

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: June 6, 2024

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Ferrer, D. Buys) *ALM*
Office of the General Counsel (Brownless) *JSC*

RE: Docket No. 20240057-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.37% to 6.76%, effective January 1, 2024, by Florida Power & Light Company.

AGENDA: 06/18/24 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Florida Power & Light Company's (FPL or Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.37 percent was approved by Order No. PSC-2023-0142-PAA-EI, issued April 24, 2023.¹ On April 2, 2024, FPL filed a petition for approval to change its AFUDC rate from 6.37 percent to 6.76 percent, effective January 1, 2024. As required by Rule 25-6.0141(5), Florida Administrative Code (F.A.C.), FPL filed with its petition Schedules A, B, and C identifying the capital structure, capital structure adjustments, and the methodology used to calculate the monthly AFUDC rate. 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.

¹Order No. PSC-2023-0142-PAA-EI, issued April 24, 2023, in Docket No. 20230031-EI, *In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.22% to 6.37%, effective 1/1/23, by Florida Power & Light Company.*

Discussion of Issues

Issue 1: Should the Commission approve FPL's request to change its AFUDC rate from 6.37 percent to 6.76 percent?

Recommendation: Yes. The appropriate AFUDC rate for FPL is 6.76 percent based on a 13-month average capital structure for the period ended December 31, 2023. (Ferrer)

Staff Analysis: FPL requested an increase in its AFUDC rate from 6.37 percent to 6.76 percent. Rule 25-6.0141(3), F.A.C., Allowance for Funds Used During Construction, provides the following guidance:

(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, will 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.

In support of its requested AFUDC rate of 6.76 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(3), F.A.C. The requested increase in the AFUDC rate is due to an increase of 28 basis points in the weighted cost of long-term debt, an increase of 6 basis points in the weighted cost of short-term debt, and an increase of 4 basis points in the weighted cost of common equity. The cost rate for short-term debt increased from 1.93 percent in 2022 to 4.94 percent in 2023. The cost rate for long-term debt increased from 3.63 percent in 2022 to 4.46 percent in 2023. In its calculation, the Company appropriately used the mid-point return on equity of 10.8 percent, which was approved by Order No. PSC-2022-0358-FOF-EI.²

Based on its review, staff believes that the requested increase in the AFUDC rate from 6.37 percent to 6.76 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends approval.

²Order No. PSC-2022-0358-FOF-EI, issued October 21, 2022, in Docket No. 20210015-EI, *In re: Petition for rate increase by Florida Power & Light Company*.

Issue 2: What is the appropriate monthly compounding rate to achieve FPL's requested annual AFUDC of 6.76 percent?

Recommendation: The appropriate compounding rate to achieve an annual AFUDC rate of 6.76 percent is 0.005466. (Ferrer)

Staff Analysis: FPL requested a monthly compounding rate of 0.005466 to achieve an annual AFUDC rate of 6.76 percent. In support of the requested monthly compounding rate of 0.005466, the Company provided its calculations in Schedule C attached to its request. Rule 25-6.0141(4)(a), F.A.C., provides the following formula for discounting the annual AFUDC rate to reflect monthly compounding.

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

Where: M = Discounted monthly AFUDC rate.

A = Annual AFUDC rate.

The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff reviewed the Company's calculation and determined it was derived in accordance with Rule 25-6.0141(4), F.A.C., as presented in Attachment 2. Therefore, staff recommends that a monthly compounding AFUDC rate of 0.005466 be approved.

Issue 3: Should the Commission approve FPL's requested effective date of January 1, 2024, for implementing the AFUDC rate?

Recommendation: Yes. The AFUDC rate should be effective January 1, 2024, for all purposes. (Ferrer)

Staff Analysis: FPL's requested AFUDC rate was calculated using the most recent 13-month average capital structure for the period ended December 31, 2023. Rule 25-6.0141(6), F.A.C., provides that:

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.

The Company's requested effective date of January 1, 2024, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore, should be approved

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.

**FLORIDA POWER & LIGHT COMPANY
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFUDC RATE
 AS OF DECEMBER 31, 2023**

COMPANY AS FILED				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
COMMON EQUITY	\$29,781,990,449	48.44%	10.80%	5.23%
LONG-TERM DEBT	\$19,576,710,609	31.84%	4.46%	1.42%
SHORT-TERM DEBT	\$1,130,101,159	1.84%	4.94%*	0.09%
CUSTOMER DEPOSITS	\$488,703,160	0.79%	2.11%*	0.02%
DEFERRED INCOME TAXES	\$6,938,457,552	11.29%	0.00%	0.00%
FAS 109 DEFERRED INC. TAX	\$2,730,231,950	4.44%	0.00%	0.00%
INVESTMENT TAX CREDITS	\$833,949,980	1.36%	0.00%	0.00%
TOTAL	\$61,480,144,859	100.00%		6.76%

* 13-MONTH AVERAGE

**FLORIDA POWER & LIGHT COMPANY
METHODOLOGY FOR COMPOUNDING AFUDC RATE
AS OF DECEMBER 31, 2023**

COMPANY AS FILED

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.000000	0.005466	0.005466
2	1.005466	0.005496	0.010962
3	1.010962	0.005526	0.016488
4	1.016488	0.005556	0.022044
5	1.022044	0.005586	0.027630
6	1.027630	0.005617	0.033247
7	1.033247	0.005648	0.038895
8	1.038895	0.005679	0.044574
9	1.044574	0.005710	0.050283
10	1.050283	0.005741	0.056024
11	1.056024	0.005772	0.061796
12	1.061796	0.005804	0.067600

Annual Rate (R) = 0.0676

Monthly Rate = $((1+R)^{(1/12)})-1 = 0.005466$