

# ORIGINAL

NOTICE OF PROPOSED RULEMAKING

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030304-PU

RULE TITLE:

RULE NO.:

Accounting for Asset Retirement Obligations

25-14.014

Under SFAS 143

PURPOSE AND EFFECT: The rule provides guidance to regulated utilities regarding how to account for Asset Retirement Obligations under SFAS 143 on their books regulated by the Public Service Commission (PSC). The rule will result in more consistent accounting treatment for SFAS 143 among utilities regulated by the PSC. The rule mandates that SFAS 143 be revenue neutral so that the earnings of the utilities are not altered from what they are now under current accounting requirements.

SUMMARY: The rule addresses SFAS 143, Accounting for Asset Retirement Obligations. The rule provides guidance to regulated utilities regarding how to account for SFAS 143 for regulatory purposes. Also, it gives utilities the authority to record Regulatory Assets and Regulatory Liabilities.

SUMMARY OF STATEMENT OF ESTIMATED REGULATORY COST: A Statement of

- AUS \_\_\_\_\_
- CAF \_\_\_\_\_
- CMP \_\_\_\_\_
- COM \_\_\_\_\_
- CTR \_\_\_\_\_
- ECR \_\_\_\_\_
- GCL \_\_\_\_\_
- OPC \_\_\_\_\_
- MMS \_\_\_\_\_
- SEC   1
- OTH \_\_\_\_\_

Estimated Regulatory Costs was not prepared for this proposed rule.

Any person who wishes to provide information regarding the

statement of estimated regulatory costs, or to provide a proposal

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

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TALLAHASSEE, FLORIDA

for a lower cost regulatory alternative must do so in writing within 21 days of this notice.

SPECIFIC AUTHORITY: 350.127(2), FS

LAW IMPLEMENTED: 364.03, 364.035(5), 366.05(1), 367.121(1)(a), FS

WRITTEN COMMENTS OR SUGGESTIONS ON THE PROPOSED RULE MAY BE SUBMITTED TO THE FPSC, DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES, WITHIN 21 DAYS OF THE DATE OF THIS NOTICE FOR INCLUSION IN THE RECORD OF THE PROCEEDING.

IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE SCHEDULED AND ANNOUNCED IN THE FAW.

THE PERSON TO BE CONTACTED REGARDING THE PROPOSED RULE IS:

MARLENE STERN, Florida Public Service Commission, 2540 Shumard Oak Blvd., Tallahassee, Florida 32399-0862, (850) 413-6230.

THE FULL TEXT OF THE PROPOSED RULE IS:

25-14.014 Accounting for Asset Retirement Obligations Under SFAS 143.

(1) The Financial Accounting Standards Board issued Statement No. 143, Accounting for Asset Retirement Obligations (SFAS 143) in June 2001. The statement applies to legal obligations associated with the retirement of tangible, long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. For utilities required to implement SFAS 143, it shall be implemented in a manner such that the assets, liabilities and expenses

created by SFAS 143 and the application of SFAS 143 shall be revenue neutral in the rate making process.

(2) Definitions. For purposes of this rule, the following definitions apply:

(a) "Accretion Expense." The concurrent cost that is recorded as an operating item in the statement of income to account for the passage of time and the resulting period-to-period increase in the Asset Retirement Obligation.

(b) "Asset Retirement Cost." The amount capitalized that increases the carrying amount of the long-lived asset when a liability for an Asset Retirement Obligation is recognized.

(c) "Asset Retirement Obligation." An obligation associated with the retirement of a tangible long-lived asset.

(3) Pursuant to SFAS 143, each utility shall recognize the fair value of a liability for an Asset Retirement Obligation in the period in which it is incurred if a reasonable estimate of the fair value can be made. If a reasonable estimate of fair value cannot be made in the period the Asset Retirement Obligation is incurred, the liability shall be recognized when the reasonable estimate of fair value can be made. The fair value of the liability for an Asset Retirement Obligation is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. If quoted market prices are not

available, the estimate of fair value shall be based on the best information available in the circumstances including prices for similar liabilities and the result of present value or other valuation techniques. The Asset Retirement Obligations shall be kept by function and recorded in separate subaccounts.

(4) Upon initial recognition of a liability for an Asset Retirement Obligation, the utility shall capitalize an Asset Retirement Cost by increasing the carrying amount of the long-lived assets by the same amount as the liability. The Asset Retirement Cost shall be kept by function and recorded in a separate subaccount as intangible plant. The utility shall subsequently allocate that Asset Retirement Cost to expense over its useful life. The expense shall be recorded in a separate subaccount.

(5) Asset Retirement Costs do not qualify for Allowance for Funds Used During Construction.

(6) Pursuant to SFAS 143, in periods subsequent to the initial measurement, a utility shall recognize period-to-period changes in the liability for an Asset Retirement Obligation resulting from accretion or revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

(a) A utility shall measure the accretion cost in the liability for an Asset Retirement Obligation due to passage of time by applying the interest method of allocation to the amount

of the liability at the beginning of the period. This amount shall be recognized as an increase in the carrying amount of the liability.

(b) The accretion expense shall be recorded in a separate subaccount.

(c) Revisions to a previously recorded Asset Retirement Obligation will result from changes in the assumptions used to estimate the cash flows required to settle the Asset Retirement Obligation, including changes in estimated probabilities, amounts, and timing of the settlement of the Asset Retirement Obligation, as well as changes in the legal requirements of an obligation. Upward revisions to the undiscounted estimated cash flows shall be treated as a new liability and discounted at the current rate. Downward revisions will result in a reduction of the Asset Retirement Obligation. The amount of the liability to be removed shall be discounted at the rate that was used at the time the obligation was originally recorded. The concurrent debit or credit shall be made to the Asset Retirement Cost.

(7) Differences between amounts prescribed by the Commission and those used in the application of SFAS 143 shall be recorded as Regulatory Liabilities or Regulatory Assets in separate subaccounts.

(8) The Regulatory Debit and Regulatory Credit accounts shall be used to record the differences between the Commission

prescribed amounts and the amounts which are reported as expense under SFAS 143.

(9) Each utility shall keep records supporting the calculation and the assumptions used in the determination of the Asset Retirement Obligation and the related Asset Retirement Cost and the related Regulatory Assets and Regulatory Liabilities established in accordance with this rule and the implementation of SFAS 143.

(10) If a utility is not required to establish an Asset Retirement Obligation for an asset or group of assets, the cost of removal shall continue to be included in the calculation of the depreciation expense and accumulated depreciation.

Specific Authority: 350.127(2) F.S.

Law Implemented: 364.03, 364.035(5), 366.05(1), 367.121(1)(a) F.S.

History: New \_\_\_\_\_.

NAME OF PERSON ORIGINATING PROPOSED RULE: CHRISTINE ROMIG

NAME OF SUPERVISOR OR PERSONS WHO APPROVED THE PROPOSED RULE:  
Florida Public Service Commission.

DATE PROPOSED RULE APPROVED: June 3, 2003

DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAW:  
January 31, 2003.

If any person decides to appeal any decision of the Commission with respect to any matter considered at the rulemaking hearing, if held, a record of the hearing is necessary. The appellant must ensure that a verbatim record, including testimony and evidence forming the basis of the appeal is made. The Commission usually makes a verbatim record of rulemaking hearings.

Any person requiring some accommodation at this hearing because of a physical impairment should call the Division of the Commission Clerk and Administrative Services 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).

1 25-14.014 Accounting for Asset Retirement Obligations Under SFAS  
2 143.

3 (1) The Financial Accounting Standards Board issued Statement  
4 No. 143, Accounting for Asset Retirement Obligations (SFAS 143) in  
5 June 2001. The statement applies to legal obligations associated  
6 with the retirement of tangible, long-lived assets that result  
7 from the acquisition, construction, development or normal operation  
8 of a long-lived asset. For utilities required to implement SFAS  
9 143, it shall be implemented in a manner such that the assets,  
10 liabilities and expenses created by SFAS 143 and the application of  
11 SFAS 143 shall be revenue neutral in the rate making process.

12 (2) Definitions. For purposes of this rule, the following  
13 definitions apply:

14 (a) "Accretion Expense." The concurrent cost that is recorded  
15 as an operating item in the statement of income to account for the  
16 passage of time and the resulting period-to-period increase in the  
17 Asset Retirement Obligation.

18 (b) "Asset Retirement Cost." The amount capitalized that  
19 increases the carrying amount of the long-lived asset when a  
20 liability for an Asset Retirement Obligation is recognized.

21 (c) "Asset Retirement Obligation." An obligation associated  
22 with the retirement of a tangible long-lived asset.

23 (3) Pursuant to SFAS 143, each utility shall recognize the  
24 fair value of a liability for an Asset Retirement Obligation in the  
25 period in which it is incurred if a reasonable estimate of the fair

CODING: Words underlined are additions; words in ~~struck~~  
~~through~~ type are deletions from existing law.



1 value can be made. If a reasonable estimate of fair value cannot  
2 be made in the period the Asset Retirement Obligation is incurred,  
3 the liability shall be recognized when the reasonable estimate of  
4 fair value can be made. The fair value of the liability for an  
5 Asset Retirement Obligation is the amount at which that liability  
6 could be settled in a current transaction between willing parties,  
7 that is, other than in a forced or liquidation transaction. If  
8 quoted market prices are not available, the estimate of fair value  
9 shall be based on the best information available in the  
10 circumstances including prices for similar liabilities and the  
11 result of present value or other valuation techniques. The Asset  
12 Retirement Obligations shall be kept by function and recorded in  
13 separate subaccounts.

14 (4) Upon initial recognition of a liability for an Asset  
15 Retirement Obligation, the utility shall capitalize an Asset  
16 Retirement Cost by increasing the carrying amount of the long-lived  
17 assets by the same amount as the liability. The Asset Retirement  
18 Cost shall be kept by function and recorded in a separate  
19 subaccount as intangible plant. The utility shall subsequently  
20 allocate that Asset Retirement Cost to expense over its useful  
21 life. The expense shall be recorded in a separate subaccount.

22 (5) Asset Retirement Costs do not qualify for Allowance for  
23 Funds Used During Construction.

24 (6) Pursuant to SFAS 143, in periods subsequent to the initial  
25 measurement, a utility shall recognize period-to-period changes in

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1 the liability for an Asset Retirement Obligation resulting from  
2 accretion or revisions to either the timing or the amount of the  
3 original estimate of undiscounted cash flows.

4 (a) A utility shall measure the accretion cost in the  
5 liability for an Asset Retirement Obligation due to passage of time  
6 by applying the interest method of allocation to the amount of the  
7 liability at the beginning of the period. This amount shall be  
8 recognized as an increase in the carrying amount of the liability.

9 (b) The accretion expense shall be recorded in a separate  
10 subaccount.

11 (c) Revisions to a previously recorded Asset Retirement  
12 Obligation will result from changes in the assumptions used to  
13 estimate the cash flows required to settle the Asset Retirement  
14 Obligation, including changes in estimated probabilities, amounts,  
15 and timing of the settlement of the Asset Retirement Obligation, as  
16 well as changes in the legal requirements of an obligation. Upward  
17 revisions to the undiscounted estimated cash flows shall be treated  
18 as a new liability and discounted at the current rate. Downward  
19 revisions will result in a reduction of the Asset Retirement  
20 Obligation. The amount of the liability to be removed shall be  
21 discounted at the rate that was used at the time the obligation was  
22 originally recorded. The concurrent debit or credit shall be made  
23 to the Asset Retirement Cost.

24 (7) Differences between amounts prescribed by the Commission  
25 and those used in the application of SFAS 143 shall be recorded as

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1 Regulatory Liabilities or Regulatory Assets in separate  
2 subaccounts.

3 (8) The Regulatory Debit and Regulatory Credit accounts shall  
4 be used to record the differences between the Commission prescribed  
5 amounts and the amounts which are reported as expense under SFAS  
6 143.

7 (9) Each utility shall keep records supporting the calculation  
8 and the assumptions used in the determination of the Asset  
9 Retirement Obligation and the related Asset Retirement Cost and the  
10 related Regulatory Assets and Regulatory Liabilities established in  
11 accordance with this rule and the implementation of SFAS 143.

12 (10) If a utility is not required to establish an Asset  
13 Retirement Obligation for an asset or group of assets, the cost of  
14 removal shall continue to be included in the calculation of the  
15 depreciation expense and accumulated depreciation.

16 Specific Authority: 350.127(2) F.S.

17 Law Implemented: 364.03, 364.035(5), 366.05(1), 367.121(1)(a) F.S.

18 History: New \_\_\_\_\_.

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