~~may~~ approve a special capital recovery schedule when an installation is designed for a specific purpose or for a limited duration.

(c) Associated plant and reserve activity, balances and the annual capital recovery schedule expense must be maintained as subsidiary records.

Specific Authority 350.127(2), 366.05(1) FS.
Law Implemented 350.115, 366.04(2)(f), 366.06(1) FS.
History--New 11-11-82, 1-6-85, Formerly 25-6.436, Amended 4-27-88, 12-12-91, ____________.

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M E M O R A N D U M

March 23, 2000

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00 MAR 24 PM 1:37
FLORIDA PUBLIC SERVICE COMM.
DIVISION OF APPEALS

TO: DIVISION OF APPEALS (HELTON)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HEWITT)

SUBJECT: STATEMENT OF ESTIMATED REGULATORY COSTS FOR DOCKET NO. 980643-EI, PROPOSED AMENDMENTS TO RULES: 25-6.135, F.A.C., ANNUAL REPORTS; RULE 25-6.1351, F.A.C., DIVERSIFICATION REPORTS [COST ALLOCATION AND AFFILIATE TRANSACTIONS]; AND RULE 25-6.0436, F.A.C., DEPRECIATION

SUMMARY OF THE RULES

Currently, the above-referenced rules address the requirements for investor-owned electric utility companies (IOUs) to file annual reports and information on its affiliates and affiliated transactions, and requirements for depreciation accounts.

The proposed rule changes would further define and expand the requirements for IOUs' depreciation and affiliate transaction accounting and reporting.

The annual report Form PSC/AFA 19 would be updated and would include the schedules that are a part of PSC/AFA 16. An additional schedule would be added to the annual report to insure that transactions with affiliates are reported in a uniform manner.

ESTIMATED NUMBER OF ENTITIES REQUIRED TO COMPLY AND GENERAL DESCRIPTION OF INDIVIDUALS AFFECTED

There are five investor-owned electric utility companies operating in Florida, all of which have affiliated companies. The ratepayers of the IOUs should benefit if they do not have to subsidize affiliates of the utilities through electricity payments.

RULE IMPLEMENTATION AND ENFORCEMENT COST AND IMPACT ON REVENUES FOR THE AGENCY AND OTHER STATE AND LOCAL GOVERNMENT ENTITIES

The Public Service Commission and other local government entities are not expected to experience implementation costs other than the costs associated with promulgating a proposed rule.

Existing Commission staff would handle the monitoring and review of additional information provided by the new rule requirements.

ESTIMATED TRANSACTIONAL COSTS TO INDIVIDUALS AND ENTITIES

Several IOUs expressed concern that the proposed rule changes were unnecessary and that the costs could be prohibitive.

Tampa Electric Company stated that its current accounting system only allows for a 13-digit account identifier. Mandating a regulated or non-regulated classification in Rule 25-6.1351(4)(a) would require a new system to allow for such flexibility. The initial start-up cost to implement a new system to comply with the proposed rule would be an estimated $35 million. The ongoing O&M costs and the time and effort to individually code and input each affiliate transaction would be an estimated $2 million per year.

Florida Power & Light (FPL) said that it could not estimate the total costs that could result from the proposed rule changes because the rule applies to future transactions. Also, FPL pointed out the disparity in the pricing policy for the transfer of assets between the utility and an affiliate. The proposed rule would require that the utility transfer assets to an affiliate at the higher of cost or market but when assets are transferred from an affiliate they would be at the lower of cost or market. FPL stated this disparity could result in a detriment to the ratepayers.

Gulf Power Company (Gulf) estimated the on-going cost to administer the proposed rule changes would be $50,000 to $100,000 annually. Gulf stated that the initial implementation costs would be greater than on-going costs because of the amount of resources required to implement changes in policies and procedures, train company employees, and develop and maintain the Cost Allocation Manual. The Public Utility Holding Company Act of 1935 requires a holding company affiliate (Gulf) to price affiliated transactions at cost. Requiring Gulf to use two different pricing rules would be burdensome. There would be additional costs to include market studies and appraisals and increased legal fees associated with confidentiality filings.

Florida Public Utilities Company estimated that additional accounting labor to comply with the affiliated transactions rule would cost $500 annually. To comply with the requirements for the cost allocation manual would cost $2,600 initially, and $500 recurring for accounting labor and overhead.

Florida Power Company determined that the cost to comply with the new requirements would be negligible and that all the newly required information is currently available.

IMPACT ON SMALL BUSINESSES, SMALL CITIES, OR SMALL COUNTIES

Small businesses, small cities, and small counties that are IOU customers would benefit from the proposed rule changes if subsidization of IOU affiliates is prevented.

REASONABLE ALTERNATIVE METHODS

Some of the IOUs have submitted suggested alternative rule language during the draft rule development period. Staff has considered the suggestions and the proposed rule amendments reflect consideration of those suggestions.

FPL stated that the proposed rule changes are unnecessary and there that there is no compelling need for change.

Gulf stated that the proposed rule changes are unnecessary, would increase administrative costs, and in many cases would require utilities to follow two separate pricing policies. Also, Gulf believes that existing regulations and review power are adequate to ensure no cross-subsidization.

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