BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Amendment of Rules 25-6.0141, Allowance for Funds Used During Construction, and 25-30.116, Allowance for Funds Used During Construction, F.A.C., and Adoption of Rule 25-7.0141, Allowance for Funds Used During Construction, F.A.C.	Docket No.: 20200000 Filed: July 27, 2020

FLORIDA POWER & LIGHT COMPANY AND GULF POWER COMPANY'S COMMENTS ON PROPOSED CHANGES TO RULE 25-6.0141

Florida Power & Light Company ("FPL") and Gulf Power Company ("Gulf") ("the Companies" when referred to collectively) file with the Florida Public Service Commission ("Commission") these comments regarding proposed changes to Rule 25-6.0141, Florida Administrative Code ("F.A.C."), Allowance for Funds Used During Construction.

1. On June 10, 2020, the Commission provided notice of initiating rulemaking to amend Rule 25-6.0141, Allowance for Funds Used During Construction, F.A.C., and Rule 25-30.116, Allowance for Funds Used During Construction, F.A.C., to update the rules that allow utilities to accrue certain funds used during construction, and to create Rule 25-7.0141, Allowance for Funds Used During Construction, F.A.C., for gas utilities.

2. On June 29, 2020, the Commission Staff held a duly-noticed workshop at which all interested persons had an opportunity to participate. The Companies participated and provided oral comments on the proposed amendments to Rule 25-6.0141 ("AFUDC Rule"). Rule 25-30.116 and proposed new Rule 25-7.0141 do not impact the Companies because those rules do not apply to electric utilities.

3. Staff invited all interested persons to comment in writing. Accordingly, the Companies submit these comments.

I. Proposed Amendments

The amendments to the AFUDC Rule proposed by Staff consist of adding a definition for the term "AFUDC," adding a definition for the term "project," and circumscribing the ability to group projects together for purposes of meeting AFUDC eligibility.[1]

> <u>(1) Definition of terms of this rule.</u>
>
> <u>(a) Allowance for funds used during construction (AFUDC) is the carrying cost of funding an eligible utility project investment during its construction.</u>
>
> <u>(b) A project means a temporary endeavor with a defined beginning and end series of tasks that need to be completed in order to reach a specific outcome (e.g. a specific utility investment placed into service or devoted to public use for the provision of electric service), designed to produce an in-service plant investment result with a specific location and design.</u>
>
> <u>(c) A utility may not bundle projects as a means of demonstrating that it has met the threshold for accruing AFUDC pursuant to this Rule unless it can also demonstrate that the overall cost of the bundled projects with AFUDC is less than the total overall cost of the unbundled projects without AFUDC.</u>

Staff explained at the June 29 workshop that the proposed amendments are intended to add clarification.

II. Companies' Comments

Utilities must issue incremental debt and equity to fund large construction projects. AFUDC recognizes that financing is a legitimate investment cost and utilities are entitled to a return on prudent investments while they are in construction. A review of the AFUDC Rule should consider the Rule holistically to ensure that it continues to meet the intended goals, encourages continued investments for the benefit of customers, is aligned with today's industry and regulatory realities and supports Florida policy.

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[1] The amendments also correct an error in the monthly compounding formula equation. The Companies have no comments on that amendment.

The Companies' comments are addressed below. For ease of reference, the Companies' suggested edits to the AFUDC Rule are attached as Exhibit "A" in type/strike format.

A. *AFUDC is Necessary To Afford Utilities a Fair Return on Prudent Investments During Construction*

The Companies fully agree with Staff's proposed definition of AFUDC. It is the carrying cost of funding an eligible project during construction. It is a subset of Construction Work in Progress ("CWIP"). CWIP is Account 107 of the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, which consists of the total of work order balances for electric plant that is in the process of being constructed. CWIP is a necessary step in the construction of assets to provide quality service. Utilities focused on providing reliable and cost-effective service will deploy capital to construct new facilities or modernize existing facilities to meet these objectives.

It is a fundamental and well-established tenet of Florida law that a regulated utility is entitled to an opportunity to earn a fair rate of return on its rate base – the capital prudently invested in the utility's facilities that are used and useful in the providing service. *See* § 366.041, F.S. ("no public utility shall be denied a reasonable rate of return upon its rate base"); *also Gulf Power Co. v. Florida Pub. Serv. Com'n*, 453 So. 2d 799, 806 (Fla. 1984) (recognizing that the base upon which a utility should be afforded an opportunity to earn a return is "that investment in assets devoted to public service at the time rate base is quantified"). Thus, as a necessary part of providing quality utility service, projects under construction should be permitted to earn a return. Otherwise, the utility will not be given an opportunity to realize a fair return on its investment in electric plant.

Balances in CWIP may earn a return in one of two ways. First, CWIP can be included in rate base when rates are set and reflects only those projects included in the utility's test year.

Second, balances in CWIP can be excluded from rate base and allowed to accrue AFUDC subject to the eligibility requirements set forth in Rule 25-6.0141. Between rate cases, the AFUDC return is an accounting entry that is added to the basis of the capital asset during construction and that ultimately closes to plant-in-service. Recovery of AFUDC occurs through depreciation expense when rates are next reset. Therefore, under typical ratemaking, current rates are not increased due to AFUDC.

Rule 25-6.0141 provides that a CWIP project must be large in size (greater than 0.5 percent of all existing plant-in-service on the books of the utility) and have a long construction time (greater than one year from the project's commencement) to be eligible to accrue AFUDC. This concept recognizes that utilities must issue incremental debt and equity to fund construction of large projects. Under Generally Accepted Accounting Principles ("GAAP"), it is appropriate to capitalize the funding cost. *See* GAAP ASC 980 (formerly FAS 71). FERC ratemaking principles similarly authorizes the recognition of the cost of capital associated with investments, though FERC does not impose a threshold for authority to recognize that funding cost.

B. *The Existing AFUDC-Eligibility Threshold is Outdated*

It has been a quarter century since the Commission last visited the AFUDC Rule. In 1996, the Commission considered whether to raise the threshold for accruing AFUDC. The Commission approved Staff's recommendation to amend the AFUDC Rule to provide that projects are eligible for AFUDC if the construction period is expected to last in excess of one year and its costs meet or exceed 0.5% of total electric plant-in-service (Accounts 101 and 106). In initiating the Rulemaking and in developing its recommendation, Staff indicated that the purpose of amending the AFUDC Rule was to "raise the threshold for project qualification to larger projects which are material in nature and that would have a significant financial impact on the company." D.N.

04424, pp. 1 and 4. Although the need for the amendments were questioned, Staff maintained that "the changing realities of the industry and the marketplace require changes in this rule." *Id*. at 3.

Industry and regulatory realities, nearly twenty-five years later, warrant another comprehensive review of the AFUDC Rule primarily to address two fundamental flaws with the existing rule: (1) the Rule, including Staff's initial proposed changes, no longer meets the goals the Commission sought to achieve when the Rule was amended in 1996; and (2) projects that are "large" and "would have a significant financial impact on the company" are no longer AFUDC-eligible for some utilities.

First, many investments that fall below the 0.5% threshold are "large" on their own merits. At the time of the 1996 amendment, the 0.5% threshold for FPL amounted to about $79 million. In 2020, the same threshold calculation is about $270 million – more than a three-fold difference. A significant number of customer-beneficial projects require investments that may fall below that threshold but will nevertheless require incremental financing. As Staff noted with respect to AFUDC, "it is important to get regulated costs comparable to the true economic costs." D.N. 04424, p. 4. Those financing costs should therefore be recognized as part of the construction cost of a project, not disregarded.

Nor should utilities with a larger rate base be penalized so long as the investments that comprise rate base are prudent. Under the existing and proposed AFUDC Rule, the same project could be subject to disparate CWIP/AFUDC treatment between larger and smaller Florida utilities based solely on the current threshold calculation. For example, as will be further explained below, FPL and Gulf must each finance a single 74.5 MW solar site through incremental debt and equity financing. Gulf Power would have the ability to accrue AFUDC on that generation project,

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recognizing the obligation to pay interest and its obligations to investors. FPL would have the same financing obligations associated with the project but would not be allowed to accrue AFUDC.

Second, today's utility planning includes a more diverse suite of generation, transmission and distribution projects that require incremental funding. Utility planning options are not what they were in 1996. At the time of the last amendment, Staff pointed out that "large, long term projects, such as power plants, will still accrue AFUDC" under the 0.5% threshold. Today, by contrast, many large, long term projects will not be eligible for AFUDC under the existing or Staff-proposed rule. Large central generating stations of the type Staff alluded to in its 1996 recommendation continue to play a vital role in the utility's ability to deliver reliable electric service. But, load growth, improved technology and economics, as well as a shift to expand development of renewable energy consistent with the State's energy policy,[2] have propelled a movement toward including newer technologies and mid-sized solar plants and energy storage facilities in the generation portfolio. These were not viable options in 1996.

In 1996, FPL, for example, had 3.6 million customer accounts, about 18,500 MW of generating capacity, with no solar power plants and no near-term visions of incorporating battery storage into its fleet. Since then, the number of FPL customer accounts has grown to over 5.1 million. Its fleet now consists of more than 27,000 MW of capacity including 28 major solar sites totaling approximately 1,900 MW. FPL has begun to integrate battery storage equipment into

[2] *See* § 366.92, Fla. Stat. Florida renewable energy policy. "It is the intent of the Legislature to promote the development of renewable energy; protect the economic viability of Florida's existing renewable energy facilities; diversify the types of fuel used to generate electricity in Florida; lessen Florida's dependence on natural gas and fuel oil for the production of electricity; minimize the volatility of fuel costs; encourage investment within the state; improve environmental conditions; and, at the same time, minimize the costs of power supply to electric utilities and their customers."

some of its solar facilities, starting in 2018 with a 10 MW installation at the Babcock Clean Energy Center in 2018 and expected to grow to over 500 MW by 2022.

The current AFUDC Rule and proposed amendments may not adequately compensate a company for its capital costs associated with investing in solar and battery technology between rate cases. To illustrate, new combined cycle generation sites installed by FPL since 2009 have been sized no smaller than 1,200 MW at costs ranging from about $660 million to $1,270 million, while the typical size of a utility-scale solar plant installed in Florida is about 74 MW. Some industry analysts anticipate that the decline in costs associated with solar technology could conceivably bring the cost to construct a typical solar site similar in size to those constructed by FPL and Gulf to $50 million before the end of this decade. The reality is that whether the 1,200 MW of electric generation is comprised of one combined cycle plant or 16 solar plants, the Companies must raise more than $800 million to finance the generation. A final investment decision necessarily considers whether the Companies will recover their financing costs given that they must pay interest to debt holders and have a duty to reasonably compensate investors for the use of their capital, all irrespective of the AFUDC threshold.

Companies' suggested rule amendments. The Companies support changes to the AFUDC Rule that better reflect the realities of today's industry. The Rule should be evaluated holistically to ensure it provides utilities an opportunity to achieve a fair return, incentivizes continued innovation, and supports Florida's renewable energy policy. To that end, the Companies propose the following amendment (in red type/~~strike~~) to subsection 2(a) of the AFUDC Rule:

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~~(~~(2)~~(1)~~ Construction work in progress (CWIP) or nuclear fuel in process (NFIP) not under a lease agreement that is not included in rate base may accrue ~~allowance for funds used during~~ ~~construction (~~AFUDC~~)~~, under the following conditions:

(a) Eligible projects. The following projects may be included in CWIP or NFIP and accrue AFUDC:

1. Projects that involve gross additions to plant in excess of the lower of $50 million or 0.25 percent of the sum of the total balance in Account 101, Electric Plant in Service, ~~and~~ Account 106, Completed Construction not Classified, Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, and Account 111, Accumulated Provision for Amortization of Electric Utility Plant, at the time the project commences and . . . .

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The proposed change to the eligibility threshold to the lesser of $50 million or the 0.25 percent of plant is designed to acknowledge that the size of a utility's gross plant investment, which is the sole basis for the current threshold, bears no relationship to the fact that the utility will need to issue incremental financing for a project. Establishing a flat $50 million threshold better aligns the Rule with the real world fact that a project of that size would require a utility to raise incremental capital.

The Companies' suggested $50 million threshold is more conservative than figures that previously have been proposed by Staff and intervenors. At the time of the 1996 AFUDC Rule Amendment, Staff introduced an alternative threshold amount of a flat $15 million. While this was not adopted, it shows an order of magnitude of what was considered reasonable at that time. A $50 million threshold is more than 3 times greater, which accounts for both rate base growth over time as well as the need to include projects other than larger fossil-fueled generation sites that have become more prevalent in the intervening years.

More recently, in 2012, one intervenor made its own recommendation regarding the AFUDC Rule. In Docket No. 120015-EI, intervenor witness Lane Kollen submitted testimony on behalf of the South Florida Hospital and Healthcare Association indicating that the Commission should increase the amount of CWIP projects eligible for AFUDC and thereby reduce the amount of CWIP to be included in rate base. Specifically, Mr. Kollen recommended a minimum construction period of only six months instead of one year and a project threshold cost of only $0.5 million. The Florida Industrial Power Users Group and the Florida Retail Federation, among other intervenors, agreed with Mr. Kollen's position.[3] FPL's proposal is many times greater and therefore more stringent than the proposal advocated by intervenors in 2012, and it preserves the one-year construction period requirement.

Furthermore, the Companies' proposal maintains a reasonable split between AFUDC-eligible CWIP and CWIP not-eligible for AFUDC. While AFUDC-eligible projects are large in size and long in duration, most electric utility construction projects are relatively small in size (i.e., less than $50 million in construction costs) and of short duration. Smaller projects, such as capital maintenance related to generation, transmission and distribution, are generally routine and recurring in nature, thus making them appropriate for evaluation during a utility's rate case as a component of CWIP to be included in rate base. When the specific projects included in the test year are completed, they will likely be replaced by new similar projects of a recurring nature. Projects with construction costs in excess of $50 million, such as a typical solar facility, currently do not fall into this category.

For all of these reasons, the Companies' proposed amendment to the AFUDC eligibility is reasonable and should be adopted.

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[3] *See* Order No. PSC-12-0428-PHO-EI, issued Aug. 17, 2012 in Docket 120015-EI, at pp. 52-55.

C. *The Definition and Application of "Project" Should Reflect the Manner in Which Industry Conducts Business*

Staff proposes to define "project" for purposes of AFUDC as "a temporary endeavor with a defined beginning and end series of tasks that need to be completed in order to reach a specific outcome (e.g., a specific utility investment placed into service or devoted to public use for the provision of electric service), designed to produce an in-service plant investment result with a specific location and design." (New proposed section 25-6.0141(1)(b)). Staff also proposes to limit grouping or "bundling" of projects to demonstrate that a utility meets the AFUDC threshold "unless it can also demonstrate that the overall cost of the bundled projects with AFUDC is less than the total overall cost of the unbundled projects without AFUDC." (New Staff proposed section 25-6.0141(1)(c)). The Companies agree that an effort to define the term "project" is helpful. The definition and application of the term "project" as currently proposed may, however, have some unintended exclusionary effects that deprive customers of beneficial investments.

1. Project Management Body of Knowledge

At the June 29 Workshop, Staff explained that it developed the definition of the term "project" from a review of A Guide to the Project Management Body of Knowledge ("PMBOK"). It appears, however, that PMBOK supports a definition that does not limit a project to one location or design. In defining "project," PMBOK states: "A project is a temporary endeavor undertaken to create a unique product, service, or result." PMBOK at p. 4. It further states that:

> Projects are undertaken to fulfill objectives by producing deliverables. An objective is defined as an outcome toward which work is to be directed, a strategic position to be attained, a purpose to be achieved, a result to be obtained, a product to be produced, or a service to be performed.

Id. at 4. To be sure, location and design *can* be a factor in determining what constitutes a project even under PMBOK, but they are not required criteria. And, as further described below, endeavors and associated investment decisions directed toward meeting a particular objective may involve more than one location and design.

2. "Specific Location"

Utilities often make customer-benefitting investment decisions to achieve one specific outcome while involving multiple sites. Florida utilities have demonstrated that the addition of solar plants that provide environmental benefits are cost-effective when they are added in sets of three or more sites (totaling 225 MW or more) at different locations. Indeed, because solar plants can be permitted and built in a significantly shorter time than large gas plants, smaller solar installations provide a good solution to match load growth. Moreover, even within a single plant site, the "specific location" language could disqualify interconnection facilities that are necessary to place the energy from the plant on the grid but are located a few miles from the primary property.

3. "Specific Design"

It is unclear what Staff intends by limiting the definition of project to a specific design. Arguably, the specific design language could be used to exclude projects at a single location. As an example, a solar plant that otherwise would satisfy the AFUDC thresholds but used two module suppliers or inverter suppliers would involve two engineering designs. Limiting a project to a "specific design" also would exclude investments in any linear facilities such as new transmission lines or pipelines. Yet, investments in linear facilities benefit customers and are made possible by issuing debt and raising capital. There would be no reason to bifurcate the investment in such a project.

4. "Bundling"

Major investments that utilities make should be supported by a demonstration of customer need, savings or a customer benefit such as reliability. Included within the analysis and decision to make the investment for customers is consideration of the associated financing cost of that investment. The Staff proposal on project "bundling" requires a second tier cost-effectiveness test that the Companies believe is unnecessary. Currently, the Companies bundle projects together and consider it as one project only if it results in the lowest contracted cost for customers. Achieving the lowest contracted price and a demonstration of cost-effectiveness or other need should be the ultimate cost effectiveness test, especially since the Commission will retain its ability to review any or all projects during or after construction for prudence. This approach appropriately allows AFUDC cost recovery where utilities demonstrate proactive resourcefulness and operational efficiencies in executing on construction projects, including dealing and negotiating with third party contractors, for the benefit of customers. Layering in an additional comparison of AFUDC inclusion versus exclusion should not be part of the overall cost effectiveness calculation for determining AFUDC eligibility. Rather, application of AFUDC is simply a recognition that the utility must finance the bundled projects with incremental debt and equity.

Even PMBOK would support bundling. As noted above, PMBOK states that projects are undertaken to fulfill objectives by producing deliverables. PMBOK goes on the say that deliverables can be "a unique product" or "a unique combination of one or more products, services, or results." Accordingly, as long as the projects are interrelated, bundling should be permitted.

Below are examples of projects that have provided customers millions of dollars in savings or the benefit of critical reliability infrastructure but which could potentially be precluded from earning AFUDC if the definition and application of project is limited in terms of location, design and bundling:

- Individual solar plants (below dollar threshold)
- Individual solar plants that meet the dollar threshold but use two different types of solar panels
- Replacing all of FPL's 500kV transmission structures (multiple locations with different in-service dates)
- Upgrades of combined cycle facilities (multiple locations with different in-service dates)
- Grouping of power plant with associated interconnection facilities (multiple locations)

Companies' suggested rule amendments. The Companies support defining a project in a manner that better reflects how utilities make investment and procurement decisions. The Rule should recognize that customer-beneficial investments can span more than one location, include more than one design, and can be bundled if doing so results in the lowest contract price. To that end, the Companies propose the following amendment (in red type/~~strike~~) to Staff's proposal:

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> New proposed section 25-6.0141(1)(b) A project means a temporary endeavor with a defined beginning and end series of tasks that need to be completed in order to reach a specific outcome (e.g. a specific utility investment placed into service or devoted to public use for the provision of electric service), designed to produce an in-service plant investment result ~~with a specific location and design~~.

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> New proposed section 25-6.0141(2)(a)(2)[4] A utility may ~~not~~ bundle related projects that achieve a specific outcome ~~as a means of demonstrating that it has met the threshold for accruing AFUDC pursuant to this Rule unless~~ if it ~~can also~~ demonstrates that the ~~overall~~ cost of the bundled projects ~~with~~ excluding AFUDC is less than the total ~~overall~~ cost of the unbundled projects ~~without AFUDC~~.

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D. *Further Narrowing the Availability of AFUDC will Discourage Beneficial Investments Between Rate Cases*

Staff's recommendation for the 1996 Amendment acknowledged that "the increase in rate base caused by larger amounts of CWIP would not result in increased rates until a company filed a rate case. In the interim, however, increases in rate base due to CWIP would have the effect of reducing earnings." D.N. 04424, p. 6. The AFUDC Rule cannot have been intended to limit recovery of legitimate incremental financing costs because doing so would be unlawful and could create a disincentive for the Companies to make the kinds of investments that have benefited customers over the years.

Just as the AFUDC Rule should reflect industry realities, regulatory realities must also be considered. For many years, Florida electric utilities have reached and operated under multi-year settlement agreements. *See, e.g.*, Order Nos. PSC-16-0560-AS-EI (FPL rate settlement with four-

[4] Staff's proposed amendment includes this language in the subsection (1) – the definition section. FPL believes this language does not define "project" but rather describes the eligibility for a project to accrue AFUDC. Accordingly, FPL proposes to move this section to subsection (2).

year minimum term); PSC-13-0670-S-EI (Gulf Power four-year rate settlement); PSC-13-0443-FOF-EI (Tampa Electric Company four-year rate settlement); PSC-2017-0451-AS-EU (Duke Energy Florida rate settlement with four-year minimum term). These multi-year agreements have provided rate stability for customers and allows utilities to focus on operational efficiencies. If large projects are determined not to be eligible for AFUDC and are, instead, included in CWIP in rate base without a change in base rates to account for the incremental financing cost and corresponding increase in revenue requirements, the potential for earnings erosion could increase the need for more base rate cases. All else being equal, an increase in CWIP without a corresponding increase in revenues will either reduce future investments or result in more frequent rate cases to recover the investments and associated carrying charges in current rates.

Neither result is good for customers. Reduced investments would deprive customers of investments made on their behalf that could otherwise have provided customer savings or reliability benefits. Discouraging multi-year rate settlement agreements would lead to more frequent rate cases to seek recovery for incremental CWIP in rate base. This, in turn, will cause upward pressure on customer bills in the near term rather than being deferred and recovered over the life of the project as it is being depreciated. A rule that establishes reasonable AFUDC eligibility requirements can avoid such results.

Respectfully submitted this 27th day of July 2020.

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CERTIFICATE OF SERVICE
Docket No. 20200000

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic service on this 27th day of July 2020 to the following:

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EXHIBIT A

25-6.0141 Allowance for Funds Used During Construction.

(1) Definition of terms of this rule.

(a) Allowance for funds used during construction (AFDUC) is the carrying cost of funding an eligible utility project investment during its construction.

(b) A project means a temporary endeavor with a defined beginning and end series of tasks that need to be completed in order to reach a specific outcome (e.g. a specific utility investment placed into service or devoted to public use for the provision of electric service), designed to produce an in-service plant investment result~~ with a specific location and design~~.

~~(c) A utility may not bundle projects as a means of demonstrating that it has met the threshold for accruing AFUDC pursuant to this Rule unless it can also demonstrate that the overall cost of the bundled projects with AFUDC is less than the total overall cost of the unbundled projects without AFUDC. ~~[moved to new proposed section (2)(a)(2)]

(2)~~(1)~~ Construction work in progress (CWIP) or nuclear fuel in process (NFIP) not under a lease agreement that is not included in rate base may accrue ~~allowance for funds used during construction (~~AFUDC~~)~~, under the following conditions:

(a) Eligible projects. The following projects may be included in CWIP or NFIP and accrue AFUDC:

1. Projects that involve gross additions to plant in excess of the lower of $50 million or 0.25 percent of the sum of the total balance in Account 101, Electric Plant in Service, ~~and~~ Account 106, Completed Construction not Classified, Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, and Account 111, Accumulated Provision for Amortization of Electric Utility Plant, at the time the project commences and . . . .

a. Are expected to be completed in excess of one year after commencement of construction, or

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b. Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

2. A utility may ~~not~~ bundle related projects that achieve a specific outcome ~~as a means of demonstrating that it has met the threshold for accruing AFUDC pursuant to this Rule unless~~ if it ~~can also~~ demonstrates that the ~~overall~~ cost of the bundled projects ~~with~~ excluding AFUDC is less than the total ~~overall~~ cost of the unbundled projects ~~without AFUDC~~. [moved from new Staff proposed section (1)(c)]

(b) Ineligible projects. The following projects may be included in CWIP or NFIP, but may not accrue AFUDC:

1. Projects, or portions thereof, that do not exceed the level of CWIP or NFIP included in rate base in the utility's last rate case.

2. Projects where gross additions to plant are less than the lower of $50 million or 0.25 percent of the sum of the total balance in Account 101, Electric Plant in Service, and Account 106, Completed Construction not Classified, at the time the project commences.

3. Projects expected to be completed in less than one year after commencement of construction.

4. Property that has been classified as Property Held for Future Use.

(c) Unless otherwise authorized by the Commission, the following projects may not be included in CWIP or NFIP, nor accrue AFUDC:

1. Projects that are reimbursable by another party.

2. Projects that have been cancelled.

3. Purchases of assets which are ready for service when acquired.

4. Portions of projects providing service during the construction period.

(d) Other conditions. Accrual of AFUDC is subject to the following conditions:

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1. Accrual of AFUDC is not to be reversed when a project originally expected to be completed in excess of one year is completed in one year or less;

2. AFUDC may not be accrued retroactively if a project expected to be completed in one year or less is subsequently suspended for six months, or is not ready for service after one year;

3. When a project is completed and ready for service, it shall be immediately transferred to the appropriate plant account(s) or Account 106, Completed Construction Not Classified, and may no longer accrue AFUDC;

4. Where a work order covers the construction of more than one property unit, the AFUDC accrual must cease on the costs related to each unit when that unit reaches an in-service status;

5. When the construction activities for an ongoing project are expected to be suspended for a period exceeding six months, the utility must notify the Commission of the suspension and the reason(s) for the suspension, and must submit a proposed accounting treatment for the suspended project; and

6. When the construction activities for a suspended project are resumed, the previously accumulated costs of the project may not accrue AFUDC if such costs have been included in rate base for ratemaking purposes. However, the accrual of AFUDC may be resumed when the previously accumulated costs are no longer included in rate base for ratemaking purposes.

(e) Subaccounts. Account 107, Construction Work in Progress, and Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, must be subdivided so as to segregate the cost of construction projects that are eligible for AFUDC from the cost of construction projects that are ineligible for AFUDC.

(f) Prior to the commencement of construction on a project, a utility may file a petition to seek approval to include an individual project in rate base that would otherwise qualify for

AFUDC treatment per paragraph (2)~~(1)~~(a).

(g) On a prospective basis, the Commission, upon its own motion, may determine that the potential impact on rates may require the exclusion of an amount of CWIP from a utility's rate base that does not qualify for AFUDC treatment per paragraph (2)~~(1)~~(a) and to allow the utility to accrue AFUDC on that excluded amount.

(3)~~(2)~~ The applicable AFUDC rate will be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, must be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure will be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short term debt and customer deposits, and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock will be based on end of period cost. The annual percentage rate must be calculated to two decimal places.

(4)~~(3)~~ Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to six decimal places, must be employed to ensure ~~insure~~ that the annual AFUDC charged does not exceed authorized levels.

(a) The formula used to discount the annual AFUDC rate to reflect monthly compounding is as follows:

$$\mathbf{M = [((1 + A/100)^{1/12\cancel{-1}})-1]x\ 100}$$

Where:

M = discounted monthly AFUDC rate

A = annual AFUDC rate

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(b) The monthly AFUDC rate, carried out to six decimal places, must be applied to the average monthly balance of eligible CWIP and NFIP that is not included in rate base.

(5)~~(4)~~ The following schedules must be filed with each petition for a change in AFUDC rate:

(a) Schedule A. A schedule showing the capital structure, cost rates and weighted average cost of capital that are the basis for the AFUDC rate in subsection (2).

(b) Schedule B. A schedule showing capital structure adjustments including the unadjusted capital structure, reconciling adjustments and adjusted capital structure that are the basis for the AFUDC rate in subsection (2).

(c) Schedule C. A schedule showing the calculation of the monthly AFUDC rate using the methodology set out in this rule.

(6)~~(5)~~ No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate will be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

(7)~~(6)~~ Each utility charging AFUDC must include in its December Earnings Surveillance Reports to the Commission Schedules A and B identified in subsection (4) of this rule, as well as disclosure of the AFUDC rate it is currently charging.

(8)~~(7)~~ The Commission may, on its own motion, initiate a proceeding to revise a utility's AFUDC rate.

(9)~~(8)~~ Each utility must include in its Forecasted Surveillance Report a schedule of individual projects that commence during that forecasted period and are estimated to have a gross cost in excess of the lower of $50 million or 0.25 percent of the sum of the total balance

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in Account 101, Electric Plant in Service, and Account 106, Completed Construction not Classified. The schedule must include the following minimum information:

(a) Description of the project.

(b) Estimated total cost of the project.

(c) Estimated construction commencement date.

(d) Estimated in-service date.

Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.04(2)(a), (f) 366.06(1), (2), 366.08 FS. History–New 8-11-86, Formerly 25-6.141, Amended 11-13-86, 12-7-87, 1-7-97, 12-30-19, _______________.