

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 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.

DOCKET NO. 20200237-PU
ORDER NO. PSC-2021-0020-FOF-PU
ISSUED: January 6, 2021

The following Commissioners participated in the disposition of this matter:

GARY F. CLARK, Chairman
ART GRAHAM
JULIE I. BROWN
DONALD J. POLMANN
ANDREW GILES FAY

NOTICE OF ADOPTION OF RULE

BY THE COMMISSION

NOTICE is hereby given that the Florida Public Service Commission, pursuant to Section 120.54, Florida Statutes, has adopted without changes Rules 25-6.0141, 25-7.0141 and 25-30.116, Florida Administrative Code.

The rule was filed with the Department of State on January 6, 2021, and will be effective on January 26, 2021. A copy of the rule as filed with the Department is attached to this Notice.

This docket is closed upon issuance of this Notice.

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By ORDER of the Florida Public Service Commission this 6th day of January, 2021.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

AEH

25-6.0141 Allowance for Funds Used During Construction.

(1) Definition of terms of this rule.

(a) Allowance for funds used during construction (AFUDC) is the carrying cost of funding an eligible utility project investment during its construction.

(b) A project means a temporary endeavor with a defined beginning and end series of tasks that need to be completed in order to reach a specific outcome (e.g., a specific utility investment placed into service or devoted to public use for the provision of electric service), designed to produce an in-service plant investment result.

(2)(4) Construction work in progress (CWIP) or nuclear fuel in process (NFIP) not under a lease agreement that is not included in rate base may accrue ~~allowance for funds used during construction (AFUDC)~~, under the following conditions:

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

1. Projects that involve gross additions to plant in excess of 0.40 ~~0.5~~ percent of the sum of the total balance in Account 101, Electric Plant in Service, and Account 106, Completed Construction not Classified, at the time the project commences and

a. Are expected to be completed in excess of one year after commencement of construction, or

b. Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

2. A utility may bundle related projects that achieve a specific outcome if it demonstrates that the total cost of the bundled projects excluding AFUDC is less than the total cost of the unbundled projects.

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

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

2. Projects where gross additions to plant are less than 0.40 ~~0.5~~ percent of the sum of the total balance in Account 101, Electric Plant in Service, and Account 106, Completed Construction not Classified, at the time the project commences.

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

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

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

1. Projects that are reimbursable by another party.
2. Projects that have been cancelled.
3. Purchases of assets which are ready for service when acquired.
4. Portions of projects providing service during the construction period.

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

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

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

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

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

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

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

(e) Subaccounts. Account 107, Construction Work in Progress, and Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, must be subdivided so as to segregate the cost of construction projects that are eligible for AFUDC from the cost of construction projects that are ineligible for AFUDC.

(f) Prior to the commencement of construction on a project, a utility may file a petition to seek approval to include an individual project in rate base that would otherwise qualify for AFUDC treatment per paragraph ~~(2)~~(1)(a).

(g) On a prospective basis, the Commission, upon its own motion, may determine that the potential impact on rates may require the exclusion of an amount of CWIP from a utility's rate base that does not qualify for AFUDC treatment per paragraph ~~(2)~~(4)(a) and to allow the utility to accrue AFUDC on that excluded amount.

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

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

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

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

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

$$M = \left[\left((1 + A/100)^{1/12} - 1 \right) \right] \times 100 \text{ Where:}$$

M = discounted monthly AFUDC rate

A = annual AFUDC rate

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

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

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

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

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

~~(6)~~(5) No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC

rate will be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

~~(7)(6)~~ Each utility charging AFUDC must include in its December Earnings Surveillance Reports to the Commission Schedules A and B identified in subsection (4) of this rule, as well as disclosure of the AFUDC rate it is currently charging.

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

~~(9)(8)~~ Each utility must include in its Forecasted Surveillance Report a schedule of individual projects that commence during that forecasted period and are estimated to have a gross cost in excess of 0.40 ~~0.5~~ percent of the sum of the total balance in Account 101, Electric Plant in Service, and Account 106, Completed Construction not Classified. The schedule must include the following minimum information:

- (a) Description of the project.
- (b) Estimated total cost of the project.
- (c) Estimated construction commencement date.
- (d) Estimated in-service date.

Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.04(2)(a), (f) 366.06(1), (2), 366.08 FS. History—New 8-11-86, Formerly 25-6.141, Amended 11-13-86, 12-7-87, 1-7-97, 12-30-19, _____.

25-7.0141 Allowance for Funds Used During Construction.

(1) Definition of terms for this rule.

(a) Allowance for funds used during construction (AFUDC) is the carrying cost of funding an eligible utility project investment during its construction.

(b) A project means a temporary endeavor with a defined beginning and end series of tasks that need to be completed in order to reach a specific outcome (e.g., a specific utility investment placed into service or devoted to public use for the provision of natural gas service), designed to produce an in-service plant investment result.

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

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

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

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

a. Are expected to be completed in excess of one year after commencement of construction, or

b. Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

2. A utility may bundle related projects that achieve a specific outcome if it demonstrates that the total cost of the bundled projects excluding AFUDC is less than the total cost of the unbundled projects.

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

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

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

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

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

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

1. Projects that are reimbursable by another party.

2. Projects that have been cancelled.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to six decimal places, must be employed to ensure that the annual AFUDC charged does not exceed authorized levels.

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

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

Where:

M = discounted monthly AFUDC rate

A = Annual AFUDC rate

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

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

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

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

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

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

(7) Each utility charging AFUDC must include in its December Rate of Return surveillance report to the Commission Schedules A and B identified in subsection (5) of this rule, as well as disclosure of the AFUDC rate it is currently charging.

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

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

25-30.116 Allowance for Funds Used During Construction.

(1) Definition of terms for this rule.

(a) Allowance for funds used during construction (AFUDC) is the carrying cost of funding an eligible utility project investment during its construction.

(b) A project means a temporary endeavor with a defined beginning and end series of tasks that need to be completed in order to reach a specific outcome (e.g., a specific utility investment placed into service or devoted to public use for the provision of utility service), designed to produce an in-service plant investment result.

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

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

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

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

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

2. A utility may bundle related projects that achieve a specific outcome if it demonstrates that the total cost of the bundled projects excluding AFUDC is less than the total cost of the unbundled projects.

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

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

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

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

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

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

1. Projects that are reimbursable by another party.

2. Projects that have been cancelled.

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

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

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

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

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

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

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

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

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

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

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

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

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

a) The most recent 12-month average embedded cost of capital, except as noted below, must ~~shall~~ be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the

Company's last rate case.

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

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

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

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

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

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

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

Where:

M = discounted monthly AFUDC rate

A = annual AFUDC rate

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

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

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

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

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

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

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

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

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

Rulemaking Authority 350.127(2), 367.121(1)(f) FS. Law Implemented 350.115, 367.081(2), 367.121(1)(b) FS.

History—New 8-11-86, Formerly 25-30.121, Amended 11-13-86, 12-7-87, _____.