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## Public Service Commission

October 25, 2010

Mr. Scott Boyd  
Joint Administrative Procedures Committee  
Room 120 Holland Building  
Tallahassee, FL 32399-1300

RE: Docket No. 100338-WS - Rule No. 25-30.0371, Acquisition Adjustments, F.A.C.

Dear Mr. ~~Boyd~~ *Scott*:

The Commission has approved the adoption of revisions to Rule 25-30.0371, without changes.

We plan to file the rule for adoption on November 2, 2010.

Sincerely,

A handwritten signature in cursive script that reads "Cindy Miller".

Cindy Miller,  
Senior Attorney

Enclosure

cc: Office of Commission Clerk

Adoptletter.cm.doc

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FPSC-COMMUNICATIONS

1 **25-30.0371 Acquisition Adjustments.**

2 (1) Definition. For the purpose of this rule, an acquisition adjustment is defined as the  
3 difference between the purchase price of utility system assets to an acquiring utility and the  
4 net book value of the utility assets. A positive acquisition adjustment exists when the purchase  
5 price is greater than the net book value. A negative acquisition adjustment exists when the  
6 purchase price is less than the net book value.

7 (2) Positive Acquisition Adjustments. A positive acquisition adjustment shall not be  
8 included in rate base absent proof of extraordinary circumstances. Any entity that believes a  
9 full or partial positive acquisition adjustment should be made has the burden to prove the  
10 existence of extraordinary circumstances. In determining whether extraordinary circumstances  
11 have been demonstrated, the Commission shall consider evidence provided to the Commission  
12 such as anticipated improvements in quality of service, anticipated improvements in  
13 compliance with regulatory mandates, anticipated rate reductions or rate stability over a long-  
14 term period, and anticipated cost efficiencies, and whether the purchase was made as part of  
15 an arms-length transaction. Amortization of a positive acquisition adjustment shall be pursuant  
16 to subsection (4)(a) below.

17 (3) Negative Acquisition Adjustments. If the purchase price is greater than 80 percent  
18 of net book value, a negative acquisition adjustment will not be included in rate base. When  
19 the purchase price is equal to or less than 80 percent of net book value, a negative  
20 acquisition adjustment shall ~~not~~ be included in rate base and will be equal to 80 percent of net  
21 book value less the purchase price. Amortization of a negative acquisition adjustment shall be  
22 pursuant to subsection (4)(b)1. or (4)(b)2. below. unless there is proof of extraordinary  
23 circumstances or where the purchase price is less than 80 percent of net book value. If the  
24 purchase price is less than 80 percent of net book value then the inclusion of a negative  
25 acquisition adjustment shall be calculated pursuant to paragraph (b) below.

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1           ~~(a) Contested. Any entity that believes a full or partial negative acquisition adjustment~~  
2 ~~should be made has the burden to prove the existence of extraordinary circumstances. Under~~  
3 ~~no circumstance, however, shall the purchaser be required to record on its books more than 70~~  
4 ~~percent of a negative acquisition adjustment. In determining whether extraordinary~~  
5 ~~circumstances have been demonstrated, the Commission shall consider evidence provided to~~  
6 ~~the Commission such as the anticipated retirement of the acquired assets and the condition of~~  
7 ~~the assets acquired.~~

8           ~~(b) Uncontested. If the purchase price is less than 80 percent of net book value, then~~  
9 ~~the amount of the difference in excess of 20 percent of net book value shall be recognized for~~  
10 ~~ratemaking purposes as a negative acquisition adjustment. The negative acquisition adjustment~~  
11 ~~shall not be recorded on the books for ratemaking purposes or used for any earnings review~~  
12 ~~unless the purchaser files for a rate increase pursuant to Section 367.081(2), 367.0814,~~  
13 ~~367.0817 or 367.0822, F.S., that will be effective during the amortization period. The negative~~  
14 ~~acquisition adjustment shall be amortized over a 5-year period from the date of issuance of the~~  
15 ~~order approving the transfer of assets.~~

16           (4) Amortization Period.

17           (a) In setting the amortization period for a Commission approved positive acquisition  
18 adjustment pursuant to (2) ~~or (3)(a)~~ above, the Commission shall consider evidence ~~provided~~  
19 ~~to the Commission~~ such as the composite remaining life of the assets purchased and the  
20 condition of the assets purchased. Amortization of the acquisition adjustment shall begin on  
21 the date of issuance of the order approving the transfer of assets.

22           (b) The appropriate period over which to amortize a Commission approved negative  
23 acquisition adjustment pursuant to (3) above, shall be determined as follows:

24           1. If the purchase price is greater than 50 percent of net book value, the negative  
25 acquisition adjustment shall be amortized over a 7-year period from the date of issuance of the

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from existing law.

1 order approving the transfer of assets. In this case, the negative acquisition adjustment shall  
2 not be recorded on the books for ratemaking purposes or used for any earnings review unless  
3 the purchaser files for a rate increase pursuant to Sections 367.081(2), 367.0814, 367.0817 or  
4 367.0822, F.S., that will be effective during the amortization period.

5 2. If the purchase price is 50 percent of net book value or less, the negative acquisition  
6 adjustment shall be amortized from the date of issuance of the order approving the transfer of  
7 assets as follows: (i) 50 percent of the negative acquisition adjustment shall be amortized over  
8 a 7-year period; and (ii) 50 percent of the negative acquisition adjustment shall be amortized  
9 over the remaining life of the assets.

10 (5) Subsequent Modification. Any full or partial positive acquisition adjustment, once  
11 made by the Commission pursuant to (2) ~~or (3)(a)~~ above, may be subsequently modified if the  
12 extraordinary circumstances do not materialize or subsequently are eliminated or changed  
13 within 5 ~~five~~ years of the date of issuance of the order approving the transfer of assets.

14 Specific Authority 350.127(2), 367.121(1)(f) FS. Law Implemented 367.071(5),  
15 367.081(2)(a), 367.121(1)(a), (b) FS. History—New 8-4-02, Amended.

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