

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 natural gas utilities in the docket file.

Thank you.

Sevini Guffey

From: Sevini Guffey
Sent: Thursday, November 05, 2020 8:31 AM
To: Kandi Floyd (kfloyd@tecoenergy.com); Wright, Christopher; Andy Shoaf (andy@stjoegas.com); Beth Keating (BKeating@gunster.com); Mike Cassel (mcassel@fpuc.com); Jerry Melendy (jmelendy@floridasbestgas.com)
Cc: Tripp Coston
Subject: Docket No. 20200237-PU -- SERC Data Request - Natural Gas IOUs
Attachments: Rule 25-7.0141 (002).1030.docx; 25-7.0141 SERC Data Request_Gas.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 25-7.0141, 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 25-7.0141, F.A.C., Allowance for Funds Used During Construction

Staff has proposed to establish the above rule for accounting of natural gas utility costs related to allowance for funds used during construction (AFUDC). Overall, the proposed rule will allow natural gas utilities to accrue AFUDC, recover the costs they incurred to finance investments before the investments are placed in service and, earn a return through base rates. The most recent draft rule is attached herewith. Considering the proposed rule, please provide responses to the following questions:

- 1) Section (2)(a)1. states that projects that involve gross plant additions in excess of \$25,000 and are expected to be completed in excess of one year 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 \$25,000 threshold?
- 3) What is your utility's incremental increase in the annual amount of accrued AFUDC with the proposed \$25,000 threshold?
- 4) Section (2)6. (f) states that the utility may file a petition prior to commencement of construction to seek approval to include an individual project in rate base. If your utility decides to file such a petition, what is the estimated cost?
- 5) Section (3)(a) states that the applicable AFUDC rate shall be determined using the most recent 13-month average embedded cost of capital. What is the estimated cost to determine the applicable AFUDC as stated above?
- 6) Section (2) 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.
- 7) Section (5) requires the utility to file Schedules A, B, and C with each petition for a change in AFUDC rate and Section (7) requires these schedules to be included with the December Rate of Return surveillance report to the Commission. Please state the estimated cost to complete and file Schedules A, B, and C as required in Sections (5) and (7).
- 8) Is the proposed rule likely to increase any transactional costs (e.g.: filing fees, the cost of obtaining a license, the cost of equipment required to be installed or used, procedures required to be employed in complying with the rule, additional operating costs incurred, the

cost of monitoring or reporting, 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.

- 9) Is the proposed rule 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.
- 10) Is the proposed rule 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.
- 11) Will the proposed rule have an adverse impact on small business? (A small business is defined by Section 288.703, F.S., as an independently owned and operated business concern that employs 200 or fewer permanent full-time employees and that, together with its affiliates, has a net worth of not more than \$5 million or any firm based in this state which has a Small Business Administration 8(a) certification. As to sole proprietorships, the \$5 million net worth requirement shall include both personal and business investments). Please explain.
- 12) Is the proposed rule 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?
- 13) Does your utility anticipate any effect on state or local revenues from the AFUDC related projects? Please discuss.
- 14) Please provide any additional information related to draft Rule 25-7.0141, F.A.C., which the Commission may deem useful.

1 **25-7.0141 Allowance for Funds Used During Construction.**

2 (1) Definition of terms for this rule.

3 (a) Allowance for funds used during construction (AFUDC) 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 natural gas
8 service), designed to produce an in-service plant investment result with a specific location and
9 design.

10 ~~A utility shall not accrue allowance for funds used during construction without prior~~
11 ~~Commission approval.~~

12 (2) Construction work in progress (CWIP) that is not included in rate base may accrue
13 AFUDC, under the following conditions:

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

16 1. Projects that involve gross additions to plant in excess of \$25,000 and

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

18 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 it demonstrates
22 that the overall cost of the bundled projects including AFUDC is less than the total overall
23 cost of the unbundled projects without AFUDC.

24 (b) Ineligible projects. The following projects may be included in CWIP, but may not
25 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 included in rate base
2 in the company's last rate case.

3 2. Projects where gross additions to plant are less than \$25,000.

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

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

7 (c) Unless otherwise authorized by the Commission, the following projects may not be
8 included in CWIP nor accrue AFUDC:

9 1. Projects that are reimbursable by another party.

10 2. Projects that have been cancelled.

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

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

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

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

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

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

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

24 5. When the construction activities for an ongoing project are expected to be suspended for
25 a period exceeding six (6) months, the utility shall notify the Commission of the suspension

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

1 and the reason(s) for the suspension, and shall submit a proposed accounting treatment for the
2 suspended project; and

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

7 (e) Subaccounts. Account 107, Construction Work in Progress, shall be subdivided so as
8 to segregate the cost of construction projects that are eligible for AFUDC from the cost of
9 construction projects that are ineligible for AFUDC.

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

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

17 (3) The applicable AFUDC rate shall be determined as follows:

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

21 (b) The cost rates for the components in the capital structure shall be the midpoint of the
22 last allowed return on common equity, the most recent 13-month average cost of short-term
23 debt and customer deposits and a zero cost rate for deferred taxes and all investment tax
24 credits. The cost of long-term debt and preferred stock shall be based on end of period cost.
25 The annual percentage rate shall be calculated to two decimal places.

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

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

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

$$6 \quad \underline{M = [(1 + A/100)^{1/12} - 1] \times 100}$$

7 Where:

8 M = discounted monthly AFUDC rate

9 A = Annual AFUDC rate

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

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

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

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

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

20 (6) No utility may charge or change its AFUDC rate without prior Commission approval.
21 The new AFUDC rate shall be effective the month following the end of the 12-month period
22 used to establish that rate and may not be retroactively applied to a previous fiscal year unless
23 authorized by the Commission.

24 (7) Each utility charging AFUDC shall include in its December Rate of Return
25 surveillance report to the Commission Schedules A and B identified in subsection (5) of this

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

1 rule, as well as disclosure of the AFUDC rate it is currently charging.

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

4 *Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.05(1),*
5 *366.06(1) FS. History—New 8-11-86, Formerly 25-7.141, Amended 11-13-86, 12-7-87, 11-23-*
6 *95,_____.*

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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