

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**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 *SKG.*

**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.

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Please place the attached Statement of Estimated Regulatory Costs data request to the water and wastewater utilities in the docket file.

Thank you.

## Sevini Guffey

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**From:** Sevini Guffey  
**Sent:** Thursday, November 05, 2020 8:34 AM  
**To:** 'Martin S. Friedman'; 'Troy Rendell'; 'Mike Smallridge'  
**Cc:** Tripp Coston  
**Subject:** Docket No. 20200237-PU -- SERC Data Request - Water & Wastewater Utilities  
**Attachments:** 25-30.116Rule.dot (002).1030.docx; 25-30.116 SERC Data Request\_Water & Wastewater.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 25-30.116, 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](http://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*  
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## Statement of Estimated Regulatory Costs Data Request

Docket No. 20200237-PU

### Rule 25-30.116, F.A.C., Allowance for Funds Used During Construction

Staff has proposed revisions to the above rule for the purpose of updating and clarifying the rule for the accounting of water and wastewater utility costs related to allowance for funds used during construction (AFUDC). Considering the proposed revisions, please respond to the following questions. The most recent draft rule is attached.

- 1) Section (2) 4. 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.
- 2) Section (2)(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?
- 3) Do you consider your water and/or wastewater company to be a 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.). If yes, will the proposed revisions to the rule have an adverse impact on your small business? Please explain.
- 4) Are the proposed revisions to the 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.
- 5) Are the proposed revisions to the 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.
- 6) Are the proposed revisions to the 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?
- 7) Are the proposed revisions to the 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.

- 8) Does your utility anticipate any effect on state or local revenues from the AFUDC related projects? Please discuss.
- 9) Please provide any additional information regarding the proposed Rule 25-30.116, F.A.C., which the Commission may deem useful.

1     **25-30.116 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  
6 tasks 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 utility service),  
8 designed to produce an in-service plant investment result with a specific location and design.

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

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

13         1. Projects that involve gross additions to plant in excess of \$5,000 and

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

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

18         4. A utility may bundle related projects that achieve a specific outcome if it demonstrates  
19 that the overall cost of the bundled projects including AFUDC is less than the total overall  
20 cost of the unbundled projects without AFUDC.

21     (b) Ineligible projects. The following projects may be included in CWIP, but may not  
22 accrue AFUDC:

23         1. Projects, or portions thereof, that do not exceed the level of CWIP included in rate base  
24 in the company's last rate case.

25         2. Projects where gross additions to plant are less than \$5,000.

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from existing law.

1 3. Projects expected to be completed in less than sixty days after commencement of  
2 construction.

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

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

6 1. Projects that are reimbursable by another party.

7 2. Projects that have been cancelled.

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

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

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

11 1. Accrual of AFUDC is not to be reversed when a project originally expected to be  
12 completed in excess of sixty days is completed in sixty days or less;

13 2. AFUDC may not be accrued retroactively if a project expected to be completed in sixty  
14 days or less is subsequently suspended for six months, or is not ready for service after sixty  
15 days;

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

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

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

25 6. When the construction activities for a suspended project are resumed, the previously

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1 accumulated costs of the project may not accrue AFUDC if such costs have been included in  
2 rate base for ratemaking purposes. However, the accrual of AFUDC may be resumed when the  
3 previously accumulated costs are no longer included in rate base for ratemaking purposes.

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

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

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

14 ~~(3)~~(2) The applicable AFUDC rate shall be determined as follows:

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

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

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

25 ~~(d) The treatment by the Commission of all investment tax credits at a zero cost rate shall~~

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

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

11 | ~~(4)(3)~~ Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to  
12 | six decimal places, shall be employed to insure that the annual AFUDC charged does not  
13 | exceed authorized levels.

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

$$16 | M = \underline{[(1 + A/100)^{1/12} - 1] \times 100} [(1 + A/100)^{1/12} - 1] \times 100$$

17 | Where:

18 | M = discounted monthly AFUDC rate

19 | A = annual AFUDC rate

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

22 | ~~(5)(4)~~ The following schedules shall be filed with each petition for a change in AFUDC  
23 | rate:

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

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

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

6 (6)(5) No utility may charge or change its AFUDC rate without prior Commission  
7 approval. The new AFUDC rate shall be effective the month following the end of the 12-  
8 month period used to establish that rate and may not be retroactively applied to a previous  
9 fiscal year unless authorized by the Commission.

10 (7)(6) Each utility charging AFUDC shall include with its Annual Report to the  
11 Commission Schedules A and B identified in subsection (5)(4) of this rule, as well as  
12 disclosure of the AFUDC rate it is currently charging.

13 (8)(7) The Commission may, on its own motion, initiate a proceeding to revise a utility's  
14 AFUDC rate.

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

19 *Rulemaking Authority 350.127(2), 367.121(1)(f) FS. Law Implemented 350.115, 367.081(2),*  
20 *367.121(1)(b) FS. History—New 8-11-86, Formerly 25-30.121, Amended 11-13-86, 12-7-*  
21 *87,\_\_\_\_\_.*