State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER ● 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

RECEIVED-FPSC
03 MAY 21 PM 3:29
COMMISSION CLERK

DATE: MAY 22, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: OFFICE OF THE GENERAL COUNSEL (STERN) MKS
DIVISION OF ECONOMIC REGULATION (ROMIG, HEWITT) DM

RE: DOCKET NO. 030304-PU - PROPOSED ADOPTION OF RULE 25-14.014, F.A.C., ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS UNDER SFAS 143.

AGENDA: 06/03/03 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\GCL\WP\030304.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission propose Rule 25-14.014, Florida Administrative Code, titled "Accounting for Asset Retirement Obligations Under SFAS 143"?

RECOMMENDATION: Yes, the Commission should propose the rule as shown in the attachment to this recommendation.

STAFF ANALYSIS: The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards 143 (SFAS 143), Accounting for Retirement Obligations, in June 2001. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS 143 changes the method of accounting for the cost of removal of long-lived assets. Currently, a regulated company in Florida records the cost of removal in approximate equal amounts over the life of the asset to which it relates. SFAS 143 applies primarily to the

DOCUMENT NUMBER-DATE
04589 MAY 21 8
FPSC-COMMISSION CLERK

decommissioning of nuclear plants. Under SFAS 143 the year to year removal costs included in expenses may be higher or lower than they are currently. Staff believes that these removal costs should continue to be recorded in approximate equal amounts over the life of the asset. Rule 25-14.014 is proposed to accomplish this uniformity. If the Commission does not approve a rule to address SFAS 143, then each company will be required to maintain one set of books for financial purposes and a different set of books for regulatory purposes. This rule will benefit regulated companies since they will only be required to keep one set of books.

Proposed Rule 25-14.014 dictates how a regulated company accounts for Asset Retirement Obligations under SFAS 143 on its books for financial purposes and for regulatory purposes. It gives companies the authority to record Regulatory Assets and Regulatory Liabilities to neutralize the expense impact of implementing SFAS 143 for financial reporting. The Rule also ensures that the effect of SFAS 143 on financial statements will be consistent for all companies and will not alter earnings from what they would be without SFAS 143.

The Notice of Proposed Rule Development was published in the January 31, 2003 issue of the Florida Administrative Weekly. A workshop was not requested.

STATUTORY AUTHORITY

Section 350.127(2), Florida Statutes, grants the Commission rulemaking authority. The statutes being implemented by this proposed rule are Sections 366.05(1), 364.03 and 367.121(1)(a), Florida Statutes. These statutes grant the Commission authority to prescribe fair and reasonable rates for regulated, public gas and electric utilities, telecommunications companies, and water and wastewater utilities, respectively. This rule will affect rates beneficially because, by allowing utilities to keep one set of books, it will reduce administrative costs. Reducing administrative costs will keep rates reasonable.

STATEMENT OF ESTIMATED REGULATORY COSTS

Regulated corporations must comply with SFAS 143 and should only have minor costs complying with the proposed rule. Therefore, a Statement of Estimated Regulatory Costs is not necessary.

ISSUE 2: Should this docket be closed?

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

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

DOCKET NO. 030304-PU
DATE: May 22, 2003

25-14.014 Accounting for Asset Retirement Obligations Under SFAS 143.

(1) The Financial Accounting Standards Board issued Statement No. 143, Accounting for Asset Retirement Obligations (SFAS 143) in June 2001. The statement applies to legal obligations associated with the retirement of tangible, long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. For utilities required to implement SFAS 143, it shall be implemented in a manner such that the assets, liabilities and expenses created by SFAS 143 and the application of SFAS 143 shall be revenue neutral in the rate making process.

(2) Definitions. For purposes of this rule, the following definitions apply:

(a) "Accretion Expense." The concurrent cost that is recorded as an operating item in the statement of income to account for the passage of time and the resulting period-to-period increase in the Asset Retirement Obligation.

(b) "Asset Retirement Cost." The amount capitalized that increases the carrying amount of the long-lived asset when a liability for an Asset Retirement Obligation is recognized.

(c) "Asset Retirement Obligation." An obligation associated with the retirement of a tangible long-lived asset.

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

(3) Pursuant to SFAS 143, each utility shall recognize the fair value of a liability for an Asset Retirement Obligation in the period in which it is incurred if a reasonable estimate of the fair value can be made. If a reasonable estimate of fair value cannot be made in the period the Asset Retirement Obligation is incurred, the liability shall be recognized when the reasonable estimate of fair value can be made. The fair value of the liability for an Asset Retirement Obligation is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. If quoted market prices are not available, the estimate of fair value shall be based on the best information available in the circumstances including prices for similar liabilities and the result of present value or other valuation techniques. The Asset Retirement Obligations shall be kept by function and recorded in separate subaccounts.

(4) Upon initial recognition of a liability for an Asset Retirement Obligation, the utility shall capitalize an Asset Retirement Cost by increasing the carrying amount of the long-lived assets by the same amount as the liability. The Asset Retirement Cost shall be kept by function and recorded in a separate subaccount as intangible plant. The utility shall subsequently

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

allocate that Asset Retirement Cost to expense over its useful life. The expense shall be recorded in a separate subaccount.

(5) Asset Retirement Costs do not qualify for Allowance for Funds Used During Construction.

(6) Pursuant to SFAS 143, in periods subsequent to the initial measurement, a utility shall recognize period-to-period changes in the liability for an Asset Retirement Obligation resulting from accretion or revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

(a) A utility shall measure the accretion cost in the liability for an Asset Retirement Obligation due to passage of time by applying the interest method of allocation to the amount of the liability at the beginning of the period. This amount shall be recognized as an increase in the carrying amount of the liability.

(b) The accretion expense shall be recorded in a separate subaccount.

(c) Revisions to a previously recorded Asset Retirement Obligation will result from changes in the assumptions used to estimate the cash flows required to settle the Asset Retirement Obligation, including changes in estimated probabilities, amounts, and timing of the settlement of the Asset Retirement Obligation, as well as changes in the legal requirements of an obligation. Upward

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

revisions to the undiscounted estimated cash flows shall be treated as a new liability and discounted at the current rate. Downward revisions will result in a reduction of the Asset Retirement Obligation. The amount of the liability to be removed shall be discounted at the rate that was used at the time the obligation was originally recorded. The concurrent debit or credit shall be made to the Asset Retirement Cost.

(7) Differences between amounts prescribed by the Commission and those used in the application of SFAS 143 shall be recorded as Regulatory Liabilities or Regulatory Assets in separate subaccounts.

(8) The Regulatory Debit and Regulatory Credit accounts shall be used to record the differences between the Commission prescribed amounts and the amounts which are reported as expense under SFAS 143.

(9) Each utility shall keep records supporting the calculation and the assumptions used in the determination of the Asset Retirement Obligation and the related Asset Retirement Cost and the related Regulatory Assets and Regulatory Liabilities established in accordance with this rule and the implementation of SFAS 143.

(10) If a utility is not required to establish an Asset Retirement Obligation for an asset or group of assets, the cost of

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

removal shall continue to be included in the calculation of the depreciation expense and accumulated depreciation.

Specific Authority: 350.127(2) F.S.

Law Implemented: 364.03, 364.035(5), 366.05(1), 367.121(1)(a) F.S.

History: New ______________.

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.