

MEMORANDUM

August 1, 1996

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2:45

FPSC-RECORDS/REPORTING

TO : DIVISION OF RECORDS & REPORTING  
FROM : RICHARD C. BELLAK, ASSOCIATE GENERAL COUNSEL *RCB*  
RE : DOCKET NO. 951535-EI, PROPOSED REVISIONS TO RULE 25-6.0141, F.A.C., ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

*0985 - Notice*

Attached please find a Notice of Rulemaking for distribution by your office.

Industry distribution is:

- Electric (EI)
- Electric (EM)
- Electric (EC)
- Gas (GU)
- Gas (GS)
- Gas Pipeline (GP)
- Telephone (TL)
- Telephone (TI)
- Telephone (TC)
- Telephone (TS)
- Telephone (TX)
- Telephone Alternate Access Vendors (TA)
- Water and Wastewater (WAW)

*04/14*

This document has the following priority:

- Must be issued today.
- Must be issued within 48 hours.
- Must be issued within 5 working days.

NR010141 MKD  
Attachment  
cc: File  
W. Terrell

*95/19 filed*

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Proposed Revisions to ) DOCKET NO. 951535-EI  
Rule 25-6.0141, F.A.C., ) ORDER NO. PSC-96-0985-NOR-EI  
Allowance for Funds Used During ) ISSUED: August 2, 1996  
Construction (AFUDC) )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

NOTICE OF RULEMAKING

NOTICE is hereby given that the Florida Public Service Commission, pursuant to Section 120.54, Florida Statutes, has initiated rulemaking to amend Rule 25-6.0141, Florida Administrative Code, relating to allowance for funds used during construction.

The attached Notice of Rulemaking will appear in the August 9, 1996 edition of the Florida Administrative Weekly.

If timely requested, a hearing will be held at the following time and place:

Florida Public Service Commission  
9:30 a.m., September 4, 1996  
Betty Easley Conference Center  
Room 152, 4075 Esplanade Way  
Tallahassee, Florida

Written requests for hearing and written comments or suggestions on the rules must be received by the Director, Division of Records and Reporting, Florida Public Service Commission, 2540 Shumard Oak Blvd., Tallahassee, FL 32399-0862, no later than August 30, 1996.

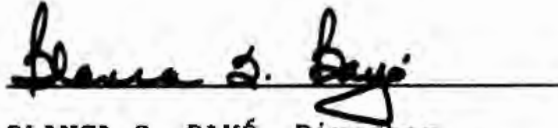
DOCUMENT NUMBER-DATE

08111 AUG-2 96

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By ORDER of the Florida Public Service Commission, this 2nd  
day of August, 1996.

A handwritten signature in cursive script, reading "Blanca S. Bayó", is written over a solid horizontal line.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

RCB

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FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 951535-EI

RULE TITLE: Allowance for Funds Used During Construction  
RULE NO.: 25-6.0141

PURPOSE AND EFFECT: The purpose of the amendments is to increase the cost threshold of a project which will qualify for accrual of AFUDC so that projects will only qualify if there will be a significant financial impact on the company.

SUMMARY: Projects can accrue AFUDC which exceed 0.5% of the sum in Account 101-Electric Plant in Service and Account 106-Completed Construction not classified. Projects under a lease agreement are excluded. Prior to commencement of a project, a utility can seek permission to include a project in rate base which would otherwise accrue AFUDC. The rule requires a schedule of projects which would equal or exceed a gross cost of \$10,000,000 to be included in the utility's Forecasted Surveillance Report. The rule takes effect January 1, 1996, but allows an implementation grace period until January 1, 1999 or the company's next rate proceeding, whichever occurs first.

RULEMAKING AUTHORITY: 350.127(2), 366.05(1), FS.

LAW IMPLEMENTED: 350.115, 366.04(2)(a), 366.06(1), FS.

WRITTEN COMMENTS OR SUGGESTIONS ON THE PROPOSED RULE MAY BE SUBMITTED TO THE FPSC, DIVISION OF RECORDS AND REPORTING, WITHIN 21

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DAYS OF THE DATE OF THIS NOTICE FOR INCLUSION IN THE RECORD OF THE PROCEEDING.

HEARING: IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE HELD AT THE DATE AND PLACE SHOWN BELOW:

TIME AND DATE: 9:30 A.M., September 4, 1996.

PLACE: Room 152, Betty Easley Conference Center, 4075 Esplanade Way, Tallahassee, Florida.

THE PERSON TO BE CONTACTED REGARDING THIS RULE AND THE ECONOMIC IMPACT STATEMENT IS: Director of Appeals, Florida Public Service Commission, 2540 Shumard Oak Blvd., Tallahassee, Florida 32399.

THE FULL TEXT OF THE RULE IS:

25-6.0141 Allowance For Funds Used During Construction.

(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 0.5 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 \$25,000 and

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

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.

(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 company's last rate case.

2. Projects where gross additions to plant are less than 0.5 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 \$25,000 or less.

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:

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 shall 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 (6) months, the utility shall notify the Commission of the suspension and the reason(s) for the suspension, and shall 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, shall 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 Section (1)(a).

(g) On a prospective basis, the Commission, upon its own motion, may determine that it is in the best interests of the ratepayers to exclude an amount of CWIP from a utility's rate base that does not qualify for AFUDC treatment per Section (1)(a) and to allow the utility to accrue AFUDC on that excluded amount.

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall be derived using all sources of



capital and adjusted using adjustments consistent with those used by the Commission in the utility's Company's last rate case.

(b) The cost rates for the components in the capital structure shall 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 shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

~~(c) The treatment by the Commission of all investment tax credits at a zero cost rate shall be contingent upon a ruling from the Internal Revenue Service that such treatment will not, for companies elected to be treated under s. 46(f) (2) of the Internal Revenue Code, result in the forfeiture of the tax credits. Pending receipt of such a ruling, each utility shall continue to use the weighted overall cost of capital calculated in a manner consistent with the final IRS Regulation Section 1.46-6 published May 22, 1986, as the cost of the utility's 4% and 10% investment tax credits.~~

~~(d) Any such ruling request must be submitted to the Commission by December 15, 1987. The AFUDC cost rate for the investment tax credit for any company which fails to submit its own letter ruling request to the IRS shall be governed by the first~~

~~letter ruling issued by the IRS in response to a request submitted pursuant to subsection 2(e) of this rule.~~

(3) Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to six decimal places, shall be employed to 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:

$$M = [(1 + \frac{A}{100})^{1/12} - 1] \times 100$$

100

Where:

M = discounted monthly AFUDC rate

A = Annual AFUDC rate

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

(4) The following schedules shall 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.

(5) No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall 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.

(6) Each utility charging AFUDC shall include in its ~~June and December Earnings Rate of Return 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.

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

(8) Each utility shall include in its Forecasted Surveillance Report a schedule of individual projects that commence during that forecasted period and are estimated to equal or exceed a gross cost of \$10,000,000. The schedule shall 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.

~~(9) (8) The provisions of this rule are effective January 1, 1996 and shall be implemented by all electric utilities no later than January 1, 1999, or the utility's next rate proceeding, whichever occurs first. Paragraphs (a) and (b) of subsection (1) shall not be effective for any utility until it implements final rates in a general rate case initiated after the effective date of this Rule. The foregoing notwithstanding, those provisions will become effective for all utilities no later than January 1, 1989.~~  
Specific Authority 350.127(2), 366.05(1) FS.

Law Implemented 350.115, 366.04(2)(a), 366.06(1) FS.

History New 8-11-86, Amended 11-13-86, 12-7-87, \_\_\_\_\_.

NAME OF PERSON ORIGINATING PROPOSED RULE: Jay Revell.

NAME OF SUPERVISOR OR PERSON(S) WHO APPROVED THE PROPOSED RULE:  
Florida Public Service Commission.

DATE PROPOSED RULE APPROVED: April 30, 1996.

If any person decides to appeal any decision of the Commission with respect to any matter considered at the rulemaking hearing, if held, a record of the hearing is necessary. The appellant must ensure that a verbatim record, including testimony and evidence forming the basis of the appeal is made. The Commission usually makes a verbatim record of rulemaking hearings.

Any person requiring some accommodation at this hearing because of a physical impairment should call the Division of Records and Reporting at (904) 413-6770 at least five calendar days prior to

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the hearing. If you are hearing or speech impaired, please contact the Florida Public Service Commission using the Florida Relay Service, which can be reached at: 1-800-955-8771 (TDD).