

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 8.16% to 6.47%, effective January 1, 2014, by Tampa Electric Company.

DOCKET NO. 140033-EI  
ORDER NO. PSC-14-0176-PAA-EI  
ISSUED: April 18, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
LISA POLAK EDGAR  
RONALD A. BRISÉ  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION  
ORDER REDUCING TAMPA ELECTRIC COMPANY'S RATE USED TO CAPITALIZE  
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 (F.A.C.)

Background

Tampa Electric Company's (TECO) current Allowance for Funds Used During Construction (AFUDC) rate of 8.16 percent was approved by Order No. PSC-09-0798-PAA-EI.<sup>1</sup> On February 12, 2014, TECO filed the required schedules and requested a decrease in its AFUDC rate from 8.16 percent to 6.47 percent, effective January 1, 2014. This 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-09-0798-PAA-EI, issued December 2, 2009, in Docket No. 090446-EI, In re: Request for approval of change rate used to account for allowance for funds during construction (AFUDC) from 7.79% to 8.17% effective May 1, 2009, by Tampa Electric Company, consummated by Order No. PSC-10-0025-CO-EI, issued January 2, 2010.

TECO's request to decrease its AFUDC Rate

TECO has requested a decrease in its AFUDC rate from 8.16 percent to 6.47 percent. Rule 25-6.0141(2), Florida Administrative Code (F.A.C.) 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 6.47 percent, TECO provided its calculations and capital structure as Schedules A and B attached to its petition. We have reviewed these calculations and determined that the requested rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. However, due to a rounding error involving the relative percentages of the capital components, we find that the correct AFUDC rate is 6.46 percent as shown on Schedule 1. In its calculation of the capital component ratios, TECO used percentages carried out to two decimal places. The same calculation was performed using our approved methodology of ratios carried out to three decimal places, which changed the weighted average cost of capital downward by one basis point. This is the same scenario that occurred in TECO's last request for a change in its AFUDC rate in Docket No. 090446-EI. In that docket, we approved this methodology and adjustment of one basis point.

The primary driver behind the decrease in the requested AFUDC rate is a decrease in the cost rates for long-term debt, common equity, and customer deposits. The cost rates of long-term debt, common equity, and customer deposits decreased from 6.81 percent to 5.61 percent, 11.25 percent to 10.25 percent, and 6.11 percent to 2.24 percent, respectively. In addition, the relative percentage of zero cost deferred income taxes in the capital structure increased from 9.47 percent to 18.20 percent, which resulted in lower relative percentages of long-term debt and common equity.

Based on this review, we find that the requested decrease in the AFUDC rate from 8.16 percent to 6.47 percent is not appropriate and that 6.46 percent is the appropriate AFUDC rate for TECO.

Appropriate Monthly Compounding Rate

TECO has requested a monthly compounding rate of 0.523810 percent to achieve an annual AFUDC rate of 6.47 percent. In support of the requested monthly compounding rate of

0.523810 percent, TECO 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.

Based on our decision to reduce TECO's requested annual AFUDC rate of 6.47 percent to 6.46 percent, we find that the appropriate monthly compounding rate is 0.523023 percent as shown on Schedule 2. Therefore, we approve a monthly compounding rate of 0.523023 percent.

Effective Date

TECO's proposed AFUDC rate of January 1, 2014 was calculated using a 13-month average capital structure for the period ending December 31, 2013. 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 January 1, 2014 complies with the requirement that the effective date does not precede the period used to calculate the rate. Therefore, the effective date for TECO's AFUDC rate shall be January 1, 2014.

Based on the foregoing, it is

ORDERED that Tampa Electric Company's Allowance for Funds Used During Construction rate shall be reduced from 8.16 percent to 6.46 percent effective as of January 1, 2014. It is further

ORDERED that Tampa Electric Company's monthly compounding rate shall be 0.523023 percent. It is further

ORDERED that if no person whose substantial interests are affected by this proposed agency action files a protest within 21 days of the issuance of this order, this docket shall be closed upon the issuance of a consummating order.

ORDERED by the Florida Public Service Commission that By ORDER of the Florida Public Service Commission this 18th day of April, 2014.



CARLOTTA S. STAUFFER  
Commission Clerk  
Florida Public Service Commission  
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 9, 2014.

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/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

SCHEDULE 1

TAMPA ELECTRIC COMPANY  
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFDUC RATE  
 AS OF DECEMBER 31, 2013

<b>COMPANY AS FILED</b>				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
LONG TERM DEBT	\$ 1,442,503,126	36.29%	5.61%	2.04%
SHORT TERM DEBT	-	0.000%	0.60% *	0.00%
CUSTOMER DEPOSITS	107,365,922	2.70%	2.24% *	0.06%
COMMON EQUITY	1,693,609,735	42.60%	10.25%	4.37%
DEFERRED INCOME TAXES	723,674,109	18.20%	0.00%	0.00%
INVESTMENT TAX CREDITS	8,177,269	0.21%	0.00%	0.00%
<b>TOTAL</b>	<b>\$ 3,975,330,161</b>	<b>100.00%</b>		<b>6.47%</b>

<b>STAFF ADJUSTED BASIS</b>				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
LONG TERM DEBT	\$ 1,442,503,126	36.286%	5.61%	2.036%
SHORT TERM DEBT	-	0.000%	0.60% *	0.000%
CUSTOMER DEPOSITS	107,365,922	2.701%	2.24% *	0.060%
COMMON EQUITY	1,693,609,735	42.603%	10.25%	4.367%
DEFERRED INCOME TAXES	723,674,109	18.204%	0.00%	0.000%
INVESTMENT TAX CREDITS	8,177,269	0.206%	0.00%	0.000%
<b>TOTAL</b>	<b>\$ 3,975,330,161</b>	<b>100.00%</b>		<b>6.46%</b>

\* 13-MONTH AVERAGE

SCHEDULE 2

**TAMPA ELECTRIC COMPANY  
 METHODOLOGY FOR COMPOUNDING AFUDC RATE  
 AS OF DECEMBER 31, 2013**

**COMPANY AS FILED**

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.0000000	0.0052381	0.0052381
2	1.0052381	0.0052655	0.0105036
3	1.0105036	0.0052931	0.0157967
4	1.0157967	0.0053208	0.0211176
5	1.0211176	0.0053487	0.0264663
6	1.0264663	0.0053767	0.0318430
7	1.0318430	0.0054049	0.0372479
8	1.0372479	0.0054332	0.0426811
9	1.0426811	0.0054617	0.0481427
10	1.0481427	0.0054903	0.0536330
11	1.0536330	0.0055190	0.0591520
12	1.0591520	0.0055479	0.0647000

Annual Rate (R) = 0.0647

Monthly Rate =  $((1+R)^{(1/12)}-1) = 0.0052381$

**STAFF ADJUSTED BASIS**

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.0000000	0.00523023	0.00523023
2	1.0052302	0.00525758	0.01048781
3	1.0104878	0.00528508	0.01577288
4	1.0157729	0.00531272	0.02108561
5	1.0210856	0.00534051	0.02642611
6	1.0264261	0.00536844	0.03179455
7	1.0317946	0.00539652	0.03719107
8	1.0371911	0.00542474	0.04261581
9	1.0426158	0.00545312	0.04806893
10	1.0480689	0.00548164	0.05355057
11	1.0535506	0.00551031	0.05906087
12	1.0590609	0.00553913	0.06460000

Annual Rate (R) = 0.0646

Monthly Rate =  $((1+R)^{(1/12)}-1) = 0.00523023$