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FLORIDA
PUBLIC SERVICE COMMISSION

**Florida
Power**
CORPORATION

JAMES A. MCGEE
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September 24, 1999

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 980643-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and fifteen copies of Florida Power Corporation's Post-Workshop Comments.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

- AFA *Revell*
- APP *Walter*
- CAF
- CMU
- CTR
- EAG *3*
- LEG
- MAS
- OPC
- PAI
- SEC
- WAW
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Enclosure

Done 10/01/99

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FPSC BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

11558 SEP 24 99

CERTIFICATE OF SERVICE

Docket No. 980643-EI

I HEREBY CERTIFY that a true copy of Florida Power Corporation's Post-Workshop Comments has been furnished to the following individuals by U.S. Mail this 24th day of September, 1999:

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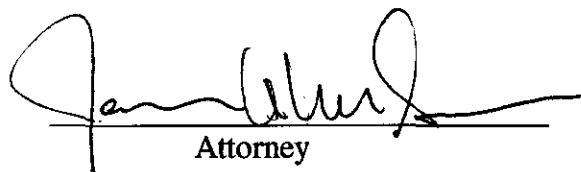
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FLORIDA POWER CORPORATION

DOCKET NO. 980643-EI

POST-WORKSHOP COMMENTS

Florida Power Corporation (FPC) continues to support its suggested revisions to Staff's initial proposed rule amendments contained in FPC's Pre-Workshop Comments, several of which were adopted in Staff's revised rule amendments distributed on August 17, 1999. In addition, FPC supports several other suggested revisions to Staff's revised rule amendments based on the discussion of these amendments that took place at the August 24, 1999 workshop. The following comments correspond with FPC's suggested revisions (indicated by shading) to Staff's August 17th proposed rule amendments contained in the attached mark-up.

Rule 25-6.1351(1) - Purpose

This deletion is a clarification based on the workshop discussion.

Rule 25-6.1351(2)(g) – Definition of Nonregulated

See FPC's pre-workshop comments.

Rule 25-6.1351(2)(h) – Definition of Regulated

This change is based on the workshop discussion and consistency with the suggested definition of "Nonregulated" above.

Rule 25-6.1351(3)(a)

This clarification is based on the workshop discussion.

Rule 25-6.1351(3)(c)

See FPC's pre-workshop comments.

Rule 25-6.1351(3)(d)

See FPC's pre-workshop comments.

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FPSC-RECORDS/REPORTING

Deletion of Rule 25-6.1351(3)(e)

See FPC's pre-workshop comments.

Rule 25-6.1351(4)(a)

This clarification is based on the workshop discussion.

Rule 25-6.1351(4)(c)

See FPC's pre-workshop comments.

Rule 25-6.1351(6) – Audit Requirements

See FPC's pre-workshop comments.

Florida Power Corporation's
Suggested Revisions to Staff's
Revised Rule Amendments

1 25-6.1351 Cost Allocation and Affiliate Transactions
2 ~~Diversification Reports.~~

3 (1) Purpose. The purpose of this rule is to establish cost
4 allocation ~~guidelines and reporting~~ requirements to ensure proper
5 accounting for affiliate transactions and utility nonregulated
6 activities so that these transactions and activities are not
7 subsidized by utility ratepayers. This rule is not applicable to
8 affiliate transactions for purchase of fuel and related
9 transportation services which are subject to Commission review and
10 approval in cost recovery proceedings.

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

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to, and words in ~~struck through~~ type are deletions
from, the existing rule proposed by Staff.

1 (2) Definitions

2 (a) Affiliate -- Any entity that directly or indirectly
3 through one or more intermediaries, controls, is controlled by, or
4 is under common control with a ~~the~~ utility. As used herein,
5 "control" means the possession, directly or indirectly, of the
6 power to direct or cause the direction of the management and
7 policies of a company, whether such power is exercised through one
8 or more intermediary companies, or alone, or in conjunction with,
9 or pursuant to an agreement, and whether such power is established
10 through a majority or minority ownership or voting of securities,
11 common directors, officers or stockholders, voting trusts, holding
12 trusts, associated companies, contracts or any other direct or
13 indirect means. Ownership of ~~five~~ 5 percent or more of the voting
14 securities of an entity shall be conclusively deemed to constitute
15 the control thereof.

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

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

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

3 (e) Fully Allocated Costs - The sum of direct costs plus a
4 fair and reasonable share of indirect costs.

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

7 (g) Nonregulated - ~~The components of a utility's financial~~
8 ~~statements that are not taken into account in determining fair,~~
9 ~~just, and reasonable rates for utility service. Refers to services~~
10 ~~or products that are not subject to price regulation by the FPSC.~~

11 (h) Regulated - ~~The components of a utility's financial~~
12 ~~statements that are taken into account in determining fair, just,~~
13 ~~and reasonable rates for utility service. Refers to services or~~
14 ~~products that are subject to price regulation by the FPSC and/or~~
15 ~~included for ratemaking and reported in surveillance.~~

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

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1 (3) Non-Tariffed Affiliate Transactions

2 (a) The purpose of subsection (3) is to establish
3 requirements for non-tariffed affiliate transactions impacting
4 regulated activities.

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

13 (c) A utility shall ~~apportion to regulated operations the~~
14 ~~lesser of fully allocated costs or market price when purchasing~~
15 ~~purchase services and products at market prices from an affiliate.~~
16 ~~Except Parent Company or Service Company transactions may be~~
17 ~~charged at fully allocated cost or under SEC prescribed allocation~~
18 ~~methodologies, respectively. Competitive bidding must be used when~~

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1 ~~the utility projects to spend more than \$500,000 in a calendar year~~
2 ~~for a particular product or service.~~

3 (d) When an asset is transferred from a utility to a
4 nonregulated affiliate, the utility must charge the affiliate the
5 greater of market or net book value. When an asset is transferred
6 from a nonregulated affiliate to a utility, the utility must record
7 the asset at the lower of market or net book value. An independent
8 appraiser must verify the market value of a transferred asset with
9 a net book value greater than \$1,000,000.

10 ~~(e) If an affiliate's accounts and records do not conform to~~
11 ~~the Uniform System of Accounts as prescribed by Rule 25.6.014, the~~
12 ~~utility must maintain a mapping system that reconciles the~~
13 ~~affiliate's accounts to the respective USOA accounts.~~

14 ~~(e)-(f)~~ Each affiliate involved in affiliate transactions
15 must maintain all underlying data concerning the affiliate
16 transaction for at least three years after the affiliate
17 transaction is complete. This paragraph does not relieve a

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1 regulated affiliate from maintaining records under otherwise
2 applicable record retention requirements.

3 (4) Cost Allocation Principles

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

7 (b) Direct costs shall be assigned to ~~classified~~ for each
8 service and product provided by the utility.

9 (c) Indirect costs shall be distributed on a fully allocated
10 cost basis. Except, a utility may distribute indirect costs on an
11 incremental or market basis if the utility can demonstrate that its
12 ratepayers will ~~not be harmed~~ benefit. If a utility distributes
13 indirect costs on less than a fully allocated basis, the utility
14 must maintain documentation to support doing so in accordance with
15 the record retention requirements in Rule 25-6.014(3), F.A.C.

16 (d) Each utility must maintain a listing of revenues and
17 expenses for all non-tariffed products and services.

18 (5) Reporting Requirements. Each utility shall file
19 information concerning its affiliates, affiliate transactions, and
20 nonregulated activities on Form PSC/AFA 19 (xx/xx) which is
21 incorporated by reference into this rule. Form PSC/AFA 19,

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1 entitled "Annual Report of Major Electric Utilities," may be
2 obtained from the Commission's Division of Auditing and Financial
3 Analysis.

4 (6) Audit Requirements

5 ~~(a)~~ Each utility involved in affiliate transactions or in
6 nonregulated activities must maintain a Cost Allocation Manual
7 (CAM). The CAM must be organized and indexed so that the
8 information contained therein can be easily accessed for audit
9 purposes.

10 ~~(b)~~ Each utility shall file with the Commission an audit
11 report issued by an independent auditor commenting on the utility's
12 compliance with its CAM. Beginning January 1, 2001, the compliance
13 audit shall be performed no less than once every three years. The
14 audit report shall be filed with the annual report or within 30
15 days of filing the annual report required by Rule 25-6.135.

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

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1 ~~(d) All costs associated with the audit must be separately~~
2 ~~identified and shall not be chargeable to expense for rate-making~~
3 ~~purposes.~~

4 ~~(3) Within 45 days of coming under the jurisdiction of the~~
5 ~~Commission, each investor-owned electric utility shall file~~
6 ~~Schedules 1, 7, and 8 of Form PSC/AFA 16 with the Division of~~
7 ~~Auditing and Financial Analysis.~~

8 ~~(4) Each investor-owned electric utility shall file Schedules~~
9 ~~1 -- 6 of Form PSC/AFA 16 as an attachment to its annual report.~~

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

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

16 Law Implemented 350.115, 366.04(2)(a), (f), 366.05(1), (2), and
17 (9), 366.093(1) FS.

18 History--New 12-27-94, Amended _____.

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1 25-6.135 Annual Reports.

2 (1) Each investor-owned electric utility shall file annual
3 reports with the Commission on Commission Form PSC/AFA 19 (~~xx/xx~~
4 ~~12/94~~) which is incorporated by reference into this rule. Form
5 PSC/AFA 19, entitled "Annual Report of Major Electric Utilities",
6 may be obtained from the Commission's Division of Auditing and
7 Financial Analysis. These reports shall be verified by a
8 responsible accounting officer of the utility making the report and
9 shall be due on or before April 30 for the preceding calendar year.
10 A utility may file a written request for an extension of time with
11 the Division of Auditing and Financial Analysis no later than April
12 30. One extension of 31 days will be granted upon request. A
13 request for a longer extension must be accompanied by a statement
14 of good cause and shall specify the date by which the report will
15 be filed.

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

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1 applicable uniform system of accounts and published accounting
2 releases.

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

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

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

6
7
8 25-6.0436 Depreciation.

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

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

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

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

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- 1 1. The number of plant items or equivalent units (usually
2 expressed in dollars) added each calendar year.
- 3 2. The number of plant items retired (usually expressed in
4 dollars) each year and the distribution by years of
5 placing of such retirements.
- 6 3. The net increase or decrease resulting from purchases,
7 sales or adjustments and the distribution by years of
8 placing of such amounts.
- 9 4. The number that remains in service (usually expressed in
10 dollars) at the end of each year and the distribution by
11 years of placing of such amounts.

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

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

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

21

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1 (f) Reserve (Accumulated Depreciation) - The amount of
2 depreciation/amortization expense, salvage, cost of removal,
3 adjustments, transfers, and reclassifications accumulated to date.

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

9 (h)(f) Reserve Deficiency -- An inadequacy in the reserve of
10 a category as evidenced by a comparison of that reserve indicated
11 as necessary under current projections of life and salvage with
12 that reserve historically accrued. The latter figure may be
13 available from the utility's records or may require retrospective
14 calculation.

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

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

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

8
9 Theoretical Reserve = Book Investment - Future Accruals - Future
10 Net Salvage

11
12 ~~(l)(j)~~ Vintage -- The year of placement of a group of plant
13 items or investment under study.

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

19
20 Whole Life Rate =
$$\frac{100\% - \text{Average Net Salvage } \%}{\text{Average Service Life in Years}}$$

21

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

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

7 (c) When plant investment is booked as a transferred from
8 one a regulated utility depreciable account to another or from a
9 regulated company to an affiliate to an affiliated company shall
10 have an appropriate, an appropriate reserve amount shall also be
11 booked as a transferred. When plant investment is sold from one
12 regulated utility to an affiliate, an appropriate associated
13 reserve amount shall also be determined to calculate the net book
14 value of the utility investment being sold. Appropriate methods
15 for determining the appropriate reserve amount associated with
16 plant to transferred or sold are as follows:

- 17 1. Where vintage reserves are not maintained, synthesization
18 using the currently prescribed curve shape may be
19 required. The same reserve percent associated with the
20 original placement vintage of the related investment

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1 shall then be used in determining the appropriate amount
2 of reserve to transfer.

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

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

13 4. The Commission shall consider any additional methods
14 submitted by the utilities for determining the
15 appropriate reserve amounts to transfer.

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

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

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

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

14 (6) A depreciation study shall include:

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

19 (b) A comparison of annual depreciation expense as of the
20 proposed effective date, resulting from current rates with those
21 produced by the proposed rates for each category of depreciable

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1 plant. The plant balances may involve estimates. Submitted data
2 including plant and reserve balances or company planning involving
3 estimates shall be brought to the effective date of the proposed
4 rates.

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

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

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

16 (f) An explanation and justification for each study category
17 of depreciable plant defining the specific factors that justify the
18 life and salvage components and rates being proposed. Each
19 explanation and justification shall include substantiating factors
20 utilized by the utility in the design of depreciation rates for the
21 specific category, e.g., company planning, growth, technology,

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1 physical conditions, trends. The explanation and justification
2 shall discuss any proposed transfers of reserve between categories
3 or accounts intended to correct deficient or surplus reserve
4 balances. It should also state any statistical or mathematical
5 methods of analysis or calculation used in design of the category
6 rate.

7 (g) The filing shall contain all calculations, analysis and
8 numerical basic data used in the design of the depreciation rate
9 for each category of depreciable plant. Numerical data shall
10 include plant activity (gross additions, adjustments, retirements,
11 and plant balance at end of year) as well as reserve activity
12 (retirements, accruals for depreciation expense, salvage, cost of
13 removal, adjustments, or transfers and reclassifications and
14 reserve balance at end of year) for each year of activity from the
15 date of the last submitted study to the date of the present study.
16 To the degree possible, data involving retirements should be aged.

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

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

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

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

13 (b) A utility proposing an effective date of the beginning of
14 its fiscal year shall submit its depreciation study no later than
15 the mid-point of that fiscal year.

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

20 (9) As part of the filing of the annual report pursuant to
21 Rule 25-6.014(3), F.A.C., each utility shall include an annual

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1 status report. The report shall include booked plant activity
2 (plant balance at the beginning of the year, additions,
3 adjustments, transfers, reclassifications, retirements and plant
4 balance at year end) and reserve activity (reserve balance at the
5 beginning of the year, retirements, accruals, salvage, cost of
6 removal, adjustments, transfers, reclassifications and reserve
7 balance at end of year) for each category of investment for which
8 a depreciation rate, amortization, or capital recovery schedule has
9 been approved. The report shall indicate for each category that:

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

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

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

19 ~~(10)~~(a) Prior to the date of retirement of major
20 installations, the Commission shall ~~may~~ approve capital recovery
21 schedules to correct associated calculated deficiencies where a

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from, the existing rule proposed by Staff.

1 utility demonstrates that (1) replacement of an installation or
2 group of installations is prudent and (2) the associated investment
3 will not be recovered by the time of retirement through the normal
4 depreciation process.

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

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

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

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

13 History--New 11-11-82, 1-6-85, Formerly 25-6.436, Amended 4-27-88,
14 12-12-91, .

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