

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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COMMISSION CLERK

**DATE:** August 2, 2012

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (Buys, Cicchetti, Prestwood) *MC* *OP*  
Office of the General Counsel (Bennett) *JLC* *DRB*

**RE:** Docket No. 120179-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.65% to 6.26%, effective May 1, 2012, by Gulf Power Company.

**AGENDA:** 08/14/12 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\AFD\WP\120179.RCM.DOC

### Case Background

Gulf Power Company's (Gulf or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.65 percent was approved in Order No. PSC-08-0263-PAA-EI.<sup>1</sup> By letter dated June 25, 2012, Gulf requests that its AFUDC rate be decreased from 7.65 percent to 6.26 percent, effective May 1, 2012, to reflect its current capital structure and cost rates. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

<sup>1</sup> See Order No. PSC-08-0263-PAA-EI, issued April, 28, 2008, in Docket No. 080106-EI, In re: Request for approval to capitalize allowance for funds used during construction (AFUDC) from 7.48% to 7.65%, effective January 1, 2008, by Gulf Power Company.

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### **Discussion of Issues**

**Issue 1:** Should the Commission approve Gulf's request to decrease its AFUDC rate from 7.65 percent to 6.26 percent?

**Recommendation:** Yes. The appropriate AFUDC rate for Gulf is 6.26 percent based on a 13-month average capital structure for the period ending April 30, 2012. (Buys, Cicchetti)

**Staff Analysis:** Gulf has requested a decrease in its AFUDC rate from 7.65 percent to 6.26 percent. Rule 25-6.0141, Florida Administrative Code (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 its requested AFUDC rate of 6.26 percent, Gulf provided its calculations and capital structure as Schedules A and B attached to its request. Staff reviewed these calculations and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested decrease is due principally to a reduction in both the cost rate and the relative percentage of common equity and preferred stock in the capital structure. In particular, the weighted cost of common equity decreased from 5.09 percent to 3.88 percent, and the weighted cost of preferred stock decreased from 0.38 percent to 0.21 percent. A reduction in the cost rate for long-term debt also contributed to the decrease in the AFUDC rate.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 7.65 percent to 6.26 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends that it be approved.

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**Issue 2:** What is the appropriate monthly compounding rate to achieve the requested 6.26 percent annual rate?

**Recommendation:** The appropriate monthly compounding rate to maintain an annual rate of 6.26 percent is 0.507272 percent. (Buys, Cicchetti)

**Staff Analysis:** Gulf has requested a monthly compounding rate of 0.507272 percent to achieve an annual AFUDC rate of 6.26 percent. In support of the requested monthly compounding rate of 0.507272 percent, Gulf provided its calculations as 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 has reviewed the Company's calculations and has determined that they are in compliance with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.507272 percent be approved.

**Issue 3:** Should the Commission approve Gulf's requested effective date of May 1, 2012, for implementing the revised AFUDC rate?

**Recommendation:** Yes. The revised AFUDC should be effective as of May 1, 2012, for all purposes except for Rule 25-6.0423, F.A.C., Nuclear or Integrated Gasification Combined Cycle Power Plant Cost Recovery. For the purposes of Rule 25-6.0423, F.A.C., 7.48 percent is the appropriate AFUDC rate to be utilized for computing carrying costs for power plant need petitions submitted on or before December 31, 2010. (Buys, Cicchetti)

**Staff Analysis:** Gulf's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending April 30, 2012. 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 May 1, 2012, complies with the requirement that the effective date not precede the period used to calculate the rate, and therefore should be approved.

Rule 25-6.0423(5)(b)1, F.A.C., Nuclear or Integrated Gasification Combined Cycle Power Plant Cost Recovery, states the following:

For power plant need petitions submitted on or before December 31, 2010, the associated carrying costs shall be computed based on the pretax AFUDC rate in effect on June 12, 2007.

Gulf's AFUDC in effect on June 12, 2007, was 7.48 percent.<sup>2</sup> For the purpose of Rule 25-6.0423, F.A.C., 7.48 percent is the appropriate AFUDC rate to be utilized for computing carrying costs for power plant need petitions submitted on or before December 31, 2010.

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<sup>2</sup> See Order No. PSC-03-0497-PAA-EI, issued April 16, 2003, in Docket No. 030249-EI, In re: Request for approval to change allowance for funds used during construction (AFUDC) rate from 7.35% to 7.48%, effective 1/1/03, by Gulf Power Company.

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**Issue 4:** Should this docket be closed?

**Recommendation:** Yes. 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. (Bennett)

**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.