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FILE COPY

Susan D Cranmer
Assistant Secretary and
Assistant Treasurer

the southern electric system

July 25, 1996

Ms Blanca S Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms Bayo

RE Docket No. 951535-EI

Enclosed are an original and fifteen copies of Gulf Power Company's comments in the above docket

Also enclosed is a 3 5 inch double sided, high density diskette containing the Petition in WordPerfect for Windows 6 1 format as prepared on a MS-DOS based computer

Sincerely

Susan D Cranmer

lw

Enclosure

cc Beggs and Lane
Jeffrey A Stone, Esquire

DOCUMENT NUMBER-DATE
07863 JUL 26 96
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Proposed Revisions to Rule 25-6.0141, F.A.C., Allowance for Funds Used During Construction (AFUDC).	)))))	Docket No. 951535-EI Date filed: July 26, 1996

COMMENTS OF GULF POWER COMPANY

GULF POWER COMPANY ("Gulf Power," "Gulf," or "the Company"), by and through its undersigned attorneys, and pursuant to the Florida Public Service Commission's notice of proposed rulemaking issued June 27, 1996, submits the following comments in opposition to the proposed revisions to Rule 25-6.0141, F.A.C., Allowance for Funds Used During Construction (AFUDC). The Company does not request that a formal hearing be held. Provided that no hearing is held pursuant to the written request of any other interested party, Gulf does request an opportunity to address the Commission during the agenda conference at which the Commission will hold deliberations prior to adopting, rejecting or modifying the proposed rule.[1]

Through these comments, Gulf urges the Florida Public Service Commission ("Commission," or "FPSC") to reject the proposed revisions. Instead, the Company urges the Commission to continue its policy of a threshold for accruing AFUDC that is uniform for all electric utilities without regard to their size. The continuance of this reasonable policy can be achieved either by maintaining the existing rule or by adopting an alternative proposal that contemplates a fixed dollar threshold applicable to all utilities without regard to differences in size. Such an alternative proposal was set forth in the staff's recommendation that was considered by the Commission at the June 11, 1996 agenda conference.

[1]See §25-22.017(1) F.A.C. and §25-22.0021(1) F.A.C.

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Gulf has previously expressed two concerns with the proposed changes to the AFUDC rule. First, the proposal represents a very significant change to a carefully considered policy that has been in place at the Commission for more than 20 years. Second, the proposal, represents a dramatic shift away from the Commission's existing policy requiring uniform accounting practices by utilities without regard to size.[2] Very little, if any, justification has been offered to support such a significant shift in Commission policy.

The attempt to charge current customers for cost of construction by severely limiting the projects eligible for AFUDC places upward pressure on current rates for utilities with ongoing construction programs. If the rules are changed now as proposed, this upward pressure occurs at a time when utilities are trying to avoid filing requests for rate increases because of competitive pressures. It is conceivable that some utilities may have a sufficient earnings cushion such that they could absorb this added pressure without having to seek rate relief. Indeed, it is conceivable that a utility that may otherwise be in an over-earnings position might favor changes to the rule as part of an overall effort to avoid rate reductions in the near term. If the Commission ultimately concludes that changes to the existing AFUDC rule are appropriate, care should be taken to ensure that the resulting changes do not create an accounting disparity that may give a

[2] When the original version of the current AFUDC rule was enacted in August 1986, the need for uniform accounting treatment was cited by the Commission as the facts and circumstances justifying adoption of the rule. (Order No. 16429 at page 15, issued 8/1/86) Although the rule was first established August 11, 1986, it was not made immediately effective for all utilities. By the terms of the rule as initially established, it was scheduled to become effective for all utilities no later than January 1, 1989. Subsection (8) of §25-6.014 F.A.C. states: "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, these provisions will become effective for all utilities no later than January 1, 1989."

larger utility subject to these rules a competitive benefit or edge over a smaller utility subject to the same rules. This important goal can only be accomplished in the context of this proceeding by rejecting the current proposed changes and instead adopting the alternative proposal set forth in the staff's recommendation for the June 11, 1996 agenda conference.

It is unclear why major changes to the AFUDC rules have been proposed at this time. There have been some indirect references to an improved basis of accounting for construction costs and reducing AFUDC accruals because of competition and the potential for stranded costs. If the basis is concern over potential stranded costs, there are other more appropriate and direct methods for the Commission to address the issue. Reducing AFUDC by placing more CWIP in rate base is not the most effective alternative to address these considerations.

The current proposed revisions to the AFUDC rule were not originated by a request from an affected utility It does not appear that similar revisions have been proposed by the FERC or any other state regulatory commissions. It does not appear that any other jurisdiction with rules regarding AFUDC has set up a threshold for project eligibility based a percentage of a utility's embedded plant in service and completed construction not classified. The staff seems to feel that the Commission should "set the trend" on this issue and has indicated that other public service commissions will soon follow the FPSC's lead. Gulf has not uncovered any evidence to support the notion that other public service commissions are "waiting in the wings" in preparation to act in a fashion similar to the proposed changes set forth in the notice of proposed rulemaking. The utilities subject to the FERC's jurisdiction certainly vary from small to extremely large, yet FERC has not deviated from a uniform accounting policy for AFUDC accruals. Gulf Power

Company is subject to the same FERC accounting requirements as Consolidated Edison of New York or Pacific Gas & Electric of California.

The alternative proposal set forth in the staff's recommendation considered at the June 11, 1996 agenda conference avoids the pitfall of disparate accounting requirements that results from a threshold that is based on a percentage of plant in service and completed construction not classified. The alternative proposal avoids this pitfall by setting up a fixed dollar amount as the default threshold. Exceptions to the default state of affairs can be approved by the Commission on a case-by-case basis upon proper showing by the affected utility. The alternative proposal of a fixed dollar threshold is preferable to the current proposed changes to the AFUDC rule because it avoids the unjustified discrimination that is based on size that is an integral part of the current proposal. The alternative proposal would not preclude (in fact specifically provides for) an exception to the cap on a case by case basis if the Commission concludes that such is in the best interests of a utility's ratepayers. Such an exception would likely only be applicable in cases involving construction of a generating plant in which case similar treatment for all utilities without regard to size would allow all generating plants to be treated equally. The difference between the alternative proposal and the current proposed changes is found in the opportunity for Commission scrutiny and oversight.

To the extent that the Commission believes that the project threshold for AFUDC needs to be revised upward in order to reduce the amount of capitalized AFUDC that reaches utility rate base, Gulf Power strongly urges the Commission not to discard its longstanding policy choice of a uniform threshold applicable across utilities without regard to size. It may be argued

that a larger utility needs to be treated differently because of the larger construction program it is likely to have. In actuality, by dealing with AFUDC on a "per project" basis, the Commission's existing rule already allows for appropriate differences between two utilities of different sizes: a larger utility will likely have more CWIP in rate base since it will likely have more projects than the small utility.[3] For that reason, Gulf urges the Commission to continue its policy of a uniform

[3]At the June 11, 1996 agenda conference, an unsubstantiated comparison was made regarding the amounts of CWIP allowed in rate base (the converse of AFUDC) as a result of the most recent proceedings before the FPSC adjusting the base rates of Florida Power & Light Company ("FPL") and Gulf Power. FPL's representative indicated that FPL was not allowed any CWIP in rate base in their last base rate adjustment proceeding but that Gulf was allowed to include $14.9 million. (Agenda Transcript at pg 12) The source and basis for the stated comparison is unclear. A different picture emerges from a review of year-end surveillance reports on electric utilities kept by the Commission's Division of Auditing and Financial Analysis for the years 1989 through 1995. During this period, the existing AFUDC rule has been required to be effective for all utilities. (See footnote 2, above) For the years 1989 through 1995, the average amount of CWIP in rate base on a 13 month average basis as reported at year end was $66.0 million for FPL and $79.6 million for Florida Power Corporation. These figures are significantly larger than the $17.9 million average resulting from a review of the reports for the same period submitted by Gulf Power, a much smaller utility. This "apples to apples" comparison clearly demonstrates the point that by allowing a fixed dollar threshold on a "per project" basis for determining whether to accrue AFUDC, the alternative proposal set forth in the staff's recommendation for the June 11, 1996 agenda conference, like the existing rule, already provides a larger utility with appropriate opportunity for more CWIP in rate base. Larger utilities will have more projects. An equal "per project" threshold recognizes that a larger utility will have larger construction dollars over the long haul. This does not mean that during every month of every year, a larger utility will have ten times the CWIP in rate base as a smaller utility that is one tenth the size of the larger utility. The timing and size of each utility's construction program and related individual projects will cause the relative proportion of CWIP in rate base as compared to total CWIP to vary over time. If either utility were building a new base load generating unit, and/or repairing, replacing or modifying existing units at a time when the other was not engaged in such activity, it would be reasonable to expect the relative percentage of CWIP in rate base compared to total CWIP to be significantly different for each utility. Such a difference in the timing of utility construction programs does not justify an accounting rule change that promotes a competitive advantage in the wholesale and retail markets for the larger utility over the smaller utility. The current proposed changes to the AFUDC rule have this very effect. An effect achieved through a subsidy imposed on the current retail ratepayers of the larger utility.

threshold across utilities by summarily rejecting the current proposed changes to the rule and either maintaining the status quo of the existing rule or adopting the approach set forth in the alternative proposal set forth in the staff's recommendation for the June 11, 1996 agenda conference.

The disparate accounting treatment mandated by the current proposed changes to the AFUDC rule can distort the apparent relative cost of differences between a large utility and a small utility for the same project. True differences in cost between the two utilities that may result from relative differences in efficiency are masked by the differences in cost caused by the disparate accounting treatment resulting from the current proposal. Essentially, the current ratepayers of the larger utility would be subsidizing the construction costs of competitive projects. This results in a distortion of the apparent relative costs of the two utilities. This potential distortion is avoided by the alternative proposal.

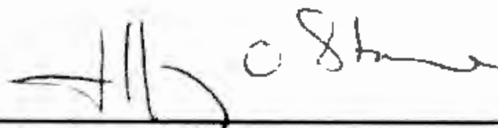
Regulators, including the FPSC, have adopted the Uniform System of Accounts and have required utilities subject to their jurisdiction to adhere to its requirements for numerous good reasons. Not the least of these is the benefit of knowing that reported operating income, earned returns, project costs and a variety of other financial data are not distorted by varying accounting practices applied by the utilities. The importance of this consistency can be gleaned by considering the Commission's task in administering its so-called "bidding" rule in connection with future generating capacity expansion filings by the utilities. In this context, it is clear that the failure to require uniform accounting practices will create competitive advantages and disadvantages either between utilities or between utilities and non-utility generator projects. It is equally clear that lack of uniform accounting will compound the Commission's already difficult task of carrying out its responsibilities under this rule.

The staff's recommendation which led the Commission to make the proposed changes to the AFUDC rule failed to acknowledge this potential competitive disparity. In fact, staff's recommendation at page 6 stated that no impacts on the ability of any of the utilities to compete are anticipated. Staff's perception on this issue is confusing since all four of the major investor owned electric utilities stated competitive concerns as the basis for their positions. These statements are summarized in the text of the EIS summary set forth on pages 29 and 30 of the staff's recommendation.

In summary, if the Commission deems changes to the project threshold for AFUDC to be necessary and appropriate, Gulf believes that the concept expressed in the alternative proposal set forth in the staff's recommendation of a fixed dollar amount to be far superior to the percentage approach set forth in the primary proposal. In order to reduce the upward pressure on current rates that comes with a change to the status quo, Gulf would urge the Commission to set the fixed dollar threshold at an amount no greater than between $10 million and $15 million.

WHEREFORE, Gulf Power Company respectfully requests that the Florida Public Service Commission decline to adopt the proposed revisions to Rule 25-6.0141, F.A.C., Allowance for Funds Used During Construction (AFUDC). If the Commission determines that changes to the existing rule are necessary and appropriate, then Gulf Power respectfully requests that the Commission adopt the alternative proposal set forth in the staff's recommendation for the June 11, 1996 agenda conference with a fixed dollar threshold for all utilities regardless of size set somewhere between $10 million and $15 million.

Respectfully submitted this 26th day of July 1996.



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