

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for approval to increase allowance for funds used during construction (AFUDC) rate to 7.35% effective 1/1/01 by Gulf Power Company.

DOCKET NO. 010300-EI
ORDER NO. PSC-01-1159-PAA-EI
ISSUED: May 21, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman
J. TERRY DEASON
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING INCREASE IN RATE OF ALLOWANCE FOR
FUNDS USED DURING CONSTRUCTION

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Gulf Power Company's (Gulf or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.27% was approved in Order PSC-93-1789-FOF-EI, issued December 14, 1993, in Docket 930833-EI. Gulf currently plans an increase in its construction budget and has requested an updated rate to reflect its current cost of capital.

Gulf has requested an increase in its AFUDC rate from 7.27% to 7.35%. (Schedule A, attached) The rate was calculated in accordance with Rule 25-6.0141, Florida Administrative Code. We have reviewed Gulf's calculations and the capital structure

DOCUMENT NUMBER-DATE
06360 MAY 21 01
FPCD-RECORDS/REGISTRATION

(Schedule B, attached). The requested change reflects decreases in the cost rates of Gulf's investor supplied sources of funds, including common equity, preferred stock, and long-term debt, and an increase in the cost rate for short-term debt. The overall rate increases because the equity ratio, measured over all sources of capital, has increased from 35.47% to 40.04% since 1993, the last time Gulf requested a change in its AFUDC rate. This change increased the weighted cost rate for common equity to 4.60% from 4.26%, and the overall cost of capital from 7.27% to 7.35%.

Increasing the AFUDC rate to 7.35% will result in a higher AFUDC accrual. Gulf is building a combined-cycle unit at Plant Smith in Panama City, and based on the projected level of Construction Work in Progress eligible for AFUDC for this project, the 2001 annual accrual will be increased by approximately \$100,000. We find that the requested increase in the AFUDC rate from 7.27% to 7.35% should be approved.

Schedule C shows the formula to discount the simple interest rate of 7.35% to reflect the effects of compounding monthly. The monthly compounding rate to achieve an annual AFUDC rate of 7.35% is 0.592786%. We have reviewed this calculation and find that the monthly compound rate of 0.592786% should be approved.

The AFUDC rate was calculated using a 13-month average capital structure for the period ending December 31, 2000. Pursuant to Rule 25-6.0141(5), Florida Administrative Code, "...[t]he new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate...." Since the period ending December 31, 2000, was used to calculate the rate, the effective date should be January 1, 2001.

Based on the foregoing, it is -

ORDERED by the Florida Public Service Commission that Gulf Power Company's request to increase its Allowance For Funds Used During Construction rate from 7.27% to 7.35% is granted. It is further

ORDERED that the monthly compounding rate of 0.592786% to achieve an annual AFUDC rate of 7.35% is approved. It is further

ORDER NO. PSC-01-1159-PAA-EI
DOCKET NO. 010300-EI
PAGE 3

ORDERED that the foregoing rates shall be effective as of January 1, 2001. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 21st day of May, 2001.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

DDH

ORDER NO. PSC-01-1159-PAA-EI
DOCKET NO. 010300-EI
PAGE 4

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 11, 2001.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Gulf Power Company
Calculation of AFUDC Rate
Based On December 2000 Earning Surveillance Report and 11.5% ROE

Schedule A

<u>Class of Capital</u>	<u>Jurisdictional Capital Structure</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long Term Debt	276,468,703	30.86%	6.64	2.05
Short-Term Debt	29,035,067	3.24%	6.49	0.21
Preferred Stock	69,353,996	7.74%	5.28	0.41
Customer Deposits	11,826,887	1.32%	5.91	0.08
Common Equity	358,727,433	40.04%	11.50	4.60
Investment Tax Credits	19,545,500	2.18%		
FASB 109 Deferred Taxes	15,376,087	1.72%		
Deferred Taxes	115,481,887	12.90%		
Total	896,815,560	100.00%		7.35

AFUDC Rate Currently Authorized by Order: PSC-93-1789-FOF-EI

7.27%

Gulf Power Company
13 MONTH AVERAGE CAPITAL STRUCTURE
Based On December 2000 Earning Surveillance Report

SCHEDULE B

	<u>Balance Per Books</u>	<u>Non Utility Adjustment</u>	<u>UPS Adjustment</u>	<u>Dividends Declared</u>	<u>Rate Base Adjustments</u>	<u>Adjusted Capital Structure</u>	<u>Jurisdictional Factor</u>	<u>Jurisdictional Capital Structure</u>
LONG TERM DEBT	350,565,336	0	(42,874,447)	0	(24,394,596)	283,296,293	0.9758995	276,468,703
SHORT-TERM DEBT	39,846,154	0	0	0	(10,094,045)	29,752,109	0.9758995	29,035,067
PREFERRED STOCK	83,549,235	0	(6,362,948)	0	(6,119,545)	71,066,742	0.9758995	69,353,998
CUSTOMER DEPOSITS	13,162,521	0	0	0	(1,043,561)	12,118,960	0.9758995	11,826,887
COMMON EQUITY	419,709,227	(455,014)	(27,968,789)	7,953,846	(31,652,808)	367,586,462	0.9758995	358,727,433
ITC - ZERO COST	0	0	0	0	0	0	0.9758995	0
ITC - WEIGHTED COST	26,752,135	0	(4,999,321)	0	(1,724,624)	20,028,190	0.9758995	19,545,500
FASB 109 DIT	21,405,206	0	(4,292,665)	0	(1,356,730)	15,755,811	0.9758995	15,376,087
DEFERRED TAXES	160,763,500	0	(32,240,003)	0	(10,189,703)	118,333,794	0.9758995	115,481,887
TOTAL	1,115,753,314	(455,014)	(118,738,173)	7,953,846	(66,575,612)	917,938,361		895,815,560

Gulf Power Company
Calculation of Monthly AFUDC Rate
Based on October 2000 Earnings Surveillance Report and 11.5% ROE

Schedule C

The formula used to discount the annual AFUDC rate to reflect monthly compounding is as follows:

$$M = \left\{ \left(1 + \frac{A}{100} \right)^{1/12} - 1 \right\} \times 100$$

Where:

M= Discounted monthly AFUDC rate.

A= Annual AFUDC rate.

Using the requested rate of 7.35%

$$M = \left\{ \left(1 + \frac{7.35}{100} \right)^{1/12} - 1 \right\} \times 100$$

$$M = \left\{ \left(1 + .073500 \right)^{1/12} - 1 \right\} \times 100$$

$$M = \left\{ \left(1.073500 \right)^{1/12} - 1 \right\} \times 100$$

$$M = \left\{ 1.00592786 - 1 \right\} \times 100$$

$$M = \left\{ 0.00592786 \right\} \times 100$$

$$M = \underline{0.592786}$$