

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: November 5, 2020

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Sevini K. Guffey, Public Utility Analyst III, Division of Economics *S.K.G.*

RE: Docket No. 20200237-PU: Amendment of Rules 25-6.0141, F.A.C., Allowance for Funds Used During Construction, and 25-30.116, F.A.C., Allowance for Funds Used During Construction, and adoption of Rule 25-7.0141, F.A.C., Allowance for Funds Used During Construction.

Please place the attached Statement of Estimated Regulatory Costs data request to the electric utilities in the docket file.

Thank you.

Sevini Guffey

From: Sevini Guffey
Sent: Thursday, November 05, 2020 8:27 AM
To: 'Rubin, Ken'; 'russell.badders@nexteraenergy.com'; Malcolm Means (mmeans@ausley.com); Beasley, Jim; Jeff Wahlen; Dianne Triplett (Dianne.triplett@duke-energy.com); Matthew Bernier (Matthew.bernier@duke-energy.com); Beth Keating (BKeating@gunster.com); Mike Cassel (mcassel@fpuc.com)
Cc: Tripp Coston
Subject: Docket No. 20200237-PU -- SERC Data Request to Electric IOUs
Attachments: NEW 25-6.0141.1030.docx; 25-6.0141 SERC Data Request_Electric.docx

Dear All:

By this email, the Commission staff is requesting your utility company's input on potential cost impacts that might result from proposed revisions to Rule 25-6.0141, Florida Administrative Code, Allowance for Funds Used During Construction.

Pursuant to Section 120.54(3)(b)1, Florida Statutes, agencies are encouraged to prepare a statement of estimated regulatory costs (SERC) before the adoption, amendment, or repeal of any rule. In order to prepare the SERC, staff includes questions which pertain to the proposed rule changes, as attached. Most recent draft rules are also attached.

In order for staff to prepare the SERC for the December 2020 Commission Conference Agenda, staff is requesting that all responses be filed electronically in the docket file no later than November 12, 2020, via the Commission's website at www.floridapsc.com by selecting the Clerk's Office tab and Electronic filing Web Form. Please contact me if you have any concerns regarding this data request.

Thank you.
Sevini

Sevini K. Guffey
Public Utility Analyst III
Division of Economics
Florida Public Service Commission
Email: sguffey@psc.state.fl.us
Phone: 850.413.6204

Statement of Estimated Regulatory Costs Data Request

Docket No. 20200237-PU

Rule 25-6.0141, F.A.C., Allowance for Funds Used During Construction

Staff has proposed revisions to update and clarify Rule 25-6.0141, F.A.C., for accounting of electric utility costs related to allowance of funds used during construction (AFUDC). The revisions include the definition of a “project” and correct an error in the AFUDC formula. Overall, the proposed revisions will allow utilities to accrue AFUDC and allow utilities to recover the costs they incurred to finance investments before the investments are placed in service and earn a return through base rates. Considering the proposed overall revisions to Rule 25-6.0141, F.A.C., please provide responses to the following questions:

- 1) Section (2) (a) 1. states that a project with gross plant additions in excess of 0.40 percent (reduction from current 0.50 percent) of the sum of the total balance in Accounts 101 and 106 at the time the project commences will be eligible for AFUDC. What is the potential financial impact to your utility and your customers for a newly qualifying project?
- 2) What is your utility’s incremental increase in the annual amount of AFUDC-eligible projects with the proposed 0.40 percent threshold?
- 3) What is your utility’s incremental increase in the annual amount of accrued AFUDC with the proposed 0.40 percent threshold?
- 4) Section (2) (a) 2. allows a utility to bundle multiple related projects together if the utility can demonstrate that the total cost with AFUDC will be less than the total cost of the unbundled projects without AFUDC. (a) Under the proposed bundling with AFUDC, does the utility anticipate any financial impact to rate payers? Please explain. (b) What impact, if any, would bundling projects have on the utility’s rate base? Please explain.
- 5) What are the estimated incremental administrative costs or incremental savings associated with determination and calculation of eligible AFUDC expenses for bundled versus unbundled projects?
- 6) Would the proposed rule revisions require additional activities, personnel etc. to comply with the rule? Are the proposed rule revisions likely to directly or indirectly result in incremental regulatory costs for your utility in excess of \$200,000 in the aggregate within 1 year after the implementation of this rule? Please explain.
- 7) Are the proposed rule revisions likely to have an adverse impact on economic growth, private-sector job creation or employment, or private-sector investment in excess of \$1 million in the aggregate within 5 years after the implementation of this rule? Please explain.
- 8) Are the proposed rule revisions likely to have an adverse impact on business competitiveness, productivity, or innovation in excess of \$1 million in the aggregate within 5

years after implementation of the rule? Would the proposed rule revisions generate competitive benefits to your utility? Please discuss.

- 9) Are the proposed rule revisions likely to increase any transactional costs (e.g.: filing fees, cost of obtaining a license, cost of equipment required to be installed or used, procedures required to be employed in complying with the rule, additional operating costs, monitoring or reporting costs, and any other costs necessary to comply with the rule) to your utility, in excess of \$1 million in the aggregate within 5 years after the implementation of the rule? Please provide a good faith estimate of incremental annual costs.
- 10) Does your utility anticipate any effect (increased costs or benefits) on state or local revenues from the AFUDC related projects? Please discuss.
- 11) Please provide any additional information regarding the draft Rule 25-6.0141, F.A.C., which the Commission may deem useful.

1 **25-6.0141 Allowance for Funds Used During Construction.**

2 (1) Definition of terms of this rule.

3 (a) Allowance for funds used during construction (AFDUC) is the carrying cost of funding
4 an eligible utility project investment during its construction.

5 (b) A project means a temporary endeavor with a defined beginning and end series of tasks
6 that need to be completed in order to reach a specific outcome (e.g. a specific utility
7 investment placed into service or devoted to public use for the provision of electric service),
8 designed to produce an in-service plant investment result.

9 (2) Construction work in progress (CWIP) or nuclear fuel in process (NFIP) not under a
10 lease agreement that is not included in rate base may ~~accrue allowance for funds used during~~
11 ~~construction~~ (AFUDC), under the following conditions:

12 (a) Eligible projects. The following projects may be included in CWIP or NFIP and accrue
13 AFUDC:

14 1. Projects that involve gross additions to plant in excess of 0.40 percent of the sum of the
15 total balance in Account 101, Electric Plant in Service, and Account 106, Completed
16 Construction not Classified at the time the project commences and

17 a. Are expected to be completed in excess of one year after commencement of
18 construction, or

19 b. Were originally expected to be completed in one year or less and are suspended for six
20 months or more, or are not ready for service after one year.

21 2. A utility may bundle related projects that achieve a specific outcome if it demonstrates
22 that the overall cost of the bundled projects including AFUDC is less than the total cost of the
23 unbundled projects without AFUDC.

24 (b) Ineligible projects. The following projects may be included in CWIP or NFIP, but may
25 not accrue AFUDC:

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

1 1. Projects, or portions thereof, that do not exceed the level of CWIP or NFIP included in
2 rate base in the utility's last rate case.

3 2. Projects where gross additions to plant are less than 0.40 percent of the sum of the total
4 balance in Account 101, Electric Plant in Service, and Account 106, Completed Construction
5 not Classified, at the time the project commences.

6 3. Projects expected to be completed in less than one year after commencement of
7 construction.

8 4. Property that has been classified as Property Held for Future Use.

9 (c) Unless otherwise authorized by the Commission, the following projects may not be
10 included in CWIP or NFIP, nor accrue AFUDC:

11 1. Projects that are reimbursable by another party.

12 2. Projects that have been cancelled.

13 3. Purchases of assets which are ready for service when acquired.

14 4. Portions of projects providing service during the construction period.

15 (d) Other conditions. Accrual of AFUDC is subject to the following conditions:

16 1. Accrual of AFUDC is not to be reversed when a project originally expected to be
17 completed in excess of one year is completed in one year or less;

18 2. AFUDC may not be accrued retroactively if a project expected to be completed in one
19 year or less is subsequently suspended for six months, or is not ready for service after one
20 year;

21 3. When a project is completed and ready for service, it shall be immediately transferred to
22 the appropriate plant account(s) or Account 106, Completed Construction Not Classified, and
23 may no longer accrue AFUDC;

24 4. Where a work order covers the construction of more than one property unit, the AFUDC
25 accrual must cease on the costs related to each unit when that unit reaches an in-service status;

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1 5. When the construction activities for an ongoing project are expected to be suspended for
2 a period exceeding six months, the utility must notify the Commission of the suspension and
3 the reason(s) for the suspension, and must submit a proposed accounting treatment for the
4 suspended project; and

5 6. When the construction activities for a suspended project are resumed, the previously
6 accumulated costs of the project may not accrue AFUDC if such costs have been included in
7 rate base for ratemaking purposes. However, the accrual of AFUDC may be resumed when the
8 previously accumulated costs are no longer included in rate base for ratemaking purposes.

9 (e) Subaccounts. Account 107, Construction Work in Progress, and Account 120.1,
10 Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, must be
11 subdivided so as to segregate the cost of construction projects that are eligible for AFUDC
12 from the cost of construction projects that are ineligible for AFUDC.

13 (f) Prior to the commencement of construction on a project, a utility may file a petition to
14 seek approval to include an individual project in rate base that would otherwise qualify for
15 AFUDC treatment per paragraph ~~(2)~~(1)(a).

16 (g) On a prospective basis, the Commission, upon its own motion, may determine that the
17 potential impact on rates may require the exclusion of an amount of CWIP from a utility's rate
18 base that does not qualify for AFUDC treatment per paragraph ~~(2)~~(1)(a) and to allow the
19 utility to accrue AFUDC on that excluded amount.

20 ~~(3)~~(2) The applicable AFUDC rate will be determined as follows:

21 (a) The most recent 13-month average embedded cost of capital, except as noted below,
22 must be derived using all sources of capital and adjusted using adjustments consistent with
23 those used by the Commission in the utility's last rate case.

24 (b) The cost rates for the components in the capital structure will be the midpoint of the
25 last allowed return on common equity, the most recent 13-month average cost of short term

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1 debt and customer deposits, and a zero cost rate for deferred taxes and all investment tax
2 credits. The cost of long term debt and preferred stock will be based on end of period cost.
3 The annual percentage rate must be calculated to two decimal places.

4 ~~(4)~~(3) Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to
5 six decimal places, must be employed to ensure ~~insure~~ that the annual AFUDC charged does
6 not exceed authorized levels.

7 (a) The formula used to discount the annual AFUDC rate to reflect monthly compounding
8 is as follows:

9
$$M = [((1 + A/100)^{1/12-1}) - 1] \times 100$$
 Where:

10 M = discounted monthly AFUDC rate

11 A = annual AFUDC rate

12 (b) The monthly AFUDC rate, carried out to six decimal places, must be applied to the
13 average monthly balance of eligible CWIP and NFIP that is not included in rate base.

14 ~~(5)~~(4) The following schedules must be filed with each petition for a change in AFUDC
15 rate:

16 (a) Schedule A. A schedule showing the capital structure, cost rates and weighted average
17 cost of capital that are the basis for the AFUDC rate in subsection (2).

18 (b) Schedule B. A schedule showing capital structure adjustments including the unadjusted
19 capital structure, reconciling adjustments and adjusted capital structure that are the basis for
20 the AFUDC rate in subsection (2).

21 (c) Schedule C. A schedule showing the calculation of the monthly AFUDC rate using the
22 methodology set out in this rule.

23 ~~(6)~~(5) No utility may charge or change its AFUDC rate without prior Commission
24 approval. The new AFUDC rate will be effective the month following the end of the 12-month
25 period used to establish that rate and may not be retroactively applied to a previous fiscal year

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1 unless authorized by the Commission.

2 ~~(7)~~(6) Each utility charging AFUDC must include in its December Earnings Surveillance
3 Reports to the Commission Schedules A and B identified in subsection (4) of this rule, as well
4 as disclosure of the AFUDC rate it is currently charging.

5 ~~(8)~~(7) The Commission may, on its own motion, initiate a proceeding to revise a utility's
6 AFUDC rate.

7 ~~(9)~~(8) Each utility must include in its Forecasted Surveillance Report a schedule of
8 individual projects that commence during that forecasted period and are estimated to have a
9 gross cost in excess of 0.40 percent of the sum of the total balance in Account 101, Electric
10 Plant in Service, and Account 106, Completed Construction not Classified. The schedule must
11 include the following minimum information:

12 (a) Description of the project.

13 (b) Estimated total cost of the project.

14 (c) Estimated construction commencement date.

15 (d) Estimated in-service date.

16 *Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.04(2)(a), (f)*
17 *366.06(1), (2), 366.08 FS. History—New 8-11-86, Formerly 25-6.141, Amended 11-13-86, 12-*
18 *7-87, 1-7-97, 12-30-19, _____.*

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