

1 P R O C E E D I N G S

2 CHAIRMAN CLARK: Moving to item No. 3, Ms.

3 Helton. That was Item No. 3, wasn't it?

4 MS. HELTON: Sir, I think -- no, Mr. Chairman,
5 that was Item No. 2.

6 CHAIRMAN CLARK: Oh, I'm sorry --

7 MS. HELTON: I am trying to get my paperwork
8 in order here.

9 CHAIRMAN CLARK: Item 3.

10 MS. HELTON: Item No. 3 is staff's
11 recommendation for the Commission to amend three
12 rules, the three rules that describe the
13 requirements and methodology for accruing Allowance
14 for Funds Used During Construction, or as we call
15 it AFUDC. Staff is recommending that the
16 Commission make changes to the rules for the
17 electric, gas, water and wastewater utilities.18 The focus of this rule-making is to adopt a
19 more comprehensive AFUDC rule for natural gas
20 utilities, and to update, clarify and create
21 consistency among all of the AFUDC rules. As such,
22 staff is recommending similar updates and
23 clarifications to all three industry rules.24 Staff is recommending that a definitions
25 section be included in each rule, and that

1 additional rule language be added to clarify that a
2 utility may bundle projects under certain
3 circumstances.

4 In addition, for the electric industry AFUDC
5 rule, staff is recommending that the Commission
6 change the threshold for projects that are eligible
7 for AFUDC.

8 The Office of Public Counsel and
9 representatives from Florida Power & Light and Gulf
10 are -- would like to address the Commission. There
11 is also some other utilities on the line that
12 would -- are available to answer questions. And
13 staff is also available to answer questions on the
14 recommended rule.

15 CHAIRMAN CLARK: Thank you very much, Ms.
16 Helton.

17 Mr. Rehwinkel, you are recognized.

18 MR. REHWINKEL: Mr. Chairman, I believe Patty
19 Christensen will talk. Thank you.

20 CHAIRMAN CLARK: I am sorry. Ms. Christensen.

21 MS. CHRISTENSEN: Good morning. Patty
22 Christensen with the Office of Public Counsel.

23 I just wanted to make a brief comment
24 regarding the rule that the Commission -- that's
25 being proposed for adoption by the Commission, and

1 essentially I would like to request the Commission,
2 if they approve the recommended AFUDC rule changes,
3 that staff has recognized in its recommendation on
4 page five that there is a potential for double
5 recovery that exists, and we would ask that the
6 Commission require the utilities to make sure that
7 they do not include in AFUDC any of costs that are
8 recoverable under the current CWIP amounts set in
9 their last base rate case until their next base
10 rate case and CWIP can be reset based on these rule
11 changes.

12 And that concludes my comments.

13 CHAIRMAN CLARK: Thank you, Ms. Christensen.
14 I could not understand which line -- page five?

15 MS. CHRISTENSEN: It's page five, it's the
16 rule -- it was in the last paragraph on that page,
17 Commissioner. And it's just essentially the
18 last -- well, it's not the last sentence on that
19 page, but it's the last full paragraph on that
20 page. And essentially, staff acknowledges that the
21 recommended rule, as it's currently written, could
22 allow, for some cases, double recovery, i.e., the
23 project accrues AFUDC even though a certain amount
24 of CWIP was allowed in the company's last rate
25 case --

1 CHAIRMAN CLARK: All right. Okay. I'm.

2 MS. CHRISTENSEN: -- and then it goes on to
3 say, however, staff --

4 CHAIRMAN CLARK: I am with you. I couldn't
5 understand CWIP, but I understand it now. I did
6 not recognize the word, it's an acronym.

7 All right. Good point. Very good
8 observation.

9 Any questions regarding -- Ms. Helton or Ms.
10 Harper, would you like to address that?

11 MS. HARPER: Hi, Commissioner. Yes.

12 That's something really, I think, the AFD
13 could -- or accounting, Mark Cicchetti, could
14 address more thoroughly.

15 There is -- there is an easier explanation
16 that he can provide than what we have here. It's a
17 little bit more thorough than what we have here in
18 the rec.

19 CHAIRMAN CLARK: All right. Thank you.

20 MR. CICCHETTI: Good morning, Mr. Chairman and
21 Commissioners, Mark Cicchetti on behalf of
22 Commission Staff.

23 I think it's important to note that even under
24 the existing rule, there is the potential for
25 overrecovery, but there is also the exact opposite,

1 the potential for under-recovery. Let me give you
2 an example.

3 In a test year, anything less than a year and
4 under the threshold would be included in CWIP that
5 is included in rate base, so the company earns a
6 return on that. And you would expect that the test
7 year is representative that in most years following
8 that you would have similar amounts of short-term
9 projects in that amount. However, a utility might
10 have less than that, or they hey have more than
11 that in a particular year, so that potential always
12 exists.

13 I think the company would be best able to
14 determine if they can identify these projects to
15 meet the request of the Office of Public Counsel.

16 CHAIRMAN CLARK: All right. Thank you, Mr.
17 Cicchetti.

18 All right. Ms. Moncada, would you like to be
19 heard?

20 MS. MONCADA: Good morning, Mr. Chairman.
21 Thank you. Yes. Just very briefly.

22 On behalf of FPL and Gulf Power Company, good
23 morning. With me today, in case you have questions
24 down the line, is Scott Bores, our Senior Director
25 of Financial Planning & Analysis, and Keith

1 Ferguson, our Vice-President of Accounting and the
2 Comptroller.

3 FPL -- FPL and Gulf support the staff
4 recommendation on the proposed amendments to the
5 AFUDC rule. As we see it, the staff recommendation
6 has succeeded in facilitating a progress to allow
7 us to accrue AFUDC in the manner in which we
8 conduct business today, so it would provide for a
9 nondisruptive process, and it will facilitate a
10 progression toward cleaner and more efficient
11 generation and transmission.

12 We appreciate all of the time that staff has
13 put into this rule-making, and if you have any
14 questions, we are here to answer.

15 CHAIRMAN CLARK: Thank you, Ms. Moncada.
16 Commissioners, do you have any questions?
17 Commissioner Fay.

18 COMMISSIONER FAY: Thank you, Mr. Chairman.

19 I was just going to ask Mr. Cicchetti, I think
20 would probably be the proper person. Based on the
21 comments we've heard, if -- essentially if there --
22 if a project is put into CWIP or into AFUDC, there
23 is still recovery, they just essentially fall into
24 different categories. Is the net -- is there an
25 adjustment for a net present value that would align

1 those so it would make an accounting difference?

2 MR. CICCHETTI: Commissioner, the statutes,
3 366, requires that the Commission set just, fair,
4 reasonable and compensatory rates. And that's
5 generally accomplished by having either the
6 projects included in CWIP, which is included in
7 rate base, or they are allowed to earn an AFUDC
8 return.

9 If they earn an AFUDC return, there could be,
10 based on how long it takes to get to the next rate
11 case, earnings on earnings. But from a cost of
12 money net present value standpoint, the customer
13 should not really see a difference between the two,
14 in theory.

15 COMMISSIONER FAY: Okay. And then you
16 stated -- just briefly, so I understand, you stated
17 that under the transition, just if the rule is
18 finalized, and we make the adjustment from the .5
19 to the .4 threshold, there is a risk of some
20 projects not being recovered, and there is also a
21 risk of some projects falling into a double
22 recovery, correct?

23 MR. CICCHETTI: Yes.

24 COMMISSIONER FAY: Okay. That's all I had,
25 Mr. Chairman. Thank you.

1 CHAIRMAN CLARK: Thank you, Commissioner Fay.
2 Commissioner Brown.

3 COMMISSIONER BROWN: I just want to know why
4 staff is proposing this rule now.

5 MR. CICCETTI: Commissioner Brown, the last
6 time the rule was changed was in 1996, and since
7 then, rate bases for the utilities have grown, and
8 we have a .5 percent threshold for allowing
9 projects, and -- for example, for Florida Power &
10 Light, in '96, that threshold was 79 million, and
11 because rate base has grown today, it's 270
12 million.

13 But how this rule came about was to align it
14 with the storm recovery rule to have consistency,
15 and also, I think some questions were brought up
16 with the SolarTogether programs such that we wanted
17 to make sure that the rule was consistent with what
18 the Commission was practicing.

19 COMMISSIONER BROWN: Thank you. And I am
20 happy you brought those -- that project up along
21 with the storm protection rule.

22 So talk to me -- could you talk to us about
23 the bundling aspect with, like, a project like
24 SolarTogether, so -- and how this application
25 proposed rule would roll that out, would treat it?

1 MR. CICCHETTI: Right. The last time that the
2 rule was amended in 1996, there were no solar
3 projects. And now, in order to accommodate
4 efficiency and cost savings, it will help to bundle
5 projects together.

6 And again, keeping in mind that if they are
7 not accruing AFUDC, they would be included in CWIP
8 and rate base. And we have -- are expecting to
9 have all the electric utilities file cases.

10 So by allowing bundling and having projects
11 available to accrue AFUDC will reduce the amount of
12 CWIP that's in rate base and the immediate impact
13 on rates.

14 COMMISSIONER BROWN: Okay. So the lawyer, not
15 the accountant -- I have no accounting skills here, so
16 is that advantageous to the customers?

17 MR. CICCHETTI: Well, from a net present value
18 basis, they should be indifferent. They are either
19 going to pay a return on what's in rate base, or
20 they will pay an AFUDC return, and from a net
21 present value basis, they should be indifferent.

22 COMMISSIONER BROWN: And the AFUDC, that's the
23 carrying charge, which would essentially be --
24 would it be greater because it's an additional
25 charge in addition to the ROE?

1 MR. CICCHETTI: Well, you have earnings on
2 earnings, and so the amount will be greater. And
3 I -- that's usually referred to as a compounding
4 effect. But from a net present value basis, the
5 company is not getting the money today, so they are
6 entitled to a little more later on, and it's just
7 reflecting the earnings on earnings.

8 COMMISSIONER BROWN: So with these bundled
9 projects, if they go for, like say, 10, 15 years,
10 that compounded earnings could be much greater than
11 if it was in the rate base? What happens after --

12 MR. CICCHETTI: If it took that long before
13 there was another rate --

14 COMMISSIONER BROWN: I was going to say, what
15 hap -- in between rate cases, say you have five
16 solar projects, they are all completed within a
17 year, and then -- but the bundling of the projects
18 will extend greater than five years, how do you
19 treat the ones that are completed within a year and
20 then the remaining?

21 MR. CICCHETTI: Well, let's say we had a rate
22 case right away, the ones that would be completed
23 within a year would be included in rate base.
24 That's the Commission's practice to include those.
25 If they were less than a year, they wouldn't be

1 eligible for AFUDC. And then the others that were
2 eligible for AFUDC would accrue AFUDC and then, at
3 the next rate case, be allowed in rate base.

4 And if everything works perfectly the way it's
5 supposed to, the customer should be indifferent,
6 because they are either paying it through rates
7 currently, or it's going to accrue an AFUDC charge,
8 including earnings on earnings in the future, but
9 from a net present value basis they should be
10 indifferent -- customers should be indifferent.

11 COMMISSIONER BROWN: Okay. Thank you.

12 MR. REHWINKEL: Mr. Chairman, this is Charles
13 Rehwinkel.

14 CHAIRMAN CLARK: Mr. Rehwinkel, you are
15 recognized.

16 MR. REHWINKEL: Yeah, I -- I feel compelled to
17 respond to Commissioner Brown's question because I
18 think she's asked a very good question.

19 We have not raised this objection because I
20 think, as staff has said, they are aligning the
21 rule with Commission practice. We have a
22 disagreement with the practice that the rule is
23 being aligned with, especially with regard to
24 bundling, but our view is that there -- these are
25 not six in one-and-a-half dozen in the other.

1 The accrual of AFUDC gives the company dollar
2 for dollar recovery of the cost of money in the
3 funding of these eligible projects, whereas
4 projects that are carried on the books in CWIP are
5 absorbed in the 200 basis point range of
6 reasonableness of a company, so a project that is
7 under the threshold, or not bundled, or shorter
8 than 12 months is carried on the books and the
9 company, if it's earning below the midpoint, they
10 are still going to be earning a fair, just and
11 reasonable return because it's within the range of
12 reasonableness, but they will not accumulate the
13 cost -- the earnings on earnings cost to carry
14 forward and add to rate base.

15 So if AFUDC earnings are added to plant, that
16 increases not only rate base but depreciation
17 expense over the long-term. And I think the staff
18 actually even acknowledged this when they first
19 passed the AFUDC rule back in the '80s, that there
20 is -- there is a disadvantage to the customers if
21 it's not done right.

22 So we don't agree that it's neutral to the
23 customers. We think AFUDC, if it's bundled, and if
24 the threshold is lower, has the potential to add
25 greater depreciable plant balances to the company's

1 books. It's really something that plays out over
2 time, but it's -- it's not necessarily six in
3 one-and-a-half dozen in the other.

4 That's just our view, and I wanted to state
5 that for the record, but we are not here asking
6 that the rule be -- proposed rule be modified.

7 CHAIRMAN CLARK: Thank you, Mr. Rehwinkel.
8 Commissioner Brown, other comments?

9 COMMISSIONER BROWN: No. Thank you, and I
10 appreciate it.

11 You know, as Commissioner Polmann said at the
12 beginning of the Agenda Conference, it's still --
13 every so often we get these AFUDC items, and it's
14 always helpful to have some clarification, and also
15 the genesis behind why this is being proposed, so I
16 appreciate all the comments.

17 CHAIRMAN CLARK: All right. Do I have a
18 motion?

19 MS. MONCADA: Mr. Chairman and Commissioner
20 Brown, FPL and Gulf would like an opportunity to
21 respond to Mr. Rehwinkel's comments if that's
22 allowable.

23 CHAIRMAN CLARK: Ms. Moncada, you are
24 recognized.

25 MS. MONCADA: Thank you.

1 And as I announced previously, Scott Bores,
2 our Director -- Senior Director of Financial
3 Planning & Analysis is with us, and he will be able
4 to provide FPL and Gulf's response.

5 Thank you.

6 MR. BORES: Good morning, Commissioners. I
7 appreciate the opportunity to speak this morning.

8 First off I want to say, I completely agree
9 with the points raised by Mr. Cicchetti earlier,
10 that customers really are indifferent from the
11 CPVRR perspective, which is how we analyze all
12 these investments when we ultimately decide whether
13 to move forward or not, that there has to be a
14 benefit for customers.

15 I think it's important to note that they
16 really are indifferent. I think Mr. Rehwinkel
17 raised a very nuanced point, especially for us
18 utilities in Florida that have multi-year
19 settlement agreements.

20 Yes, there could be an opportunity where
21 essentially we could have a lower ROE as a result
22 of including something that's CWIP in rate base
23 versus AFUDC, but I think the counterpoint to that
24 would be there would be more frequent rate cases,
25 right? If we are going to increase our CWIP

1 balance, it's going to cause us to have rate cases
2 more frequently, which is something I think we
3 don't want to do because we all benefit from these
4 multiyear rate settlements that are very good for
5 our customers. I think that's a very important
6 point that I think that's essentially all the
7 comments I need to make on that point.

8 Thank you.

9 CHAIRMAN CLARK: Thank you very much.

10 Commissioners, what's your pleasure?

11 All right, Commissioner Fay.

12 COMMISSIONER FAY: Mr. Chairman, I am going to
13 have to get the IT folks to move me up to the -- to
14 your top corner there.

15 So based on the comments that we've heard and
16 staff's recommendation -- and I appreciate Mr.
17 Cicchetti elaborating on some of the finer points
18 of how this is approached, and I think both OPC and
19 the utility's comments are helpful, and I do think
20 there is a broader perspective of the rate
21 settlements that come before this commission and
22 how that might impact this type of rule.

23 I -- when I looked at the numbers from, you
24 know, 70 something million to 270 something million
25 based on the growth capital. I think that's

1 significant. I think the adjustment here is
2 appropriate. I think probably even a lower
3 adjustment would have been more in line, but it
4 sounds like, through the rule-making process and to
5 this point, we've gotten to a number that makes
6 sense, and so I would be prepared to move staff
7 recommendation on all issues, Mr. Chairman.

8 CHAIRMAN CLARK: I have a motion. Do I have a
9 second?

10 COMMISSIONER POLMANN: Second.

11 CHAIRMAN CLARK: Second, Doc. Thank you very
12 much.

13 Any discussion?

14 On the motion, all in favor say aye.

15 (Chorus of ayes.)

16 CHAIRMAN CLARK: Opposed?

17 (No response.)

18 CHAIRMAN CLARK: The motion is adopted.

19 All right. It's been requested we take a
20 short five-minute recess. We are going to have a
21 five-minute recess, give everybody a minute to
22 reset and we will be right back.

23 Thank you.

24 (Agenda item concluded.)

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