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Public Service Commission

July 5, 2002

Mr. Carroll Webb
Joint Administrative Procedures Committee
Room 120 Holland Building
Tallahassee, FL 32399-1300

Dear Mr. Webb:

RE: Docket No. 001502-WS - Proposed Rule 25-30.0371, F.A.C.,
Acquisition Adjustment

Dear Mr. Webb:

The Commission has approved the adoption of Rule 25-30.0371,
without changes.

We plan to file the rule for adoption on July 15, 2002.

Sincerely,

Christiana T. Moore
Senior Attorney

ADT0371.CTM

Enclosure

cc: Division of the Commission Clerk
and Administrative Services

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1 25-30.0371 Acquisition Adjustments.

2 (1) Definition. For the purpose of this rule, an acquisition
3 adjustment is defined as the difference between the purchase price
4 of utility system assets to an acquiring utility and the net book
5 value of the utility assets. A positive acquisition adjustment
6 exists when the purchase price is greater than the net book value.
7 A negative acquisition adjustment exists when the purchase price is
8 less than the net book value.

9 (2) Positive Acquisition Adjustments. A positive acquisition
10 adjustment shall not be included in rate base absent proof of
11 extraordinary circumstances. Any entity that believes a full or
12 partial positive acquisition adjustment should be made has the
13 burden to prove the existence of extraordinary circumstances. In
14 determining whether extraordinary circumstances have been
15 demonstrated, the Commission shall consider evidence provided to
16 the Commission such as anticipated improvements in quality of
17 service, anticipated improvements in compliance with regulatory
18 mandates, anticipated rate reductions or rate stability over a
19 long-term period, and anticipated cost efficiencies.

20 (3) Negative Acquisition Adjustments. A negative acquisition
21 adjustment shall not be included in rate base unless there is proof
22 of extraordinary circumstances or where the purchase price is less
23 than 80 percent of net book value. If the purchase price is less
24 than 80 percent of net book value then the inclusion of a negative
25 acquisition adjustment shall be calculated pursuant to paragraph

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1 (b) below.

2 (a) Contested. Any entity that believes a full or partial
3 negative acquisition adjustment should be made has the burden to
4 prove the existence of extraordinary circumstances. Under no
5 circumstance, however, shall the purchaser be required to record on
6 its books more than 70 percent of a negative acquisition
7 adjustment. In determining whether extraordinary circumstances
8 have been demonstrated, the Commission shall consider evidence
9 provided to the Commission such as the anticipated retirement of
10 the acquired assets and the condition of the assets acquired.

11 (b) Uncontested. If the purchase price is less than 80
12 percent of net book value, then the amount of the difference in
13 excess of 20 percent of net book value shall be recognized for
14 ratemaking purposes as a negative acquisition adjustment. The
15 negative acquisition adjustment shall not be recorded on the books
16 for ratemaking purposes or used for any earnings review unless the
17 purchaser files for a rate increase pursuant to section 367.081(2),
18 367.0814, 367.0817 or 367.0822, F.S., that will be effective during
19 the amortization period. The negative acquisition adjustment shall
20 be amortized over a 5-year period from the date of issuance of the
21 order approving the transfer of assets.

22 (4) Amortization Period. In setting the amortization period
23 for a Commission approved acquisition adjustment pursuant to (2) or
24 (3)(a) above, the Commission shall consider evidence provided to
25 the Commission such as the composite remaining life of the assets

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1 purchased and the condition of the assets purchased. Amortization
2 of the acquisition adjustment shall begin on the date of issuance
3 of the order approving the transfer of assets.

4 (5) Subsequent Modification. Any full or partial acquisition
5 adjustment, once made by the Commission pursuant to (2) or (3)(a)
6 above, may be subsequently modified if the extraordinary
7 circumstances do not materialize or subsequently are eliminated or
8 changed within five years of the date of issuance of the order
9 approving the transfer of assets.

10 Specific Authority: 350.127(2), 367.121(1)(f), FS.

11 Law Implemented: 367.071(5), 367.081(2)(a), 367.121(1)(a)(b), FS.

12 History: New _____.

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