

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposed amendments to  
Rules 25-6.135, F.A.C., Annual  
Reports; 25-6.1351, F.A.C., Cost  
Allocation and Affiliate  
Transactions; and 25-6.0436,  
F.A.C., Depreciation.

DOCKET NO. 980643-EI  
ORDER NO. PSC-00-2235-FOF-EI  
ISSUED: November 27, 2000

The following Commissioners participated in the disposition of  
this matter:

J. TERRY DEASON, Chairman  
E. LEON JACOBS, JR.  
LILA A. JABER  
BRAULIO L. BAEZ

NOTICE OF ADOPTION OF RULES

NOTICE is hereby given that the Florida Public Service  
Commission, pursuant to Section 120.54, Florida Statutes, has  
adopted the amendments to Rules 25-6.135, 25-6.1351 and 25-  
6.0436, Florida Administrative Code, relating to annual reports,  
cost allocation and affiliate transactions, and depreciation with  
changes.

The rules were filed with the Department of State on  
November 21, 2000 and will be effective on December 11, 2000. A  
copy of the rules as filed with the Department is attached to  
this Notice.

This docket is closed upon issuance of this notice.

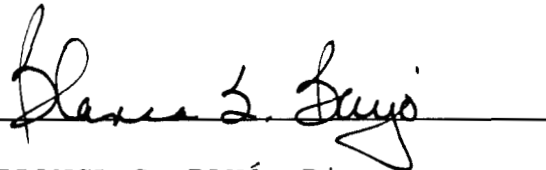
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FPSC-RECORDS/REPORTING

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By ORDER of the Florida Public Service Commission, this 27th  
day of November, 2000.

A handwritten signature in cursive script, reading "Blanca S. Bayó", is written over a horizontal line.

BLANCA S. BAYÓ, Director  
Division of Records & Reporting

( S E A L )

CTM

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/amortization expense, salvage, cost of removal, adjustments, transfers, and reclassifications 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:

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

(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) When plant investment is booked as a transfer from a regulated utility depreciable account to another or from a regulated company to an affiliate, an appropriate reserve amount shall also be booked as a transfer. When plant investment is sold from one regulated utility to an affiliate, an appropriate associated reserve amount shall also be determined to calculate the net book value of the utility investment being sold. Appropriate methods for determining the appropriate reserve amount associated with plant transferred or sold 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 Division of Records and Reporting ~~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 25-6.135 ~~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) F.S.

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

History--New 11-11-82, 1-6-85, Formerly 25-6.436, Amended 4-27-88, 12-12-91, 12/11/00.

25-6.135 Annual Reports.

(1) Each investor-owned electric utility shall file annual reports with the Commission on Commission Form PSC/ECR/101 ~~PSC/AFA-19~~ (12/00 ~~12/94~~) which is incorporated by reference into this rule. Form PSC/ECR/101 ~~PSC/AFA-19~~, entitled "Annual Report of Major Electric Utilities", may be obtained from the Commission's Division of Economic Regulation ~~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

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time with the Division of Economic Regulation ~~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/ECR/101 ~~PSC/AFA-19~~ with the Commission's applicable uniform system of accounts and published accounting releases.

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

Law Implemented: 350.115, 366.04(2)(f), 366.05(1), (2)(a) F.S.

History--New 12-27-94, Amended 12/11/00.

25-6.1351 Cost Allocation and Affiliate Transactions

~~Diversification Reports.~~

(1) Purpose. The purpose of this rule is to establish cost allocation requirements to ensure proper accounting for affiliate transactions and utility nonregulated activities so that these

transactions and activities are not subsidized by utility ratepayers. This rule is not applicable to affiliate transactions for purchase of fuel and related transportation services that are subject to Commission review and approval in cost recovery proceedings.

~~(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. As used herein, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of



securities, common directors, officers or stockholders, voting trusts, holding trusts, associated companies, contracts or any other direct or indirect means. Ownership of 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 specifically identified with a particular service or product.

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

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

(g) Nonregulated - Refers to services or products that are not subject to price regulation by the Commission or not included for ratemaking purposes and not reported in surveillance.

(h) Prevailing Price Valuation - Refers to the price an affiliate charges a regulated utility for products and services, which equates to that charged by the affiliate to third parties. To qualify for this treatment, sales of a particular asset or service to third parties must encompass more than 50 percent of the total quantity of the product or service sold by the entity. The 50 percent threshold is applied on an asset-by-asset and service-by-service basis, rather than on a product line or service line basis.

(i) Regulated - Refers to services or products that are subject to price regulation by the Commission or included for ratemaking purposes and reported in surveillance.

(3) Non-Tariffed Affiliate Transactions

(a) The purpose of subsection (3) is to establish requirements for non-tariffed affiliate transactions impacting regulated activities. This subsection does not apply to the allocation of costs for services between a utility and its parent company or between a utility and its regulated utility affiliates or to services received by a utility from an affiliate that exists solely to provide services to members of the utility's

corporate family. All affiliate transactions, however, are subject to regulatory review and approval.

(b) A utility must charge an affiliate the higher of fully allocated costs or market price 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 or market price if the charge is above incremental cost. If a utility charges less than fully allocated costs or market price, the utility must maintain documentation to support and justify how doing so benefits regulated operations and that the transaction would have otherwise been forgone. If a utility charges less than market price, the utility must notify the Division of Economic Regulation in writing within 30 days of the utility initiating, or changing any of the terms or conditions, for the provision of a product or service. In the case of products or services currently being provided, a utility must notify the Division within 30 days of the rule's effective date.

(c) When a utility purchases services and products from an affiliate and applies the cost to regulated operations, the utility shall apportion to regulated operations the lesser of fully allocated costs or market price. Except, a utility may

apportion to regulated operations more than fully allocated costs if the charge is less than or equal to the market price. If a utility apportions to regulated operations more than fully allocated costs, the utility must maintain documentation to support and justify how doing so benefits regulated operations and would be based on prevailing price valuation.

(d) When an asset used in regulated operations is transferred from a utility to a nonregulated affiliate, the utility must charge the affiliate the greater of market price or net book value. Except, a utility may charge the affiliate either the market price or net book value if the utility maintains documentation to support and justify that such a transaction benefits regulated operations. When an asset to be used in regulated operations is transferred from a nonregulated affiliate to a utility, the utility must record the asset at the lower of market price or net book value. Except, a utility may record the asset at either market price or net book value if the utility maintains documentation to support and justify that such a transaction benefits regulated operations. An independent appraiser must verify the market value of a transferred asset with a net book value greater than \$1,000,000. If a utility

charges less than market price, the utility must notify the Division of Economic Regulation in writing within 30 days of the transfer.

(e) 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) Utility accounting records must show whether each transaction involves a product or service that is regulated or nonregulated. A utility that identifies these transactions by the use of subaccounts meets the requirements of this paragraph.

(b) Direct costs shall be assigned to each non-tariffed service and product provided by the utility.

(c) Indirect costs shall be distributed to each non-tariffed service and product provided by the utility 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.

(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/ECR/101 (12/00) which is incorporated by reference into this rule. Form PSC/ECR/101, entitled "Annual Report of Major Electric Utilities," may be obtained from the Commission's Division of Economic Regulation.

(6) Cost Allocation Manual. 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.

~~(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.~~

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~~———— (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) F.S.

Law Implemented: 350.115, 366.04(2)(a) and (f), 366.041(1),  
366.05(1), (2), and (9), 366.06(1), 366.093(1) F.S.

History--New 12-27-94, Amended 12/11/00.

RAR Official Filing:

11/22/00\*\*\*\*\*2:33 PM\*\*\*\*\*Matilda Sanders\*\*\*\*\*1

Matilda Sanders

2235-FOF

From: Mary Diskerud  
Sent: Wednesday, November 22, 2000 2:29 PM  
To: RAR - Orders-Notices

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NOA6135.CTM has been copied down to GCORDERS for (EI) Electric distribution.

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Sent to M.R.  
11/28/00