

Notice of Proposed Rule

PUBLIC SERVICE COMMISSION

SELECT A TYPE: amendment

RULE NO: RULE TITLE:

25-30.116: Allowance for Funds Used During Construction

PURPOSE AND EFFECT: To update and clarify the Commission's allowance for funds used during construction (AFUDC) policy for water and wastewater utilities.

Docket No. 20200237-PU

SUMMARY: The amendments update and clarify the rule and include the addition of a definition section; clarification that a utility may bundle projects under certain circumstances; and the amendment of the formula for calculating the discounted monthly AFUDC rate.

SUMMARY OF STATEMENT OF ESTIMATED REGULATORY COSTS AND LEGISLATIVE RATIFICATION: The agency has determined that this will not have an adverse impact on small business or likely increase directly or indirectly regulatory costs in excess of \$200,000 in the aggregate within one year after the implementation of the rule. A SERC has been prepared by the agency. The SERC examined the factors required by Section 120.541(2), FS, and concluded that the rule amendment will not have an adverse impact on economic growth, business competitiveness, or small business and that there would be no transactional costs likely to be incurred by individuals and entities, including government entities, required to comply with the rule.

The agency has determined that the proposed rule is not expected to require legislative ratification based on the statement of estimated regulatory costs or if no SERC is required, the information expressly relied upon and described herein: based upon the information contained in the SERC.

Any person who wishes to provide information regarding a statement of estimated regulatory costs, or provide a proposal for a lower cost regulatory alternative must do so in writing within 21 days of this notice.

RULEMAKING AUTHORITY: 350.127(2), 367.121(1)(f), F.S.

LAW IMPLEMENTED: 350.115, 367.081(2), 367.121(1)(b), F.S.

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

THE PERSON TO BE CONTACTED REGARDING THE PROPOSED RULE IS: Adria Harper, Office of General Counsel, 2540 Shumard Oak Blvd., Tallahassee, FL 32399-0850, aharper@psc.state.fl.us

THE FULL TEXT OF THE PROPOSED RULE IS: [TYPE AND STRIKE VERSION]

25-30.116 Allowance for Funds Used During Construction.

(1) Definition of terms for this rule.

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

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

(2)(-1) Construction work in progress (CWIP) that is not included in rate base may accrue ~~allowance for funds used during construction (AFUDC)~~, under the following conditions:

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

1. No change.

a.2. Are expected to be completed in excess of sixty days after commencement of construction, or

b.3. Were originally expected to be completed in sixty days or less but are not ready for service after sixty days.

2. A utility may bundle related projects that achieve a specific outcome if it demonstrates that the total cost of the bundled projects excluding AFUDC is less than the total cost of the unbundled projects.

(b) through (d) No change.

1. through 2. No change.

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

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

5. When the construction activities for an ongoing project are expected to be suspended for a period exceeding six (6) months, the utility ~~must shall~~ notify the Commission of the suspension and the reason(s) for the suspension, and ~~must shall~~ submit a proposed accounting treatment for the suspended project; and

6. No change.

(e) Subaccounts. Account 105, Construction Work in Progress, ~~must shall~~ be subdivided so as to segregate the cost of construction projects that are eligible for AFUDC from the cost of construction projects that are ineligible for AFUDC.

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

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

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

a) The most recent 12-month average embedded cost of capital, except as noted below, ~~must shall~~ be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the Company's last rate case.

(b) The cost rates for the components in the capital structure ~~will shall~~ be the midpoint of the last allowed return on common equity, the most recent 12-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock ~~will shall~~ be based on end of period cost. The annual percentage rate ~~must shall~~ be calculated to two decimal places.

(c) A company that has not had its equity return set in a rate case ~~must shall~~ calculate its return on common equity by applying the most recent water and wastewater equity leverage formula.

~~(d) The treatment by the Commission of all investment tax credits at a zero cost rate shall be contingent upon a ruling from the Internal Revenue Service that such treatment will not, for companies elected to be treated under Section 46(f)(2) of the Internal Revenue Code, result in the forfeiture of the tax credits. Pending receipt of such a ruling, each utility shall continue to use the weighted overall cost of capital calculated in a manner consistent with the final IRS Regulation Section 1.46-6 published May 22, 1986, as the cost of the utility's 4% and 10% investment tax credits.~~

~~(e) Any such ruling request must be submitted to the Commission by December 15, 1987. The AFUDC cost rate for the investment tax credit for any company which fails to submit its own letter ruling request to the IRS shall be governed by the first letter ruling issued by the IRS in response to a request submitted pursuant to paragraph (2)(d) of this rule.~~

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

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

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

Where:

M = discounted monthly AFUDC rate

A = annual AFUDC rate

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

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

(a) Schedule A. A schedule showing the capital structure, cost rates and weighted average cost of capital that are the basis for the AFUDC rate in subsection ~~(3)(2)~~.

(b) Schedule B. A schedule showing capital structure adjustments including the unadjusted capital structure, reconciling adjustments and adjusted capital structure that are the basis for the AFUDC rate in subsection ~~(3)(2)~~.

(c) No change.

~~(6)(5)~~ No utility may charge or change its AFUDC rate without prior Commission approval. The new

AFUDC rate ~~will~~ shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

~~(7)(6)~~ Each utility charging AFUDC must ~~shall~~ include with its Annual Report to the Commission Schedules A and B identified in subsection ~~(5)(4)~~ of this rule, as well as disclosure of the AFUDC rate it is currently charging.

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

~~(8) Paragraphs (a) and (b) of subsection (1) shall not be effective for any utility until it implements final rates in a general rate case initiated after the effective date of this rule. The foregoing notwithstanding, those provisions will become effective for all utilities no later than January 1, 1989.~~

Rulemaking Authority 350.127(2), 367.121(1)(f) FS. Law Implemented 350.115, 367.081(2), 367.121(1)(b) FS. History—New 8-11-86, Formerly 25-30.121, Amended 11-13-86, 12-7-87,_____.

NAME OF PERSON ORIGINATING PROPOSED RULE: Andrew Maurey

NAME OF AGENCY HEAD WHO APPROVED THE PROPOSED RULE: Florida Public Service Commission

DATE PROPOSED RULE APPROVED BY AGENCY HEAD: December 1, 2020

DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAR: Volume 46, Number 113, June 10, 2020.

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ID	Rule No./ Organization	Rule Title	Section	Issue	Date
23954749	25-30.116	Allowance for Funds Used During Construction	Proposed	12/4/2020 Vol. 46/235	12/3/2020
23954652	25-7.0141	Allowance for Funds Used During Construction	Proposed	12/4/2020 Vol. 46/235	12/3/2020
23954555	25-6.0141	Allowance for Funds Used During Construction	Proposed	12/4/2020 Vol. 46/235	12/3/2020

Notices Confirmed by ACR

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None					

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