

**Eric Fryson**

120303-E1

**From:** Roddy, Lisa [Lisa.Roddy@pgnmail.com]  
**Sent:** Monday, December 03, 2012 2:20 PM  
**To:** Filings@psc.state.fl.us  
**Cc:** Burnett, John; Triplett, Dianne  
**Subject:** E-Filing: PEF Petition for Accounting Order - Dkt# TBD  
**Attachments:** PEF Petition to Use Reg Asset or Liab for Interest Rate Hedges 12-3-12.pdf

**This electronic filing is made by**

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**DOCKET No: TO BE DETERMINED**

On behalf of **Progress Energy Florida**

Consisting of **6 pages**.

The attached document for filing is Progress Energy Florida's  
 Petition for an Accounting Order to Record in a Regulatory  
 Asset or Liability Account the Unrealized and Realized Gains  
 and Losses Resulting From Financial Accounting Requirements  
 Related to Interest Rate Derivative Agreements.

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DOCUMENT NUMBER-DATE  
 07961 DEC -3 2012  
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12/3/2012

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Petition of Progress Energy Florida, Inc.  
For an Accounting Order to Record in a Regulatory  
Asset or Liability the Unrealized and Realized Gains  
And Losses Resulting from Financial Accounting  
Requirements Related to Interest Rate Derivative  
Agreements

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Docket No. 120303-E1

Submitted for Filing:  
December 3, 2012

**PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR AN ACCOUNTING ORDER  
TO RECORD IN A REGULATORY ASSET OR LIABILITY ACCOUNT THE  
UNREALIZED AND REALIZED GAINS AND LOSSES RESULTING FROM  
FINANCIAL ACCOUNTING REQUIREMENTS RELATED TO INTEREST RATE  
DERIVATIVE AGREEMENTS**

Progress Energy Florida Inc. ("PEF" or the "Company"), pursuant to Sections 350.115, 366.04(2)(a), and 366.05, Florida Statutes, and Chapter 25-8, F.A.C., respectfully petitions the Florida Public Service Commission ("PSC" or the "Commission") for an accounting order approving the recording of the unrealized gains and losses and realized gains and losses associated with interest rate derivative contracts to a regulatory asset or liability account to be amortized over the life of the related debt instrument. PEF currently records the unrealized and realized gains and losses in a different account, an accumulated other comprehensive income account, so the request to record the unrealized and realized gains and losses to another account on the balance sheet will have no impact on customer rates. The requested change will allow the Company to continue to manage its interest rate risk in a way that reduces the complexity of required accounting reports.

**I. Preliminary Information**

1. The Petitioner's name and address are:

Progress Energy Florida, Inc.  
299 1st Ave. N.  
St. Petersburg, Florida 33701

DOCUMENT NUMBER DATE

07961 DEC-3 2012

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2. Any pleading, motion, notice, order, or other document required to be served upon PEF or filed by any party to this proceeding should be served upon the following individuals:

John T. Burnett  
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3. PEF is the utility primarily affected by the request in this Petition. PEF is an investor-owned utility, regulated by the Commission pursuant to Chapter 366, Florida Statutes, and PEF is a wholly owned subsidiary of Duke Energy Corporation. The Company's principal place of business is located at 299 1<sup>st</sup> Avenue North, St. Petersburg, Florida 33701.

4. PEF serves approximately 1.6 million retail customers in Florida. Its service area comprises approximately 20,000 square miles in 35 of the state's 67 counties, encompassing the densely populated areas of Pinellas and western Pasco Counties and the Greater Orlando area in Orange, Osceola, and Seminole Counties. PEF supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies in the State of Florida.

## **II. Background**

5. PEF receives authorization from the Commission to enter into interest rate derivative contracts each year in the Commission's Final Order Granting Approval for Authority to Issue and Sell Securities. The Commission's most recent order authorizing such approval is Order No. PSC-11-0567-FOF-EI, issued December 12, 2011, and the Commission approved PEF's application for authority to issue and sell securities in 2013 on November 27, 2012.

6. PEF enters into various interest rate management agreements in order to manage the interest costs it incurs in connection with its financial obligations. These agreements include, but are not limited to, interest rate swaps, caps, collars, floors, options or other hedging products such as forward or futures. Unrealized gains and losses occur during the period prior to settlement, and the mark-to-market of these unrealized gains and losses results from the requirement to reflect the interest rate hedges on the balance sheet at fair value, since they are considered to be derivatives under General Accepted Accounting Principle ("GAAP"). Settlement of the instruments results in realized gains and losses. In order to avoid earnings volatility from the mark-to-market and settlement of these instruments, as well as provide for appropriate matching with interest expense, GAAP includes complex hedge designation and documentation criteria that allow deferral and amortization of the gains and losses.

## **III. Request for Deferral**

7. PEF requests to defer the unrealized gains and losses prior to settlement and the realized gains and losses upon settlement in a regulatory asset or liability account. The regulatory asset or liability will be amortized to interest expense over the life of the related

debt instrument, consistent with the GAAP treatment, and will be appropriately reflected in cost of service and surveillance reporting as a component of interest expense. Thus, PEF will achieve substantially the same income statement presentation of the subject gains and losses without the complexity of GAAP hedge designation, documentation and measurement. Furthermore, PEF has been recording both the unrealized and realized gains and losses on the balance sheet in an accumulated other comprehensive income account; therefore, recording these gains and losses in regulatory asset and liability accounts has no impact on customer rates and does not contradict the 2012 settlement agreement approved by the Commission in Order No. PSC-12-0104-FOF-EI.

8. Commission authorization of an accounting order to defer the unrealized gains and losses and realized gains and losses associated with interest rate management agreements will allow the Company to be able to defer to a regulatory asset or liability the mark-to-market impact of unrealized gains and losses and realized gains and losses of interest rate management agreements under the Financial Accounting Standards Board's Accounting Standards Codification Section 980 – "Regulated Operations," formerly known as Statement of Financial Accounting Standards No. 71. Such approval will allow the Company to continue to manage its interest rate risk, but with reduced accounting complexity.

#### **IV. Commission Precedent for Deferral Accounting**

9. The Commission has historically authorized deferral accounting and the use of regulatory asset and regulatory liability accounts for differences in the recognition of income and expenses between regulation and GAAP. For example, the Commission approved the use of regulatory asset and liability accounts to record mark-to-market unrealized gains and losses for fuel hedging activities, Docket No. 011605-EI, *Review of*

*Investor-Owned Electric Utilities' Risk Management Policies and Procedures.* The Commission also approved the creation of a regulatory asset or regulatory liability to reflect charges and credits that would have otherwise been recorded in equity pursuant to balance sheet treatment required by Statement of Financial Accounting Standard (FAS) No. 158, Order No. PSC-06-1042-PAA-EI, *Notice of Proposed Agency Action Order Granting Authority to Use Deferral Accounting.* Finally, the Commission authorized PEF to defer pension expense, Order No. PSC-09-0484-PAA-EI, *Notice of Proposed Agency Action Order Denying Rule Waiver and Granting, in Part, Request to Create a Regulatory Asset to Defer Pension Expense.*

#### **V. Effective Date**

10. The Company wishes to reflect the requested deferral of costs on its quarterly financial reports for the fourth quarter of 2012. Therefore, the Company requests an order approving the use of regulatory asset and regulatory liability accounts as soon as possible, so that PEF may implement that order by December 31, 2012.

#### **VI. Conclusion**

11. For all the reasons provided above, PEF respectfully requests approval by the Commission to establish regulatory asset and liability accounts to which it may charge unrealized gains and losses and realized gains and losses associated with interest rate management agreements.

Respectfully submitted this 3<sup>rd</sup> day of December, 2012.

s/ John T. Burnett

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