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NOTICE OF PROPOSED RULE DEVELOPMENT

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO: 980643-EI

RULE TITLE:

RULE NO.:

Annual Reports

25-6.135

Cost Allocation and Affiliate Transactions

25-6.1351

Depreciation

25-6.0436

DEPARTMENT OF STATE  
TALLAHASSEE, FLORIDA

1999 JUL -7 AM 11:41

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PURPOSE AND EFFECT: The purpose of the amendments is to codify the procedure for electric investor-owned utilities to follow when accounting for affiliate transactions and nonregulated activities. The intent is to ensure that ratepayers do not subsidize nonregulated operations.

SUBJECT AREA TO BE ADDRESSED: The cost allocation of nonregulated activities and affiliate transactions to prevent cross-subsidization.

SPECIFIC AUTHORITY: 366.05(1), 350.127(2), FS.

LAW IMPLEMENTED: 350.115, 366.04(2)(f), 366.05(1), (2)(a), 366.06(1), FS.

ACK \_\_\_\_\_ A RULE DEVELOPMENT WORKSHOP WILL BE HELD AT THE TIME, DATE, AND

AFA \_\_\_\_\_ PLACE SHOWN BELOW:

APP \_\_\_\_\_ TIME AND DATE: Tuesday, August 24, 1999, 10:00 a.m.

CAF \_\_\_\_\_ PLACE: Betty Easley Conference Center, Room 148, 4075 Esplanade  
CMU \_\_\_\_\_ Way, Tallahassee, Florida 32399-0850.

CTR \_\_\_\_\_ To facilitate discussion at the workshop, each investor-owned  
TAG \_\_\_\_\_ utility and other interested persons are requested to file with the  
EG \_\_\_\_\_ Division of Records and Reporting pre-workshop comments to address  
IN \_\_\_\_\_ the following subjects by Wednesday, August 11, 1999:  
PC \_\_\_\_\_  
CH \_\_\_\_\_  
EC 1 \_\_\_\_\_  
AS \_\_\_\_\_  
TH \_\_\_\_\_

DOCUMENT NUMBER-DATE

08115 JUL-798

FPSC-RECORDS/REPORTING

(1) Any suggestions to improve the rule language, and, in particular, for the "regulated" and "nonregulated" definitions set out in the rule.

(2) Any alternative measures that would also meet the objectives of the rule amendments.

(3) Identification of areas of disagreement with staff's draft. If areas of disagreement are identified, a statement of the reasons for the disagreement should be provided along with an alternate suggestion that would also meet the objective of the rule.

Interested persons may obtain a copy of the workshop agenda by calling Jay Revell at (850) 413-6425 on or after Thursday, August 19, 1999.

Any person requiring some accommodation at this workshop because of a physical impairment should call the Division of Records and Reporting at (850) 413-6770 at least 48 hours prior to the hearing. Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at: 1-800-955-8771 (TDD).

THE PERSON TO BE CONTACTED REGARDING THE PROPOSED RULE DEVELOPMENT IS: Jay Revell, Division of Auditing and Financial Analysis, Florida Public Service Commission, 2540 Shumard Oak Blvd., Tallahassee, FL 32399-0862.

THE PRELIMINARY TEXT OF THE PROPOSED RULE DEVELOPMENT IS:

25-6.1351 Cost Allocation and Affiliate Transactions  
~~Diversification Reports.~~

(1) Purpose. The purpose of this rule is to establish cost allocation guidelines and reporting requirements to ensure proper

accounting for affiliate transactions and utility nonregulated activities so that these transactions and activities are not subsidized by utility ratepayers.

~~(1) Each investor owned electric utility shall file information on its affiliates and affiliated transactions on Commission Form PSC/AFA 16 (12/94) which is incorporated into this rule by reference. Form PSC/AFA 16, entitled "Analysis of Diversification Activities", may be obtained from the Commission's Division of Auditing and Financial Analysis.~~

(2) Definitions

(a) Affiliate -- Any entity that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with a ~~the~~ utility. Ownership of five 5 percent or more of the voting securities of an entity shall be conclusively deemed to constitute the control thereof.

(b) ~~Affiliated Transaction~~ -- Any transaction in which both a utility and an affiliate ~~thereof~~ are each participants, except other than transactions related solely to the filing of consolidated tax returns.

(c) Cost Allocation Manual (CAM) - The manual that sets out a utility's cost allocation policies and related procedures.

(d) Direct Costs - Costs that can be identified with a particular service or product.

(e) Indirect Costs - Costs, including all overheads, that cannot be identified with a particular service or product.

(f) Nonregulated - The components of a utility's financial statements that are not taken into account in determining fair,

just, and reasonable rates for utility service.

(g) Regulated - The components of a utility's financial statements that are taken into account in determining fair, just, and reasonable rates for utility service.

(h) Subsidize - The act of utility ratepayers paying more than their share of costs associated with affiliate transactions and utility nonregulated activities.

(3) Non-Tariffed Affiliate Transactions

(a) The purpose of subsection (3) is to establish requirements for non-tariffed affiliate transactions.

(b) A utility must charge an affiliate fully allocated costs for all non-tariffed services and products purchased by the affiliate from the utility. Except, a utility may charge an affiliate less than fully allocated costs if the charge is above incremental cost and equivalent to market prices. If a utility charges less than fully allocated costs, the utility must maintain documentation to support doing so in accordance with the record retention requirements in Rule 25-6.014(3), F.A.C.

(c) A utility shall apportion to regulated operations the lesser of fully allocated costs or market price when purchasing services and products from an affiliate. Competitive bidding must be used when the utility projects to spend more than \$500,000 in a calendar year for a particular product or service.

(d) When an asset is transferred from a utility to a nonregulated affiliate, the utility must charge the affiliate the greater of market or net book value. When an asset is transferred from a nonregulated affiliate to a utility, the utility must record

the asset at the lower of market or net book value. An independent appraiser must verify the market value of a transferred asset with a net book value greater than \$1,000,000.

(e) If an affiliate's accounts and records do not conform to the Uniform System of Accounts as prescribed by Rule 25-6.014, the utility must maintain a mapping system that reconciles the affiliate's accounts to the respective USOA accounts.

(f) Each affiliate involved in affiliate transactions must maintain all underlying data concerning the affiliate transaction for at least three years after the affiliate transaction is complete. This paragraph does not relieve a regulated affiliate from maintaining records under otherwise applicable record retention requirements.

#### (4) Cost Allocation Principles

(a) Each utility's accounting records must show whether the transaction involves a product or service that is regulated or nonregulated.

(b) Direct costs shall be classified for each service and product provided by the utility.

(c) Indirect costs shall be distributed on a fully allocated cost basis. Except, a utility may distribute indirect costs on an incremental or market basis if the utility can demonstrate that its ratepayers will benefit. If a utility distributes indirect costs on less than a fully allocated basis, the utility must maintain documentation to support doing so in accordance with the record retention requirements in Rule 25-6.014(3), F.A.C.

(d) Each utility must maintain a listing of revenues and

expenses for all non-tariffed products and services.

(5) Reporting Requirements. Each utility shall file information concerning its affiliates, affiliate transactions, and nonregulated activities on Form PSC/AFA 19 (xx/xx) which is incorporated by reference into this rule. Form PSC/AFA 19, entitled "Annual Report of Major Electric Utilities," may be obtained from the Commission's Division of Auditing and Financial Analysis.

(6) Audit Requirements

(a) Each utility involved in affiliate transactions or in nonregulated activities must maintain a Cost Allocation Manual (CAM). The CAM must be organized and indexed so that the information contained therein can be easily accessed.

(b) Each utility shall file with the Commission an audit report issued by an independent auditor commenting on the utility's compliance with its CAM. Beginning January 1, 2001, the compliance audit shall be performed no less than once every three years. The audit report shall be filed with the annual report or within 30 days of filing the annual report.

(c) Each utility shall file, along with the audit report, a list of all incidents of non-compliance with the CAM. This list shall include all errors and irregularities detected by the independent auditor during the audit, regardless of materiality.

(d) All costs associated with the audit must be separately identified and shall not be chargeable to expense for ratemaking purposes.

~~(3) Within 45 days of coming under the jurisdiction of the Commission, each investor owned electric utility shall file~~

~~Schedules 1, 7, and 8 of Form PSC/AFA 16 with the Division of Auditing and Financial Analysis.~~

~~(4) Each investor owned electric utility shall file Schedules 1-6 of Form PSC/AFA 16 as an attachment to its annual report.~~

~~(5) Each investor owned electric utility shall keep a detailed backup report of the summary report to facilitate auditing and analysis. Each investor owned electric utility shall maintain a clear audit trail from the summary report through the general ledger to the source documents supporting the transaction.~~

Specific Authority 366.05(1), 350.127(2) FS.

Law Implemented 350.115, 366.04(2)(a), (f), 366.05(1), (2), and (9), 366.093(1) FS.

History--New 12-27-94, Amended \_\_\_\_\_.

25-6.135 Annual Reports.

(1) Each investor-owned electric utility shall file annual reports with the Commission on Commission Form PSC/AFA 19 (~~xx/xx~~ 12/94) which is incorporated by reference into this rule. Form PSC/AFA 19, entitled "Annual Report of Major Electric Utilities", may be obtained from the Commission's Division of Auditing and Financial Analysis. These reports shall be verified by a responsible accounting officer of the utility making the report and shall be due on or before April 30 for the preceding calendar year. A utility may file a written request for an extension of time with the Division of Auditing and Financial Analysis no later than April 30. One extension of 31 days will be granted upon request. A request for a longer extension must be accompanied by a statement of good cause and shall specify the date by which the report will

be filed.

(2) The utility shall also file with the original and each copy of the annual report form, or separately within 30 days, a letter or report, signed by an independent certified public accountant, attesting to the conformity in all material respects of the schedules and their applicable notes listed on the general information page of Form PSC/AFA 19 with the Commission's applicable uniform system of accounts and published accounting releases.

Specific Authority 366.05(1), 350.127(2) FS.

Law Implemented 350.115, 366.04(2)(f), 366.05(1), (2)(a) FS.

History--New 12-27-94, amended.

#### 25-6.0436 Depreciation.

(1) For the purposes of this part, the following definitions shall apply:

(a) Category or Category of Depreciable Plant -- A grouping of plant for which a depreciation rate is prescribed. At a minimum it should include each plant account prescribed in Rule 25-6.014(1), F.A.C.

(b) Embedded Vintage -- A vintage of plant in service as of the date of study or implementation of proposed rates.

(c) Mortality Data -- Historical data by study category showing plant balances, additions, adjustments and retirements, used in analyses for life indications or calculations of realized life. Preferably, this is aged data in accord with the following:

1. The number of plant items or equivalent units (usually expressed in dollars) added each calendar year.

2. The number of plant items retired (usually expressed in dollars) each year and the distribution by years of placing of such retirements.

3. The net increase or decrease resulting from purchases, sales or adjustments and the distribution by years of placing of such amounts.

4. The number that remains in service (usually expressed in dollars) at the end of each year and the distribution by years of placing of such amounts.

(d) Net Book Value - The book cost of an asset or group of assets minus the accumulated depreciation or amortization reserve associated with those assets.

(e)~~(d)~~ Remaining Life Method -- The method of calculating a depreciation rate based on the unrecovered plant balance, less average future net salvage and the average remaining life. The formula for calculating a Remaining Life Rate (RLR) is:

$$\text{RLR} = \frac{100\% - \text{Reserve \%} - \text{Average Future Net Salvage \%}}{\text{Average Remaining Life in Years}}$$

(f) Reserve (Accumulated Depreciation) - The amount of depreciation expense accumulated to date.

(g)~~(e)~~ Reserve Data -- Historical data by study category showing reserve balances, debits and credits such as booked depreciation, expense, salvage and cost of removal and adjustments to the reserve utilized in monitoring reserve activity and position.

(h)~~(f)~~ Reserve Deficiency -- An inadequacy in the reserve of a category as evidenced by a comparison of that reserve indicated

as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

~~(i)(g)~~ Reserve Surplus -- An excess in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

~~(j)(h)~~ Salvage Data -- Historical data by study category showing bookings of retirements, gross salvage and cost of removal used in analysis of trends in gross salvage and cost of removal or for calculations of realized salvage.

~~(k)(i)~~ Theoretical Reserve or Prospective Theoretical Reserve -- A calculated reserve based on components of the proposed rate using the formula:

Theoretical Reserve = Book Investment - Future Accruals - Future Net Salvage

~~(l)(j)~~ Vintage -- The year of placement of a group of plant items or investment under study.

~~(m)(k)~~ Whole Life Method -- The method of calculating a depreciation rate based on the Whole Life (Average Service Life) and the Average Net Salvage. Both life and salvage components are the estimated or calculated composite of realized experience and expected activity. The formula is:

Whole Life Rate = 100% - Average Net Salvage %

## Average Service Life in Years

(2) (a) No utility shall ~~may~~ change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval.

(b) No utility shall ~~may~~ reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior Commission approval.

(c) Plant investment transferred from one account to another or to an affiliated company shall have an appropriate reserve amount also transferred. Appropriate methods for determining the appropriate reserve amount to transfer are as follows:

1. Where vintage reserves are not maintained, synthesization using the currently prescribed curve shape may be required. The same reserve percent associated with the original placement vintage of the related investment shall then be used in determining the appropriate amount of reserve to transfer.

2. Where the original placement vintage of the investment being transferred is unknown, the reserve percent applicable to the account in which the investment being transferred resides may be assumed as appropriate for determining the reserve amount to transfer.

3. Where the age of the investment being transferred is known and a history of the prescribed depreciation rates is known, a reserve can be determined by multiplying the age times the investment times the applicable depreciation rate(s).

4. The Commission shall consider any additional methods submitted by the utilities for determining the appropriate reserve

amounts to transfer.

(3) (a) Each utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed by Rule 25-6.014(1), F.A.C. Utilities may maintain further sub-categorization.

(b) Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.

(4) A utility filing a depreciation study, regardless if a change in rates is being requested or not, shall submit to the Commission Clerk's office fifteen copies of the information required by paragraphs (6) (a) through (6) (f) and (6) (h) of this rule and at least three copies of the information required by paragraph (6) (g).

(5) Upon Commission approval by order establishing an effective date, the utility shall ~~may~~ reflect on its books and records the implementation of the proposed rates, subject to adjustment when final depreciation rates are approved.

(6) A depreciation study shall include:

(a) A comparison of current and proposed depreciation rates and components for each category of depreciable plant. Current rates shall be identified as to the effective date and proposed rates as to the proposed effective date.

(b) A comparison of annual depreciation expense as of the proposed effective date, resulting from current rates with those produced by the proposed rates for each category of depreciable plant. The plant balances may involve estimates. Submitted data

including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.

(c) Each recovery and amortization schedule currently in effect should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.

(d) A comparison of the accumulated book reserve to the prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which depreciation rates are to be applied.

(e) A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions, necessitating a revision in rates.

(f) An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It should also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.

(g) The filing shall contain all calculations, analysis and

numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, or transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. To the degree possible, data involving retirements should be aged.

(h) The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained.

(7)(a) Utilities shall provide calculations of depreciation rates using both the whole life method and the remaining life method. The use of these methods is required for all depreciable categories. Utilities may submit additional studies or methods for consideration by the Commission.

(b) The possibility of corrective reserve transfers shall be investigated by the Commission prior to changing depreciation rates.

(8)(a) Each company shall file a study for each category of depreciable property for Commission review at least once every four years from the submission date of the previous study unless otherwise required by the Commission.

(b) A utility proposing an effective date of the beginning of

its fiscal year shall submit its depreciation study no later than the mid-point of that fiscal year.

(c) A utility proposing an effective date coinciding with the expected date of additional revenues initiated through a rate case proceeding shall submit its depreciation study no later than the filing date of its Minimum Filing Requirements.

(9) As part of the filing of the annual report pursuant to Rule 25-6.014(3), F.A.C., each utility shall include an annual status report. The report shall include booked plant activity (plant balance at the beginning of the year, additions, adjustments, transfers, reclassifications, retirements and plant balance at year end) and reserve activity (reserve balance at the beginning of the year, retirements, accruals, salvage, cost of removal, adjustments, transfers, reclassifications and reserve balance at end of year) for each category of investment for which a depreciation rate, amortization, or capital recovery schedule has been approved. The report shall indicate for each category that:

(a) There has been no change of plans or utility experience requiring a revision of rates, amortization or capital recovery schedules; or

(b) There has been a change requiring a revision of rates, amortization or capital recovery schedules.

(10) For any category where current conditions indicate a need for revision of depreciation rates, amortization or capital recovery schedules and no revision is sought, the report shall explain why no revision is requested.

~~(10)~~(a) Prior to the date of retirement of major

installations, the Commission shall ~~may~~ approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

(b) The Commission shall ~~may~~ approve a special capital recovery schedule when an installation is designed for a specific purpose or for a limited duration.

(c) Associated plant and reserve activity, balances and the annual capital recovery schedule expense must be maintained as subsidiary records.

Specific Authority 350.127(2), 366.05(1) FS.

Law Implemented 350.115, 366.04(2)(f), 366.06(1) FS.

History--New 11-11-82, 1-6-85, Formerly 25-6.436, Amended 4-27-88, 12-12-91,                     .