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: May 2, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Hightower, Buys, Cicchetti) JT DB ML CAO ALM
Office of the General Counsel (Schrader) KS

RE: Docket No. 20190087-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 5.97% to 6.22%, effective January 1, 2019, by Florida Power & Light Company.

AGENDA: 05/14/19 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners AT

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Florida Power & Light Company's (FPL or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 5.97 percent was approved on May 11, 2018, by Order No. PSC-2018-0247-PAA-EI.[1] On April 2, 2019, FPL filed the required schedules and requested an increase in its AFUDC rate from 5.97 percent to 6.22 percent, effective January 1, 2019. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

[1]Order No. PSC-2018-0247-PAA-EI, issued May 11, 2018, in Docket No. 20180038-EI, *In re: Request for approval of change of allowance for funds during construction (AFUDC), by Florida Power and Light Company*, consummated by Order No. PSC-2018-0348-CO-EI, issued July 16, 2018.

Discussion of Issues

Issue 1: Should the Commission approve FPL's request to increase its AFUDC rate from 5.97 percent to 6.22 percent?

Recommendation: Yes. The appropriate AFUDC rate for FPL is 6.22 percent based on a 13-month average capital structure for the period ended December 31, 2018. (Hightower)

Staff Analysis: FPL requested an increase in its AFUDC rate from 5.97 percent to 6.22 percent. Rule 25-6.0141(2), F.A.C., Allowance for Funds Used During Construction, provides the following guidance:

> (2) The applicable AFUDC rate shall be determined as follows:
>
> (a) The most recent 13-month average embedded cost of capital, except as noted below, shall 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 shall 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 shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

In support of the requested AFUDC rate of 6.22 percent, FPL provided its calculations and capital structure in Schedules A and B attached to its request. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested increase in the AFUDC rate is principally due to an increase in the weighted cost of long-term debt which increased by 17 basis points. The weighted cost of common equity also increased by 6 basis points due to an increase in the equity ratio. FPL used the midpoint return of equity of 10.55 percent, which was approved by the Commission in Order No. PSC-16-0560-AS-EI.[2]

Based on its review, staff believes that the requested decrease in the AFUDC rate from 5.97 percent to 6.22 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends that the Commission approve it.

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[2]Order No. PSC-16-0560-AS-EI, issued December 15, 2016, in Docket No. 160021-EI, *In re: Petition for rate increase by Florida Power & Light Company.*

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 6.22 percent annual AFUDC rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 6.22 percent is 0.504118 percent. (Hightower)

Staff Analysis: FPL requested a monthly compounding rate of 0.504118 percent to achieve an annual AFUDC rate of 6.22 percent. In support of the requested monthly compounding rate of 0.504118 percent, FPL provided its calculations in Schedule C attached to its request. Rule 25-6.0141(3), F.A.C., provides a formula for discounting the annual AFUDC rate to reflect monthly compounding. The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff reviewed the Company's calculations and determined that they comply with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that the Commission approve a discounted monthly AFUDC rate of 0.504118 percent.

Issue 3: Should the Commission approve FPL's requested effective date of January 1, 2019, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of January 1, 2019, for all purposes. (Hightower)

Staff Analysis: FPL's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2018. Rule 25-6.0141(5), F.A.C., provides that:

> The new AFUDC rate 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.

The Company's requested effective date of January 1, 2019, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore the effective date should be approved.[3]

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[3]Due to changes made to Section 366.93, F.S., during the 2013 Legislative Session, Rule 25-6.0423, F.A.C., was amended in January 2014 to provide that for the purposes of nuclear or integrated gasification combined cycle power plant cost recovery, carrying costs pursuant to the rule shall be calculated using the utility's most recently approved pretax AFUDC rate at the time an increment of cost recovery is sought. Prior to the amendment, the rule had provided that for power plant need petitions submitted on or before December 31, 2010, the associated carrying costs would be computed based on the pretax AFUDC rate in effect on June 12, 2007. Therefore, staff recommends that a single AFUDC rate should be effective for all purposes, including for computing carrying costs for cost recovery sought pursuant to Section 366.93, F.S.

Issue 4: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Schrader)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.