

State of Florida



# Public Service Commission

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

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COMMISSION  
CLERK

**DATE:** March 28, 2013

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

**FROM:** Division of Accounting and Finance (Buys, Cicchetti, Makki, Prestwood)  
Office of the General Counsel (Brownless) *AM CDP CRBB*

**RE:** Docket No. 130051-EI – Request for approval of change of allowance for funds used during construction (AFUDC), by Florida Power & Light Company.

**AGENDA:** 04/09/13 – 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\130051.RCM.DOC

### Case Background

Florida Power & Light Company's (FPL or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.41 percent was approved on July 23, 2010, by Order No. PSC-10-0470-PAA-EI.<sup>1</sup> On February 25, 2013, FPL filed the required schedules and requested an increase in its AFUDC rate from 6.41 percent to 6.52 percent. 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.

<sup>1</sup> Order No. PSC-10-0470-PAA-EI, issued July 23, 2010, in Docket No. 100133-EI, In re: Review of Florida Power & Light Company's current allowance for funds during construction rate.

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### Discussion of Issues

**Issue 1:** Should the Commission approve FPL's request to increase its AFUDC rate from 6.41 percent to 6.52 percent?

**Recommendation:** Yes. The appropriate AFUDC rate for FPL is 6.52 percent based on a 13-month average capital structure for the period ended December 31, 2012. (Buys, Makki)

**Staff Analysis:** FPL requested an increase in its AFUDC rate from 6.41 percent to 6.52 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 6.52 percent, FPL provided its calculations and capital structure as 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 due principally to an increase in the cost rate of common equity in the capital structure from 10 percent to 10.5 percent. The 10.5 percent return on equity was recently approved by the Commission in Order No. PSC-13-0023-S-EI.<sup>2</sup> The increase in the requested AFUDC rate due to the increase in the cost rate of common equity was partially offset by a decrease in the cost rates for long-term debt and customer deposits.

Based on its review, staff believes that the requested increase in the AFUDC rate from 6.41 percent to 6.52 percent is appropriate and recommends that it be approved.

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<sup>2</sup> Order No. PSC-13-0023-S-EI, issued January 14, 2013, in Docket No. 120015-EI, In re: Petition for increase in rates by Florida Power & Light Company.

**Issue 2:** What is the appropriate monthly compounding rate to achieve the requested 6.52 percent annual AFUDC rate?

**Recommendation:** The appropriate monthly compounding rate to maintain an annual rate of 6.52 percent is 0.527742 percent. (Buys, Makki)

**Staff Analysis:** FPL requested a monthly compounding rate of 0.527742 percent to achieve an annual AFUDC rate of 6.52 percent. In support of the requested monthly compounding rate of 0.527742 percent, FPL 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 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 a discounted monthly AFUDC rate of 0.527742 percent be approved.

**Issue 3:** Should the Commission approve FPL's requested effective date of January 1, 2013, for implementing the revised AFUDC rate?

**Recommendation:** Yes. The revised AFUDC rate should be effective as of January 1, 2013, for all purposes except for Rule 25-6.0423, F.A.C., Nuclear or Integrated Gasification Combined Cycle Power Plant Recovery. For the purposes of Rule 25-6.0423, F.A.C., 7.42 percent is the appropriate AFUDC rate to be utilized for compounding carrying costs for power plant need petitions submitted on or before December 31, 2010. (Buys, Makki)

**Staff Analysis:** FPL's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2012. Rule 25-6.014(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, 2013, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

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

FPL's AFUDC rate in effect on June 12, 2007, was 7.42 percent.<sup>3</sup> For the purpose of Rule 25-6.0423, F.A.C., staff recommends that 7.42 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>3</sup> Order No. PSC-05-0421-PAA-EI, issued April 20, 2005, in Docket No. 050153-EI, In re: Request for approval to change rate used to capitalize allowance for funds used during construction (AFUDC) from 7.29% to 7.42%, effective January 1, 2005, by Florida Power & Light Company.

**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. (Brownless)

**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.