



ORIGINAL

August 5, 1998

Mr. Timothy Devlin, Director  
Division of Auditing and Financial Analysis  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850

Re: Docket No. 980643-EI – Generic investigation of cost allocation and affiliated transactions for electric utilities

Dear Mr. Devlin:

The following is in response to questions and request posed by Timothy Devlin in a letter dated July 22, 1998, concerning cost allocation manuals for transactions between regulated operations, nonregulated operations, and affiliates.


**1. Does the utility keep written policy and procedures for determining above the line/below the line transactions? If so, please explain in detail and provide a copy.**

Florida Power & Light Company (the Company) follows the guidelines prescribed by the Uniform System of Accounts as set forth in the Code of Federal Regulations, Title 18, Chapter I, Part 101. The Uniform System of Accounts dictates the accounts to be used by electric utilities and also provides specific guidance as to what should be included in each of these accounts.

**15. Do you have any formal written procedures governing "standards of conduct"? If so, please provide a copy of these standards.**

- ACK \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LEG \_\_\_\_\_
- LIN \_\_\_\_\_
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC   /
- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

Attached are the Company's procedures that govern dealings with affiliates.

Sincerely,  
  
Samuel S. Waters  
Director, Regulatory Affairs Coordination

cc: Blanca Bayo, Division of Records and Reporting

an FPL Group company

DOCUMENT NUMBER-DATE

08301 AUG-5 98

FPSC-RECORDS/REPORTING

## **PGBU PROCESS FOR PROVIDING SERVICES TO ESI ENERGY OR FPL INTERNATIONAL**

Listed below is the process for providing services to ESI Energy or FPL International:

1. **ESI Energy or FPL International (Requester)**

- a) Contacts the appropriate PGBU Manager to request resource support.
- b) Requester notifies the ESI Operations Team - Administrative Support to prepare a "Request For Personnel Services From PGBU" form and to forward a copy by inter-company mail or electronic mail to the PGBU Employee.

2. **ESI Operations Team - Administrative Support**

- a) As soon as possible, prepare the form "Request For Personnel Services From PGBU" which includes the work order number to charge for incurred expenses and forward a copy by inter-company mail or electronic mail to the PGBU Employee.

NOTE: All PGBU employees will use one common location section for charging ESI Energy or FPL International work orders. (Location 635 Section 00).

3. **PGBU Manager**

- a) Confirms that resources are available and assigns employee to the project.
- b) Notifies employee that he/she is assigned to the project and is accountable for making sure that time and expenses are charged to the ESI Energy or FPL International work order for services provided.
- c) Notifies employee that he/she will receive from ESI Energy or FPL International a "Request For Personnel Services From PGBU" form within two days. This form will provide the work order number for charging project expenses. If the employee needs the work order number before the form arrives, he/she can call the ESI Operations Team - Administrative Support at (561) 691-3518 for assistance.

4. **PGBU Employee**

- a) Receives the "Request For Personnel Services From PGBU" form from ESI Energy or FPL International by inter-company mail or electronic mail.

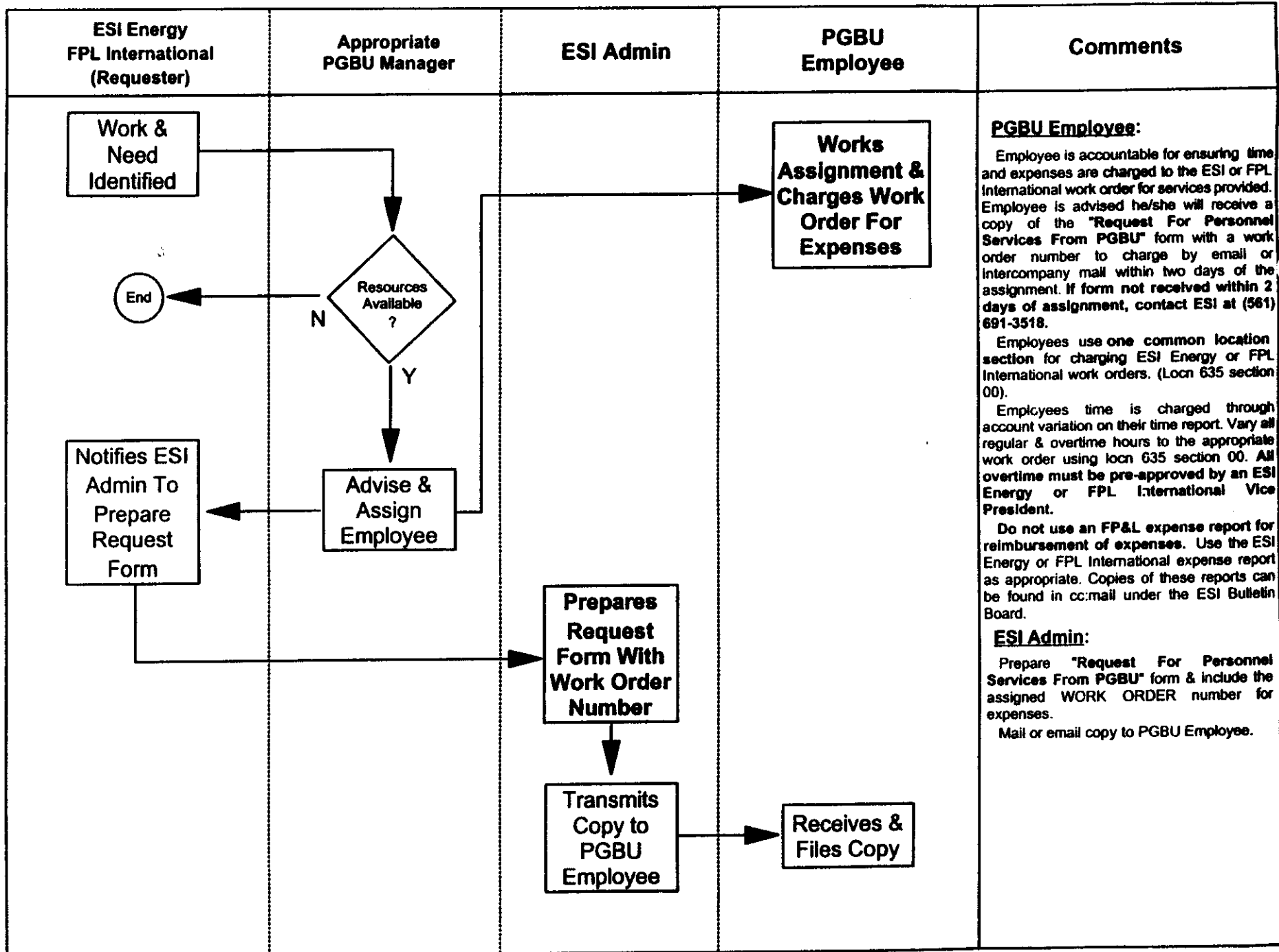
**IF THE EMPLOYEE DOES NOT RECEIVE THE FORM WITHIN TWO DAYS OF RECEIVING THE ASSIGNMENT, HE/SHE SHOULD CALL ESI AT (561) 691-3518 TO OBTAIN THE WORK ORDER INFORMATION.**

- b) Files form for future reference, since this document provides the work order number to charge for project expenses.
- c) Employee is responsible for assuring that time and expenses are charged to the ESI Energy or FPL International work order for services provided.

NOTE: All PGBU employees will use one common location section for charging ESI Energy or FPL International work orders. (Location 635 Section 00).

- Employee's time is properly charged through account variation on their bi-weekly time report. Employee varies all regular/overtime hours to the appropriate ESI Energy or FPL International work order using Location 635 Section 00. **All overtime must be pre-approved by an ESI Energy or FPL International Vice President.**
- Employee expenses are reimbursed by ESI Energy and FPL International using their **Employee Expense Report** **NOT** an FPL expense report. Copies of these reports can be found in cc:mail under the ESI Bulletin Board.

## PGBU PROCESS FOR PROVIDING SERVICES TO ESI ENERGY OR FPL INTERNATIONAL



**REQUEST FOR PERSONNEL SERVICES FROM PGBU**

**ESI ENERGY**

**FPL INTERNATIONAL**

**FROM:** \_\_\_\_\_ **LOCATION:** ESI \ GB **DATE:** \_\_\_\_\_

**REQUESTED BY (ESI EMPLOYEE):** \_\_\_\_\_

**TYPE OF SERVICES REQUIRED:** \_\_\_\_\_

**PROJECT LOCATION:** \_\_\_\_\_

**START DATE:** \_\_\_\_\_ **ESTIMATED HOURS:** \_\_\_\_\_

All PGBU employees will use LOC'N 635 SECN 00 with the work order # listed below.  
**DO NOT** use your normal charge location/section.

| WO | ER | COMPT | SECN | UC | LOC'N |
|----|----|-------|------|----|-------|
|    | 99 | 000   | 00   | 0  | 635   |

This form authorizes the named PGBU employee to work on the designated assignment. Employee is responsible for assuring that time and expenses are charged to the ESI Energy or FPL International work order for services provided. Employee expenses are reimbursed by ESI Energy and FPL International using their Employee Expense Report NOT an FPL expense report. All overtime must be pre-approved by an ESI Energy or FPL International Vice President.

**PGBU EMPLOYEE (NAME):**



**Subject**

**Intercompany Resource Sharing**

**Section**

**FPL Group and Affiliated Companies**

**Scope**

To establish business practices to be observed in the relationship between Florida Power & Light Company and its regulated subsidiaries (Utility) and FPL Group, Inc. and its nonutility affiliates, hereinafter called Group.

**Objective**

The objective of these policies and guidelines is to ensure that prompt and fair compensation or reimbursement is given/received for all assets, goods, and services transferred between the Utility and Group and that information reported to Group or the Utility meets the reporting requirements agreed to by the Utility and Group. The flow of information and transfers of assets, goods and services among these parties is to be conducted in accordance with the policies set forth in these procedures and if appropriate, in accordance with other applicable FPL procedures.

**General**

As a general policy, the Utility is to minimize resource sharing and intercompany transactions to assure sufficient separation between the Utility and Group. However, this does not preclude Group from utilizing Utility resources or the Utility utilizing Group resources, where such sharing of resources results in overall efficiencies or in revenues producing opportunities for the Utility.

The Utility is not to provide financial support to the affiliates. At no time is the Utility to act as a guarantor for any debt or liability incurred by Group.

All intercompany transactions must be adequately documented.

**Implementation**

Each department is responsible for implementation of these policies within its organization. Each department is to identify established procedures and any that need to be developed in order to comply with the policies and guidelines described in these procedures. Department heads are responsible for assuring that each employee in their department adheres to the procedures, policies, and guidelines.

**Internal Controls**

As described in these procedures, internal control measures are to be maintained to ensure that policies are observed and that potential or actual deviations are promptly detected and corrected.

If a situation arises which has not been covered by these policies and guidelines, the situation is to be brought to the attention of the designated officers of the Utility for review and/or approval.



Subject

**Intercompany Resource Sharing**

Section

**FPL Group and Affiliated Companies**

**Definitions**

**Affiliate** An individual affiliate company, including Florida Power & Light Company (Utility), within FPL Group, Inc.'s holding company structure, or the holding company itself.

**Net Book Value** The original cost of an asset, reduced by applicable valuation reserves and offsets (e.g., accumulated depreciation, deferred taxes, and unamortized investment tax credits).

**Non-utility Affiliates** Non-utility affiliate companies that are established and operated wholly at the risk of the shareholders and are not subsidized by Utility ratepayers.

**Utility-Related Subsidiaries** Subsidiary companies that support Utility operations, and which provide services which otherwise would be performed by the Utility itself. Utility-related subsidiary profits or losses are assigned to the Utility.

**Florida Public Service Commission (FPSC) Guidelines** The following guidelines are contained in the FPSC Staff Report on Electric Utility Diversification and Transactions with Affiliated Companies (Docket No. 850096-EI):

1. In general, the arms-length nature of a transaction may be established by the existence of an objectively administered, open competitive bidding process or by some process producing comparable results.
2. Vendors should be selected on the basis of a formal evaluation system which is neutral in its application and capable of producing quantifiable ratings of individual suppliers. Considerations other than price, quality and vendor performance should be thoroughly documented.
3. In general, the price of goods or services which the utility purchases from or provides to its non-utility affiliates should be at least as favorable to the utility as the prices for similar goods or services exchanged in the competitive market under similar terms.
4. Any utility which has a contract with an affiliated company is to administer that contract in a manner identical to the administration of a contract with an independent company.



Subject

**Intercompany Resource Sharing**

Section

**FPL Group and Affiliated Companies**

**Florida Public Service Commission (FPSC) Guidelines (cont'd)**

5. In the case of material transactions with affiliates, all aspects of the procurement process should be documented and available to the Commission upon request.
6. Utility assets should not be used to secure, nor should the utility act as guarantor for, any debt or other liabilities incurred by the parent or any affiliate.
7. The only loans made by the utility to the parent or any affiliate should be for short-term cash management purposes.
8. General compliance with this policy does not remove the responsibility of a utility to justify any particular transaction the Commission may require be specifically justified.
9. If the Commission determines that a utility's unjustified departure from this policy has resulted in increased revenue requirements or increased risk to the utility then the Commission may disallow the excessive expenses, impute additional revenues, or adjust the utility's allowed return as necessary to avoid an adverse impact on the utility's ratepayers.

**Intercompany Billings**

Intercompany billings are to be issued on a timely basis. A detailed file for each transaction and contract with an affiliate(s) is to be retained by the Utility in order to provide an adequate audit trail. This facilitates prompt reimbursement from the recipient of assets, goods, or services. The budget control (BUCS) work order system (ER 99) is the mechanism used to record and track all utility activities including those that relate to Group. Intercompany billings are issued by Joint Ownership Accounting.

Intercompany billings issued for transfers of assets, goods, or services from the Utility are to be accompanied by supporting documentation, principally the Utility's audit trail reports. Transfer pricing computations must be documented in order to facilitate verification of methods used to compute cost or current fair market value of transferred assets, goods, or services. Costs incurred or time spent on behalf of Group are to be accumulated, priced, and billed each month in an expeditious manner to enable timely payment.

The nonutility portion of the Utility's shared resources (allocable expenses) is to be charged to the respective affiliate. To that extent, practical, shared costs are to be billed directly by the Utility to the nonutility affiliates. None of these costs are to be reallocated to the Utility. This policy creates a simplified and direct audit trail. The monthly intercompany bills are to be accompanied by a summary of charges by work order, location, and expenditure analysis code (EAC) and the calculation(s) for all indirect loadings.



Subject

**Intercompany Resource Sharing**

Section

**FPL Group and Affiliated Companies**

**Charges to/from Group**

Each Utility department generating charges to another entity is responsible for accumulating proper documentation such as invoices, contract agreements, etc. to support those charges. Upon request, documentation and/or explanations (including the methodology for calculating loading rates) are to be promptly forwarded by the entity generating the charge to the entity charged.

**Exception:** In the case of non-utility FPL Group subsidiaries, the entity generating the charge must forward the documentation to the entity being charged, upon availability.

Work that benefits Group as approved through the budget process is to be charged to the appropriate Group work order. Any project not previously approved through the budget process must be approved by the appropriate personnel of the entity to be charged and the Utility department head. Appropriate supporting documentation (invoices, contract agreements, etc.) must be obtained showing proper approvals, work order numbers, and other pertinent data for loaned Utility employees.

Utility employees providing goods and/or services directly to Group are to obtain the appropriate Group work order number before commencing with any nonutility related work. This ensures that costs incurred by the Utility on behalf of Group are not to be included in the Utility's cost of service, and avoids an adverse impact on the Utility's ratepayers.

**Intercompany Payments**

Payments for assets, goods or services received from Group are due upon receipt of the invoice and are remitted to the Payment Processing Center to ensure proper recording and reporting. Adequate documentation to support the payment is to be maintained by the Utility.





Subject

**Transfers of Assets**

Section

**FPL Group and Affiliated Companies**

**Scope** To provide guidelines for the assignment of a monetary value of all assets or rights to use assets transferred from FPL to FPL Group.

**Objectives** The objectives to be achieved in accounting for transfers from FPL to FPL Group involve the appropriate (1) identification, (2) valuation, (3) recording, and (4) reporting of such transfers.

**General** The transfer pricing methodology is to maintain separate accountability of the various entities and to ensure that transfers from FPL to FPL Group are in the best interest of FPL and its customers.

There are three general types of transfers from FPL that may occur:

- Transfer of assets or rights to use assets;
- Transfers of good or services produced, purchased, or developed for sale (GO Procedure #912);
- Transfers of goods or services not produced, purchased, or developed for sale.

**Identification** Transfers of assets include transfers of tangible, real or personal property, and intangible property used in a trade or business. Transfers of assets also include long-term rights to use assets through lease or other arrangements in excess of one year.

**Real property** (land and land improvement) includes:

- Land Rights
- Buildings and appurtenances
- Mineral rights

**Personal property** is movable property or assets and includes:

- Automobiles
- Planes/helicopters
- Power operated equipment
- Computer hardware and related software applications
- Furniture



Subject

**Transfers of Assets**

Section

**FPL Group and Affiliated Companies****Identification (cont'd)**

**Intangible assets** are assets having no physical existence, its value being limited by the rights and anticipative benefits that possession confers upon the owner. They include:

- Copyrights
- Franchises
- Licenses
- Patent rights
- Royalty interests
- Software (both purchased and in-house developed)
- Trade secrets

**Valuation**

Transfers of assets or rights to use assets are to be valued at **current fair market value**, which is the consideration offered by a willing purchaser of an asset in an arms length transaction, i.e., with a non-affiliated purchaser. Negotiated prices FPL pays to FPL Group for similar transfers are to be based on the same criteria used to price transfers from FPL. The **current fair market value** is to be determined through methods appropriate for the asset. Examples of methods that may be used include:

- Appraisals from qualified, independent appraisers;
- Averaging bid and ask prices as published in newspapers or trade journals;
- Conducting market surveys;
- Book value for items that cost less than \$10,000 (original cost) except for land and other appreciating assets;
- Formal evaluation.

The determination of current fair market value must be adequately documented and maintained to assure that a proper audit trail exists.

Where product rights, patents, copyrights, or similar legal rights are transferred from FPL to FPL Group, a royalty payment or some other form of remuneration is to be required to ensure that ratepayers receive appropriate compensation. Such royalty payments are to be developed on a case-by-case basis prior to the transfer.



Subject

**Transfers of Assets**

Section

**FPL Group and Affiliated Companies**

**Recording**

Transfers of assets or rights to use assets are to be recorded through a direct charge to the appropriate budget control system (BUCS) expenditure requisition (ER) 99 work order based on **current fair market value** of the transferred asset.

Joint Ownership Accounting is responsible for the proper recording of income from those agreements with FPL affiliates which call for the payment of income or license fees to FPL. Joint Ownership Accounting coordinates the review of such income with FPL Group Accounting .

**Reporting**

Transfers of assets or rights to use assets are reported by FPL to the Florida Public Service Commission (FPSC) and to the Federal Energy Regulatory Commission (FERC). Any Utility department that is a party to such transfers is to document the transfer and record **current fair market value** transfer through use of ER 99 work orders. These work orders are used to capture such transfers for reporting to the regulatory commissions.



**Subject**

**Transfers of Goods or Services**

**Section**

**FPL Group and Affiliated Companies**

**Scope** To provide guidelines for the assignment of a monetary value of all goods or services transferred from FPL to FPL Group.

**Objectives** The objectives to be achieved in accounting for transfers from FPL to FPL Group involve the appropriate (1) identification, (2) valuation, (3) recording, and (4) reporting of such transfers.

**General** The transfer pricing methodology is to maintain separate accountability of the various entities and to ensure that transfers from FPL to FPL Group are in the best interest of FPL and its customers.

There are three general types of transfers from FPL that may occur:

- Transfer of assets or rights to use assets (GO Procedure #910);
- Transfers of good or services produced, purchased, or developed for sale;
- Transfers of goods or services not produced, purchased, or developed for sale.

**Transfers of Goods or Services Produced, Purchased, or Developed For Sale**

**Identification** Transfers of goods or services produced, purchased, or developed for sale include those goods or services intended for sale in the normal course of FPL's business.

**Valuation** Transfers of goods or services produced, purchased, or developed for sale are to be valued at current fair market value. For purposes of applying this policy, fair market value may be based upon:

- reference to current realizable values in comparable cash transactions of similar goods or services between non-affiliated parties,
- published prices,
- rates established by a regulatory agency,
- competitive bidding,
- other appropriate means.



Subject

**Transfers of Goods or Services**

Section

**FPL Group and Affiliated Companies**

**Transfers of Goods or Services Produced, Purchased, or Developed For Sale (cont'd)**

**Valuation (cont'd)**

The determination of current fair market value must be adequately documented and maintained.

**Recording**

Transfers of goods or services produced, purchased or developed for sale are to be recorded through a direct charge to the recipient based upon the current market value of the goods or services.

**Transfers of Goods or Services Not Produced, Purchased, or Developed For Sale**

Transfers of goods or services not produced, purchased or developed for sale are priced at fully loaded cost or at fair market value. In cases, where FPL Group is selling the goods or services to third parties, contractual agreements between FPL and FPL Group are to specify any license fees, royalty fees, or other forms of remuneration to be received by FPL.

**Identification**

Transfers of goods or services (merchandise or useful work) not produced, purchased, or developed for sale represent goods or services provided that are incidental to the main business of the provider of the goods and services. Generally, there are three types of services provided by FPL to FPL Group:

- Type A** Services that benefit an FPL Group project (i.e., annual report, quarterly financial review, reports to investment analysts, etc.).
- Type B** Services that benefit FPL Group operations where it is not practical for FPL Group to have its own staff or where it is clearly more efficient for FPL to provide the service as an extension of its own operations (i.e., aviation services, processing of certain payments, data processing, occasional use of office, duplicating services, etc.).
- Type C** In limited instances, services provided for the sole benefit of a nonutility affiliate.

These transactions are covered by the transfer pricing guidelines contained within this subsection.



Subject

**Transfers of Goods or Services**

Section

**FPL Group and Affiliated Companies**

**Transfers of Goods  
or Services Not  
Produced, Purchased,  
or Developed For Sale  
(cont'd)**

**Valuation**

Transfers of goods or services not produced, purchased, or developed for sale are to be valued at fully loaded cost or fair market value. The fully loaded cost is the value at which a good or service is recorded in the transferor's accounting records. It includes all applicable direct charges, indirect charges, and overheads. Following is a listing of the components of fully loaded labor costs for Utility employees:

- wages and salaries,
- paid time off,
- legally required payments:
  - . social security (FICA)
  - . unemployment tax (FUTA & SUI)
  - . workers' compensation
- pension and benefits:
  - . dependent health care
  - . employee health care
  - . family dental
  - . group life insurance
  - . long-term disability payments
  - . pension plan
  - . rehabilitation expense
  - . retirement plan (ESOP)
  - . sick leave payments
  - . thrift plan
- administrative and general overhead costs (including facility costs).

**Recording**

Transfers are to be recorded in a manner which meets FPL's objective of creating and maintaining an audit trail.

- Costs incurred for the sole benefit of a nonutility affiliate are to be directly charged to that nonutility affiliate.
- Costs incurred (or assignable) for Group projects or for the benefit of Group operations are to be charged in a manner consistent with the way the Group organization would allocate the costs had it incurred the costs.



Subject

**Transfers of Goods or Services**

Section

**FPL Group and Affiliated Companies****Transfers of Goods  
or Services Not  
Produced, Purchased,  
or Developed For Sale  
(cont'd)****Types of Costs**

**Direct Labor Costs** of FPL employees are to be based on the classification value points of assigned employees, including supervisory and support personnel, and the actual number of hours devoted to providing the service.

Loadings are to be applied to the direct labor amounts:

- Labor loadings include paid time off, payroll taxes, insurance, pension and welfare benefits.
- Administrative and general (A&G) loadings include costs incurred to facilitate the productivity of the employee.

The A&G loadings include facility costs associated with personnel providing services. Facility costs are based on historical amounts and the current rate of return allowed by the FPSC on FPL's facilities.

**Purchases** of specific items to provide the goods and services including:

- business and travel expenses
- materials
- outside legal fees

**Required Payments** associated with the goods or services provided such as:

- income taxes
- property taxes
- sales taxes

**Vehicle and Equipment Costs** which are to be based on usage of:

- transportation vehicles
- construction equipment
- office equipment