

GATLIN, WOODS, CARLSON & COWDERY

Attorneys at Law

a partnership including professional associations

The Mahan Station
1709-D Mahan Drive
Tallahassee, Florida 32308

B. KENNETH GATLIN, P.A.
THOMAS F. WOODS
JOHN D. CARLSON
KATHRYN G.W. COWDERY
WAYNE L. SCHIEFELBEIN

TELEPHONE (904) 877-7191
TELECOPIER (904) 877-9031

ORIGINAL
COPY

August 5, 1993

Mr. Steve Tribble, Director
Division of Records & Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

Hand-Deliver

RE: Docket No. **911082-WS**
PROPOSED NEW, REVISED AND REPEALED RULES
PERTAINING TO WATER AND WASTEWATER REGULATION

Dear Mr. Tribble:

Enclosed on behalf of the Florida Waterworks Association (FWA) are sixteen (16) copies of supplemental Comments of Deborah D. Swain regarding proposed Rule 25-30.434, Application for Allowance for Funds Prudently Invested (AFPI) Charges.

At the May, 1993 hearings for this docket, PSC Staff testified that the calculation of AFPI should be based on nonused and useful plant net of depreciation. In response to Chairman Deason's and Commissioner Clark's request, PSC Staff thereafter prepared an exhibit showing the impact of three alternative depreciation scenarios.

The enclosed comments of Ms. Swain further support the FWA position that AFPI should be based on undepreciated nonused plant. This is consistent with the proposed rule as currently written.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my

ACK _____
AFA _____
APP 1 _____
CAF _____
CMU _____
CTY _____
EAG _____
LED _____
LRI 6 _____
CND _____
RCH 2 _____
STD 1 _____
WAS 1 _____
OTH _____

RECEIVED & FILED
29
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

08496 AUG-5 93

FPSC-RECORDS/REPORTING

Mr. Steve Tribble
August 5, 1993
Page Two

attention. Thank you for your assistance.

Sincerely ,



Wayne L. Schiefelbein

WLS/dc

Enclosures

cc: (w/enc.)
Christiana T. Moore, Associate General Counsel
H.F. Mann, II, Associate Public Counsel
Brian Armstrong, Esquire
Kenneth A. Hoffman, Esquire
Buddy Dewar

ORIGINAL
FILE COPY

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
COMMENTS OF DEBORAH D. SWAIN
ON BEHALF OF THE FLORIDA WATERWORKS ASSOCIATION
DOCKET NO. 911082-WS
IN RE: PROPOSED NEW, REVISED AND REPEALED RULES PERTAINING TO
WATER AND WASTEWATER REGULATION

Rule No. 25-30.434 Application for Allowance for Funds
Prudently Invested (AFPI) Charges.

Comment: FWWA does not take issue with the rule as proposed
by the Commission. However, it has the following comments in
response to staff testimony on this proposed rule.

In Analysis of Margin Reserve, Used-and-Useful Adjustments,
and Allowance for Funds Prudently Invested (FPSC, 1990) at p.
2-11, AFPI is described as follows:

AFPI is intended to recover those plant costs that
are not recovered through current rates because a
portion of existing plant is not considered used
and useful. Under AFPI, the costs of nonused and
useful plant are identified and collected from
future customers.

In Regulatory Treatment of Prudently Constructed Plant in
Excess of Current Needs (FPSC, 1984) at p. 2, the following
description can be found:

The "allowance for funds" concept allows the
utility an opportunity to earn a fair return on the
prudently constructed plant held for future use
from the future customers to be served by that
plant in the form of a charge paid by those
customers at the time of connection.

The above publications explain that the Commission has also
determined that once a defined prudency test has been met,
includable components are depreciation expense, return on
investment in nonused and useful plant, income taxes on
return on investment, property taxes associated with nonused
and useful plant, other operating and maintenance expenses
not allocated to present customers, return on capital
temporarily invested in unreimbursed expenses, and compounded
earnings on prior year's return on plant investment. These
costs are accumulated, and each customer's accumulated share
is paid when he connects to the system. Typically, these
costs are accumulated for a period of five years. If the
growth is slower than the five year period, AFPI will still

be collected, but it will be capped at five years of accumulated carrying costs.

In its determination of includable costs, the Commission considered that it had three alternatives for treating depreciation in the calculation of AFPI. It may be included as a carrying cost, it may be disallowed, or it may be set up as deferral. The Commission found, however, that by disallowing the cost, the utility would be prevented from recovering a prudently invested asset. By establishing a deferral, the timely recovery of the investment would be delayed. Therefore, the Commission found it proper to include accumulated depreciation as a carrying cost in developing the charge.

In a rate application, a utility with nonused and useful plant will make an adjustment to also remove the balance of accumulated depreciation on that nonused plant from rate base. If an AFPI charge has not previously been established, this adjustment represents the accumulation of depreciation expense never recovered through customer rates.

Consider the following example:

Utility Plant in Service (WTP):	\$1,000,000
% Used and useful:	60%
Age:	2 years
Total annual depreciation expense:	\$ 36,000
Total Accumulated depreciation:	\$ 72,000
Nonused & useful - Plant	\$ 400,000
- Accum. deprec.	\$ 28,800
- Net	\$ 371,200

In this example, the adjustment for nonused and useful is \$371,200 (\$400,000 - \$28,800). The disallowed, unrecovered depreciation expense each year is \$14,400 (36,000 X 40%). The unrecovered depreciation funded by the utility totals \$28,800 at the beginning of the AFPI period.

For the purpose of calculating current customer rates, it is appropriate to reduce the used and useful plant by the corresponding accumulation of depreciation expense recovered through those rates. Clearly, this accumulation represents the amount that should be used to reduce utility investment - it is the amount that has been recovered from customers.

In this example, the utility has made an investment of \$400,000 in nonused and useful plant, which will benefit future customers in future periods. If it was prudently invested, at the time of its rate application the utility

will be entitled to AFPI. Until that time, the utility has had no recovery of depreciation expense through rates. Its investment remains \$400,000 until it begins charging AFPI, and recovering depreciation expense. It is not appropriate to reduce nonused plant by accumulation of unrecovered depreciation for the calculation of AFPI.

Commission staff has indicated that it would reduce the balance of qualifying assets for the AFPI calculation by accumulated depreciation, unless, of course, it was the first year of the plant life, and there was no accumulation. This appears to be a punitive action, penalizing a utility that does not request AFPI during the first year of the plant life. However, in any case where a historical test period is used, there will be some amount of accumulated depreciation on nonused plant. If there is an adjustment to its AFPI qualifying assets for depreciation never recovered, the utility will never have an opportunity to earn on its full investment.

In answer to staffs' apparent concern when a utility requests AFPI on nonused plant near the end of its useful life, they should be reminded the Commission specifies the period of time that AFPI accumulated, usually five years. Regardless of the age or the life of the asset, the future customers will only ever pay a maximum of the depreciation that accumulates for that specified period. There is no risk that a customer will pay more than that amount of depreciation through AFPI, no matter what the age or life of the qualifying asset is.

If an AFPI qualifying asset is a 15 year old plant with a 20 year life, fifteen years of depreciation expense have never been recovered. The utility's investment is still the original undepreciated cost of the asset. On that 20 year life plant, the utility will have an opportunity to recover typically 5 years of depreciation through AFPI. If the future customers will only ever pay for five years of depreciation through AFPI, why should the qualifying assets on which the utility earns a return earned be automatically reduced by 15 years of depreciation expenses never recovered?

When calculating AFPI, the qualifying assets on which the utility may earn a return should only be reduced by the accumulation of depreciation recovered from customers, if any. A reduction for unrecovered depreciation would prevent a utility from earning a return on its prudent investment in nonused and useful plant.