

**Acquisition Adjustment Rule
Comparison of Existing and Staff Draft Rule Provisions**

Existing Rule 25-30.0371	Staff Draft Rule 25-30.0371	Purpose/Effect of Change
<p>(1) Definition. For the purpose of this rule, an acquisition adjustment is defined as the difference between the purchase price of utility system assets to an acquiring utility and the net book value of the utility assets. A positive acquisition adjustment exists when the purchase price is greater than the net book value.</p>	<p>(1) Definition. For the purpose of this rule, an acquisition adjustment is defined as the difference between the purchase price of utility system assets to an acquiring utility and the net book value of the utility assets. A positive acquisition adjustment exists when the purchase price is greater than the net book value.</p>	<p>No Change.</p>
<p>(2) Positive Acquisition Adjustments. A positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. Any entity that believes a full or partial positive acquisition adjustment should be made has the burden to prove the existence of extraordinary circumstances. In determining whether extraordinary circumstances have been demonstrated, the Commission shall consider evidence provided to the Commission such as anticipated improvements in quality of service, anticipated improvements in compliance with regulatory mandates, anticipated rate reductions or rate stability over a long-term period, and anticipated cost efficiencies.</p>	<p>(2) Positive Acquisition Adjustments. A positive acquisition adjustment shall not be included in rate base absent evidence supporting the adjustment, including the anticipated improvements in quality of service, anticipated improvements in compliance with regulatory mandates, anticipated rate reductions or rate stability over a long-term period, anticipated cost efficiencies, and other relevant factors. If a positive acquisition adjustment is approved, the Commission shall consider evidence such as the composite remaining life of the assets purchased, and the condition of the assets purchased in determining the appropriate amortization period. Amortization of the acquisition adjustment shall begin on the date of issuance of the order approving the transfer</p>	<p>Changes to this section of the current rule are designed to simplify and clarify the conditions under which a positive acquisition adjustment is authorized, as well as the considerations for determining the amortization period. Specifically, these changes include the following:</p> <ol style="list-style-type: none"> 1. Changes the term “extraordinary circumstances”, which is not defined in the current rule, to “evidence supporting” and leaves in the examples of the types of evidence required to support a positive acquisition adjustment. 2. The language from Section (4) of the current rule regarding the determination of the amortization period is transferred to this Section with no substantive change.

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	of assets.	
<p>(3) Negative Acquisition Adjustments. A negative acquisition adjustment shall not be included in rate base unless there is proof of extraordinary circumstances or where the purchase price is less than 80 percent of net book value. If the purchase price is less than 80 percent of net book value then the inclusion of a negative acquisition adjustment shall be calculated pursuant to paragraph (b) below.</p>	<p>(3) Negative Acquisition Adjustments. If the purchase price is greater than 80 percent of net book value, a negative acquisition adjustment will not be included in rate base. When the purchase is less than 80 percent of net book value, a negative acquisition adjustment shall be included in rate base and will be equal to 80 percent of net book value less the purchase price. Amortization of the negative acquisition adjustment shall be pursuant to subsection (4)(a) or (4)(b) below.</p>	<p><u>Purchase Price is greater than 80 Percent of Net Book Value:</u> Under the current rule, a negative acquisition adjustment will not be included if the purchase price is greater than 80 percent of net book value unless there is proof of “extraordinary circumstances”, a term which is not defined in the current rule. The Staff Draft Rule removes this condition and clearly provides that there will be no negative acquisition adjustment if the purchase price is greater than 80 percent of net book value.</p> <p><u>Purchase Price is less than 80 Percent of Net Book Value:</u> The Staff Draft Rule leaves unchanged the provision that a negative acquisition adjustment will be included in rate base if the purchase price is less than 80 percent of net book value.</p> <p>The language from Subsection (3)(b) of the current rule that describes how the negative acquisition adjustment is calculated is simplified and transferred to this Section.</p>

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<p>(a) Contested. Any entity that believes a full or partial negative acquisition adjustment should be made has the burden to prove the existence of extraordinary circumstances. Under no circumstance, however, shall the purchaser be required to record on its book more than 70 percent of a negative acquisition adjustment. In determining whether extraordinary circumstances have been demonstrated, the Commission shall consider evidence provided to the Commission such as the anticipated retirement of the acquired assets and the condition of the assets acquired.</p>	N/A	<p>This subsection of the current rule is deleted under the Staff Draft Rule. Under the current rule, this subsection would apply to the situation when the purchase price is greater than 80 percent of net book value and a party is asserting that a negative acquisition adjustment should be included in rate base. In this circumstance, that party would have the burden to show the existence of “extraordinary circumstances”.</p> <p>The Staff Draft Rule does not provide for a negative acquisition adjustment in rate base if the purchase price is greater than 80 percent of net book value. Therefore, this subsection of the current rule is unnecessary.</p>
<p>(b) Uncontested. If the purchase price is less than 80 percent of net book value, then the amount of the difference in excess of 20 percent of net book value shall be recognized for ratemaking purposes as a negative acquisition adjustment. The negative acquisition adjustment shall not be recorded on the books for ratemaking purposes or used for any earnings review unless the purchaser files for a rate increase pursuant to Section 367.081(2), 367.0814, 367.0817 or 367.0822, F.S., that</p>	N/A	<p>This subsection of the current rule is deleted under the Staff Draft Rule.</p> <p>The language contained in this subsection that describes how the negative acquisition adjustment is calculated is simplified and transferred to Section (3) of the Staff Draft Rule.</p> <p>The language stating that the negative acquisition adjustment will not be recorded on the books unless the purchaser files for</p>

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will be effective during the amortization period. The negative acquisition adjustment shall be amortized over a 5-year period from the date of issuance of the order approving the transfer of assets.		<p>a rate increase during the amortization period has been transferred to Subsection (4)(a) of the Staff Draft Rule.</p> <p>The length of the amortization period for a negative acquisition adjustment has been changed as discussed in Subsections (4)(a) and (b) of the Staff Draft Rule.</p>
<p>(4) Amortization Period. In setting the amortization period for a Commission approved acquisition adjustment pursuant to (2) or (3)(a) above, the Commission shall consider evidence provided to the Commission such as the composite remaining life of the assets purchased and the condition of the assets purchased. Amortization of the acquisition adjustment shall begin on the date of issuance of the order approving the transfer of assets.</p>	<p>(4) Amortization of Negative Acquisition Adjustment. The appropriate period over which to amortize a negative acquisition adjustment shall be determined as follows:</p>	<p>Section (4) of the current rule addresses the amortization period for all positive acquisition adjustments and negative acquisition adjustments wherein the purchase price is greater than 80 percent of net book value and a party has shown extraordinary circumstances. Under the current rule, the amortization period for all other negative acquisition adjustments is addressed in Subsection (3)(b).</p> <p>Under the Staff Draft Rule, we address the amortization period for positive acquisition adjustments in Section (1) and for all negative acquisition adjustments in Subsections (4)(a) and (b).</p> <p><u>Positive Acquisition Adjustment:</u> For positive acquisition adjustments, there is no material change in the current rule language as can be seen in Section (1) of the Staff Draft Rule.</p>

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		<p><u>Negative Acquisition Adjustment:</u> Pursuant to Section (3) of the Staff Draft Rule, there would be no negative acquisition adjustments if the purchase price is greater than 80 percent of net book value. Thus, the issue of amortization period for this situation is moot. If the purchase price is less than 80 percent of net book value, the amortization period would depend on the relationship of the purchase price to net book value, as described in Subsections (4)(a) and (b) of the Staff Draft Rule.</p>
N/A	<p>(a) If the purchase price is greater than 50 percent of net book value, the negative acquisition adjustment shall be amortized over a 7-year period from the date of issuance of the order approving the transfer of assets. In this case, the negative acquisition adjustment shall not be recorded on the books for ratemaking purposes or used for any earnings review unless the purchaser files for a rate increase pursuant to Section 367.081(2), 367.0814, 367.0817 or 367.0822, F.S., that will be effective during the amortization period.</p> <p>(b) If the purchase price is 50 percent of net book value or less, the negative</p>	<p>The Staff Draft Rule changes the amortization period of negative acquisition adjustments from 5 years pursuant to Subsection (3)(b) of the current rule to a period which is based upon the relationship of the purchase price to net book value.</p> <p>Under Subsection (4)(a) of the Staff Draft Rule, if the purchase price is greater than 50 percent of net book value, the negative acquisition adjustment will be amortized over a 7-year period from the date of the order approving the transfer of assets. In this case, the negative acquisition adjustment is not recorded on the books of the utility unless the purchaser files for a</p>

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	<p>acquisition adjustment shall be amortized from the date of issuance of the order approving the transfer of assets as follows: (i) 50 percent of the negative acquisition adjustment shall be amortized over a 7-year period; and (ii) 50 percent of the negative acquisition adjustment shall be amortized over the remaining life of the assets.</p>	<p>rate increase during the amortization period.</p> <p>Under Subsection (4)(b) of the Staff Draft Rule, if the purchase price is equal to or less than 50 percent of net book value, then one-half of the negative acquisition adjustment will be amortized over 7 years, and the remaining half will be amortized over the remaining life of the assets.</p>
<p>(5) Subsequent Modification. Any full or partial acquisition adjustment, once made by the Commission pursuant to (2) or (3)(a) above, may be subsequently modified if the extraordinary circumstances do not materialize or subsequently are eliminated or changed within five years of the date of issuance of the order approving the transfer of assets.</p>	<p>(5) Subsequent Modification. Any positive acquisition adjustment may be subsequently modified if the conditions upon which the decision to approve the positive acquisition adjustment do not materialize or subsequently are eliminated or changed within five years of the date of issuance of the order approving the transfer of assets.</p>	<p>This section was changed to eliminate the term “extraordinary circumstances”, which is not defined in the current rule, and to make it applicable only to positive acquisition adjustments. Under the Staff Draft Rule, negative acquisition adjustments will remain on the books and will not be subject to modification for the duration of the applicable amortization period.</p>