



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: April 8, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Maurey, Salnova, Springer) *NS* *MDS* *CROPS*
Office of the General Counsel (Young) *ALM* *JEB*

RE: Docket No. 100133-EI – Review of Florida Power & Light Company's current allowance for funds used during construction rate.

AGENDA: 04/20/10 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100133.RCM.DOC

Case Background

Florida Power & Light Company's (FPL) current Allowance for Funds Used During Construction (AFUDC) rate of 7.41 percent, effective January 1, 2009, was authorized by Order No. PSC-09-0377-PAA-EI.¹ The 7.41 percent AFUDC rate was calculated using an actual 13-month average capital structure for the period ended December 31, 2008. The return on equity (ROE) used in the calculation was the stipulated 11.75 percent approved in Order No. PSC-05-0902-AS-EI.² In its recently concluded rate case in Docket No. 080677-EI,³ FPL was authorized an ROE midpoint of 10.00 percent.

¹ Order No. PSC-09-0377-PAA-EI, issued May 28, 2009, in Docket No. 090108-EI, In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.65% to 7.41%, effective January 1, 2009, by Florida Power & Light Company.

² Order No. PSC-05-0902-AS-EI, issued September 14, 2005, in Docket No. 050045-EI, In re: Petition for rate increase by Florida Power & Light Company.

³ Order No. PSC-10-0153-FOF-EI, issued March 17, 2010, in Docket No. 080677-EI, In re: Petition for increase in rates by Florida Power & Light Company.

DOCUMENT NUMBER-DATE

02630 APR-8 2010

FPSC-COMMISSION CLERK

In the prescribed Uniform System of Accounts,⁴ AFUDC is defined as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds (preferred stock and common equity) when so used.⁵ To the extent practicable, the AFUDC rate should reflect the current costs for borrowed and other funds. Based on the newly authorized ROE of 10.00 percent, FPL's current AFUDC rate may be lower than the authorized 7.41 percent.

Pursuant to Rule 25-6.0141(7), Florida Administrative Code (F.A.C.), the Commission may, on its own motion, initiate a proceeding to revise a utility's AFUDC rate. This recommendation addresses the initiation of a proceeding to revise FPL's AFUDC rate. The Commission has jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

⁴ Rule 25-6.014(1), F.A.C.

⁵ 18 C.F.R. Part 101 (2009), Electric Plant Instruction No. 3.A.(17)

Discussion of Issues

Issue 1: Should the Commission initiate a proceeding to revise FPL's current Allowance for Funds Used During Construction rate?

Recommendation: Yes. The Commission should initiate a proceeding to revise FPL's current AFUDC rate and require FPL to file the schedules prescribed in Rule 25-6.0141(4), F.A.C., for the period ended March 31, 2010, with an effective date of April 1, 2010. The schedules should include the appropriate rate case adjustments consistent with the determinations reflected in Order No. PSC-10-0153-FOF-EI. The schedules should be filed no later than May 20, 2010. (Slemkewicz, Springer, Salnova)

Staff Analysis: FPL's current AFUDC rate of 7.41 percent, effective January 1, 2009, was authorized by Order No. PSC-09-0377-PAA-EI.⁶ The 7.41 percent AFUDC rate was calculated using an actual 13-month average capital structure for the period ended December 31, 2008. The ROE used in the calculation was the stipulated 11.75 percent approved in Order No. PSC-05-0902-AS-EI.⁷

In the prescribed Uniform System of Accounts,⁸ AFUDC is defined as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds (preferred stock and common equity) when so used.⁹ To the extent practicable, the AFUDC rate should reflect the current costs for borrowed and other funds. In its recently concluded rate case in Docket No. 080677-EI,¹⁰ FPL was authorized an ROE midpoint of 10.00 percent. Based on the period ended December 31, 2009, and a 10.00 percent ROE, staff estimates that a more current AFUDC rate would be approximately 6.47 percent. This AFUDC rate is significantly lower than the currently authorized AFUDC rate of 7.41 percent.

Pursuant to Rule 25-6.0141(7), F.A.C., the Commission may, on its own motion, initiate a proceeding to revise a utility's AFUDC rate. Based on its analysis, staff believes that a more current AFUDC rate would be significantly lower than the currently authorized AFUDC rate of 7.41 percent. Therefore, staff recommends that the Commission initiate a proceeding to revise FPL's AFUDC rate. FPL should be required to file the schedules prescribed in Rule 25-6.0141(4), F.A.C., for the period ended March 31, 2010, with an effective date of April 1, 2010. March 2010 represents the first full month subsequent to the March 1, 2010, effective date for the implementation of the new rates authorized in the rate case. The schedules should include the appropriate rate case adjustments consistent with the determinations reflected in Order No. PSC-10-0153-FOF-EI. The schedules should be filed no later than May 20, 2010.

⁶ Order No. PSC-09-0377-PAA-EI, issued May 28, 2009, in Docket No. 090108-EI. In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.65% to 7.41%, effective January 1, 2009, by Florida Power & Light Company.

⁷ Order No. PSC-05-0902-AS-EI, issued September 14, 2005, in Docket No. 050045-EI, In re: Petition for rate increase by Florida Power & Light Company.

⁸ Rule 25-6.014(1), F.A.C.

⁹ 18 C.F.R. Part 101 (2009), Electric Plant Instruction No. 3.A.(17)

¹⁰ Order No. PSC-10-0153-FOF-EI, issued March 17, 2010, in Docket No. 080677-EI, In re: Petition for increase in rates by Florida Power & Light Company.

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Issue 2: Should this docket be closed?

Recommendation: No. This docket should remain open pending the review of the required AFUDC filing and the subsequent filing of a recommendation in this docket. (Young)

Staff Analysis: This docket should remain open pending the review of the required AFUDC filing and the subsequent filing of a recommendation in this docket.