FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

February 21, 1991

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HICKS)
DIVISION OF ELECTRIC AND GAS (WALSH) gw
DIVISION OF LEGAL SERVICES (RULE) MR

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RE : DOCKET NO. 890148-EI, PETITION OF THE FLORIDA INDUSTRIAL POWERS USERS GROUP TO DISCONTINUE FLORIDA POWER & LIGHT COMPANY'S OIL BACKOUT COST RECOVERY FACTOR

AGENDA: MARCH 5, 1991 - CONTROVERSIAL - PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

DISCUSSION OF ISSUES

ISSUE 1: Should the unamortized portion of Investment Tax Credits (ITCs) related to oil backout investments be returned to Florida Power and Light Company's (FPL) ratepayers? (HICKS)

RECOMMENDATION: Yes. FPL should refund the jurisdictional revenue effect of the $15,950,647 of unamortized ITCs related to the oil backout project property. The jurisdictional revenue effect of the $15,950,647, when added to interest of $2,743,910, amounts to a total refund of $28,410,978.

STAFF ANALYSIS: By Order No. 22268, issued December 5, 1989, the Commission found that additional ITC amortization should be refunded to FPL's customers as a result of the accelerated bock depreciation recovered by FPL. Specifically, those customers who paid for recovery of the accelerated depreciation of the oil backout assets should receive the benefits of the associated ITC amortization. The amortization method used by FPL will not accomplish this goal.

FPL amortizes its ITCs generated by the oil backout investments by using a composite amortization rate of 4%, which implies a book life of 25 years on a composite basis. However, the oil backout assets were recovered over a seven year period for book purposes. Thus, there is a mismatch of the ratepayers who paid for the recovery of the oil backout assets and the ratepayers who will receive the benefit of the ITC amortization. In addition, the ratepayers are required to pay a return on the unamortized balance of ITCs.

The Internal Revenue Code (IRC) and applicable Regulations require that ITCs for an Option 2 utility such as FPL, earn a weighted rate of return for ratemaking purposes and be amortized above-the-line. The ITC amortization must be no more rapid than ratable (over the depreciable book life). Further, the Regulations allow the use of a composite rate for amortization. FPL's current approach does not violate the IRC or the regulations.

As of August 1989, $17,780,000 of ITCs remained unamortized due to FPL's method of ITC amortization, even though the transmission plant generating the ITCs has been fully recovered. Staff recommended to the Commission that this amount should have been amortized at the same rate the oil backout assets were recovered. The utility expressed concern that FPL's entire unamortized ITC balance might be placed at risk if an amortization rate specific to the oil backout clause were used. Because of this concern, FPL requested that it be allowed to get a letter ruling from the IRS regarding the use of an amortization rate specific to the oil backout clause.

Contingent on a favorable letter ruling from the Internal Revenue Service, the Commission ordered Florida Power and Light Company (FPL) to flow-back, to the ratepayers, approximately $17 million of unamortized ITCs, associated with an oil backout project, over the six month period beginning April 1990. By Order No. 22268, the Commission ordered that beginning April 1, 1990, FPL shall place subject to refund a sum of money equal to the revenue effect of the unamortized balance of ITCs existing at that date, plus interest from that date forward.

On February 11, 1991, FPL submitted a copy of the letter ruling to this Commission. In its Letter Ruling, the IRS determined that the refund resulting from the rapid flow-back of the ITCs associated with FPL's oil backout project is permissible.

As previously mentioned, $17,780,000 of ITCs remained unamortized as of August 1989. Approximately $1,390,000 in ITCs were flowed back through the Oil Backout Cost Recovery Factor

(OBCRF) in effect for the periods September 1989 through March 1991. As of March 31, 1991, the unamortized balance of oil backout project investment tax credits will be $16,389,703. Under FPL's proposal, $439,056 will be flowed back through the OBCRF during April through September 1991 as part of regular amortization. This will leave a balance of $15,950,647 in unamortized ITCs to be returned to the ratepayers. The jurisdictional revenue effect of $15,950,647, which amounts to $25,667,068, plus accrued interest from April 1990 through September 1991 of $2,743,910, would be refunded through a cents per KWH factor during the April 1991 through September 1991 period. This will result in a total refund of $28,410,978.

Staff has examined FPL's refund proposal and believes it to be fair and reasonable. Therefore, staff recommends that FPL be allowed to refund the jurisdictional revenue effect of unamortized project investment tax credits of $25,667,068, plus interest of $2,743,910, for a total refund of $28,410,978.

ISSUE 2: How should the refund be accomplished? (HICKS)

RECOMMENDATION: The refund should be accomplished by flowing back $439,056 of the $16,389,703 in unamortized investment tax credits, through the Oil Backout Cost Recovery Factor during April 1991 through September 1991, as part of regular amortization. The jurisdictional revenue effect of unamortized ITCs of $25,667,068, plus accrued interest from April 1990 through September 1991 of $2,743,910, would be refunded through a cents per KWH factor during the April 1991 through September 1991 period. This will result in a total refund of $28,410,978. In addition, any over or under refund should be adjusted on FPL'r books in October 1991 and recognized in a subsequent oil backout true-up.

STAFF ANALYSIS: In its proposal to refund the unamortized investment tax credits, FPL proposes to refund to customers on an equal cents per KWH basis, over the April 1991 through September 1991 period. The revenue effect of the unamortized balance, plus accrued interest through the refund period, would be shown as a separate line item on each customer's bill. FPL also proposes that any over or under recovery would be adjusted on its books in October 1991 and recognized in a subsequent oil backout true-up. Staff believes the proposal has several advantages.

First, a six month refund avoids seasonal inequities. Second, it effectuates the refund without disrupting the current fuel and oil backout proceeding. Third, it apprises customers of the refund rather than treating it as a credit in the fuel factor. Finally, it requires no further adjustment to oil backout ITC amortization.

Based on the above, staff believes that FPL's method of refund is reasonable. Staff recommends that FPL refund the unamortized balance of oil backout investment tax credits through a cents per KWH factor to be applied for six months beginning with the first customer billing of April 1991.

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