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# Public Service Commission

December 18, 1996

Mr. Carroll Webb  
Joint Administrative Procedures  
Committee  
120 Holland Building  
Tallahassee, Florida 32399

Re: Docket No. ~~951335~~-EI - Proposed Revisions to Rule 25-6.0141, F.A.C., Allowance for Funds Used During Construction (AFUDC)

Dear Mr. Webb:

The Commission has approved the amendment of Rule 25-6.0141 with changes.

Enclosed is the notice of change, which was published in the FAW on November 27, 1996, and the statement of changes for the proposed amendment of Rule 25-6.0141.

- ACK \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTP \_\_\_\_\_
- EAT \_\_\_\_\_
- LES \_\_\_\_\_
- LIT \_\_\_\_\_
- PLN \_\_\_\_\_
- SEC \_\_\_\_\_
- YAC \_\_\_\_\_
- OTH \_\_\_\_\_

Sincerely,

Richard C. Bellak  
Associate General Counsel

WEBB0141.mcd

Enclosure

cc: Division of Records & Reporting

DOCUMENT NO.
13439-69
12/18/96

STATEMENT OF CHANGES

(g) On a prospective basis, the Commission, upon its own motion, may determine that the potential impact on rates may require the exclusion of 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.

1 25-6.0141 Allowance For Funds Used During Construction.

2 (1) Construction work in progress (CWIP) or nuclear fuel in  
3 process (NFIP) not under a lease agreement that is not included in  
4 rate base may accrue allowance for funds used during construction  
5 (AFUDC), under the following conditions:

6 (a) Eligible projects. The following projects may be  
7 included in CWIP or NFIP and accrue AFUDC:

8 1. Projects that involve gross additions to plant in excess  
9 of 0.5 percent of the sum of the total balance in Account  
10 101 - Electric Plant in Service, and Account 106,  
11 Completed Construction not Classified, at the time the  
12 project commences \$25,000 and

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

15 b. were originally expected to be completed in one year or  
16 less and are suspended for six months or more, or are not  
17 ready for service after one year.

18 (b) Ineligible projects. The following projects may be  
19 included in CWIP or NFIP, but may not accrue AFUDC:

20 1. Projects, or portions thereof, that do not exceed the  
21 level of CWIP or NFIP included in rate base in the  
22 utility's company's last rate case.

23 2. Projects where gross additions to plant are less than 0.5  
24 percent of the sum of the total balance in Account 101 -  
25 Electric Plant in Service, and Account 106 - Completed

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1        Construction not Classified, at the time the project  
2        commences \$25,000 or less.

- 3        3. Projects expected to be completed in less than one year  
4        after commencement of construction.  
5        4. Property that has been classified as Property Held for  
6        Future Use.

7        (c) Unless otherwise authorized by the Commission, the  
8 following projects may not be included in CWIP or NFIP, nor accrue  
9 AFUDC:

- 10       1. Projects that are reimbursable by another party.  
11       2. Projects that have been cancelled.  
12       3. Purchases of assets which are ready for service when  
13       acquired.  
14       4. Portions of projects providing service during the  
15       construction period.

16       (d) Other conditions. Accrual of AFUDC is subject to the  
17 following conditions:

- 18       1. Accrual of AFUDC is not to be reversed when a project  
19       originally expected to be completed in excess of one year  
20       is completed in one year or less;  
21       2. AFUDC may not be accrued retroactively if a project  
22       expected to be completed in one year or less is  
23       subsequently suspended for six months, or is not ready  
24       for service after one year;  
25       3. When a project is completed and ready for service, it

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1 shall be immediately transferred to the appropriate plant  
2 account(s) or Account 106, Completed Construction Not  
3 Classified, and may no longer accrue AFUDC;

4 4. Where a work order covers the construction of more than  
5 one property unit, the AFUDC accrual shall cease on the  
6 costs related to each unit when that unit reaches an  
7 in-service status;

8 5. When the construction activities for an ongoing project  
9 are expected to be suspended for a period exceeding six  
10 (6) months, the utility shall notify the Commission of  
11 the suspension and the reason(s) for the suspension, and  
12 shall submit a proposed accounting treatment for the  
13 suspended project; and

14 6. When the construction activities for a suspended project  
15 are resumed, the previously accumulated costs of the  
16 project may not accrue AFUDC if such costs have been  
17 included in rate base for ratemaking purposes. However,  
18 the accrual of AFUDC may be resumed when the previously  
19 accumulated costs are no longer included in rate base for  
20 ratemaking purposes.

21 (e) Subaccounts. Account 107, Construction Work in Progress,  
22 and Account 120.1, Nuclear Fuel in Process of Refinement,  
23 Conversion, Enrichment and Fabrication, shall be subdivided so as  
24 to segregate the cost of construction projects that are eligible  
25 for AFUDC from the cost of construction projects that are

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1 ineligible for AFUDC.

2 (f) Prior to the commencement of construction on a project,  
3 a utility may file a petition to seek approval to include an  
4 individual project in rate base that would otherwise qualify for  
5 AFUDC treatment per Section (1)(a).

6 (g) On a prospective basis, the Commission, upon its own  
7 motion, may determine that the potential impact on rates may  
8 require the exclusion of an amount of CWIP from a utility's rate  
9 base that does not qualify for AFUDC treatment per Section (1)(a)  
10 and to allow the utility to accrue AFUDC on that excluded amount.

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

12 (a) The most recent 13-month average embedded cost of  
13 capital, except as noted below, shall be derived using all sources  
14 of capital and adjusted using adjustments consistent with those  
15 used by the Commission in the utility's Company's last rate case.

16 (b) The cost rates for the components in the capital  
17 structure shall be the midpoint of the last allowed return on  
18 common equity, the most recent 13-month average cost of short term  
19 debt and customer deposits and a zero cost rate for deferred taxes  
20 and all investment tax credits. The cost of long term debt and  
21 preferred stock shall be based on end of period cost. The annual  
22 percentage rate shall be calculated to two decimal places.

23 ~~(c) The treatment by the Commission of all investment tax~~  
24 ~~credits at a zero cost rate shall be contingent upon a ruling from~~  
25 ~~the Internal Revenue Service that such treatment will not, for~~

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1 ~~companies elected to be treated under s. 46(f) (2) of the Internal~~  
2 ~~Revenue Code, result in the forfeiture of the tax credits. Pending~~  
3 ~~receipt of such a ruling, each utility shall continue to use the~~  
4 ~~weighted overall cost of capital calculated in a manner consistent~~  
5 ~~with the final IRS Regulation Section 1.46-6 published May 22,~~  
6 ~~1986, as the cost of the utility's 4% and 10% investment tax~~  
7 ~~credits.~~

8 ~~(d) Any such ruling request must be submitted to the~~  
9 ~~Commission by December 15, 1987. The AFUDC cost rate for the~~  
10 ~~investment tax credit for any company which fails to submit its own~~  
11 ~~letter ruling request to the IRS shall be governed by the first~~  
12 ~~letter ruling issued by the IRS in response to a request submitted~~  
13 ~~pursuant to subsection 2(c) of this rule.~~

14 (3) Discounted monthly AFUDC rate. A discounted monthly  
15 AFUDC rate, calculated to six decimal places, shall be employed to  
16 insure that the annual AFUDC charged does not exceed authorized  
17 levels.

18 (a) The formula used to discount the annual AFUDC rate to  
19 reflect monthly compounding is as follows:

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

21 100

22 Where:

23 M = discounted monthly AFUDC rate

24 A = Annual AFUDC rate

25 (b) The monthly AFUDC rate, carried out to six decimal

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1 | places, shall be applied to the average monthly balance of eligible  
2 | CWIP and NFIP that is not included in rate base.

3 | (4) The following schedules shall be filed with each petition  
4 | for a change in AFUDC rate:

5 | (a) Schedule A. A schedule showing the capital structure,  
6 | cost rates and weighted average cost of capital that are the basis  
7 | for the AFUDC rate in subsection (2).

8 | (b) Schedule B. A schedule showing capital structure  
9 | adjustments including the unadjusted capital structure, reconciling  
10 | adjustments and adjusted capital structure that are the basis for  
11 | the AFUDC rate in subsection (2).

12 | (c) Schedule C. A schedule showing the calculation of the  
13 | monthly AFUDC rate using the methodology set out in this Rule.

14 | (5) No utility may charge or change its AFUDC rate without  
15 | prior Commission approval. The new AFUDC rate shall be effective  
16 | the month following the end of the 12-month period used to  
17 | establish that rate and may not be retroactively applied to a  
18 | previous fiscal year unless authorized by the Commission.

19 | (6) Each utility charging AFUDC shall include in its June and  
20 | December Earnings Rate-of-Return Surveillance Reports to the  
21 | Commission Schedules A and B identified in subsection (4) of this  
22 | Rule, as well as disclosure of the AFUDC rate it is currently  
23 | charging.

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

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1       (8) Each utility shall include in its Forecasted Surveillance  
2 Report a schedule of individual projects that commence during that  
3 forecasted period and are estimated to equal or exceed a gross cost  
4 of \$10,000,000. The schedule shall include the following minimum  
5 information:

6       (a) Description of the project.

7       (b) Estimated total cost of the project.

8       (c) Estimated construction commencement data.

9       (d) Estimated in-service data.

10       (9)(a) The provisions of this rule are effective January 1,  
11 1996 and shall be implemented by all electric utilities no later  
12 than January 1, 1999, or the utility's next rate proceeding,  
13 whichever occurs first. Paragraphs (a) and (b) of subsection (1)  
14 shall not be effective for any utility until it implements final  
15 rates in a general rate case initiated after the effective date of  
16 this Rule. The foregoing notwithstanding, these provisions will  
17 become effective for all utilities no later than January 1, 1989.

18 Specific Authority: 350.127(2), 366.05(1), F.S.

19 Law Implemented: 350.115, 366.04(2)(a), 366.06(1), F.S.

20 History: New 8/11/86, Amended 11/13/86, 12/7/87, \_\_\_\_\_.

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