

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of change in rate used to capitalize allowance for funds used during construction from 6.00% to 7.08%, effective January 1, 2024, by Peoples Gas System, Inc.

DOCKET NO. 20240035-GU  
ORDER NO. PSC-2024-0168-PAA-GU  
ISSUED: May 23, 2024

The following Commissioners participated in the disposition of this matter:

MIKE LA ROSA, Chairman  
ART GRAHAM  
GARY F. CLARK  
ANDREW GILES FAY  
GABRIELLA PASSIDOMO

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING PEOPLE GAS SYSTEM, INC.'S  
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATE

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

Peoples Gas System, Inc. (PGS or Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.00 percent was approved by Order No. PSC-2021-0170-PAA-GU, issued May 14, 2021.<sup>1</sup> On February 16, 2024, PGS filed a petition for approval to change its AFUDC rate from 6.00 percent to 7.08 percent, effective January 1, 2024. As required by Rule 25-7.0141(5), F.A.C., PGS 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. We have jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

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<sup>1</sup>Order No. PSC-2021-0170-PAA-GU, issued May 14, 2021, in Docket No. 20210040-GU, *In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 5.97% to 6.00%, effective 1/1/21, by Peoples Gas System.*

Decision

I. AFUDC Rate

PGS requested an increase in its AFUDC rate from 6.00 percent to 7.08 percent. Rule 25-7.0141(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, must be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the Company'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 will be calculated to two decimal places.

In support of its requested AFUDC rate of 7.08 percent, PGS provided its calculations and capital structure in Schedules A and B attached to its request. We reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-7.0141(3), F.A.C. The requested increase in the AFUDC rate is due to an increase of 27 basis points in the weighted cost of long-term debt, an increase of 57 basis points in the weighted cost of short-term debt, and an increase of 26 basis points in the weighted cost of common equity, offset by a 2 basis point decrease in the weighted cost of customer deposits. PGS's cost rate for short-term debt increased from 1.16 percent in 2020 to 5.84 percent in 2023. Over the same period, PGS's cost rate for long-term debt increased from 4.69 percent to 5.68 percent. The debt cost rate increases were primarily due to market conditions and the Federal Open Market Committee raising interest rates. In its calculation, the Company appropriately used the mid-point return on equity of 10.15 percent, which was approved by Order No. PSC-2023-0388-FOF-GU.<sup>2</sup>

Based on our review, the requested increase in the AFUDC rate from 6.00 percent to 7.08 percent is appropriate and consistent with Rule 25-7.0141, F.A.C. It is therefore approved.

II. Monthly Compounding Rate

PGS also requested a monthly compounding rate of 0.005717 to achieve an annual AFUDC rate of 7.08 percent. In support of the requested monthly compounding rate of 0.005717, the Company provided its calculations in Schedule C attached to its request. Rule 25-

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<sup>2</sup>Order No. PSC-2023-0388-FOF-GU, issued December 27, 2023, in Docket No. 20230023-GU, *In re: Petition for rate increase by Peoples Gas System, Inc.*

7.0141(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.

We reviewed the Company's calculation and determined it was derived in accordance with Rule 25-7.0141(4), F.A.C., as presented in Attachment 2. Therefore, we approve a monthly compounding AFUDC rate of 0.005717.

### III. Effective Date

PGS's requested AFUDC rate was calculated using the most recent 13-month average capital structure for the period ended December 31, 2023. Rule 25-7.0141(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, is approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Peoples Gas System, Inc.'s Allowance for Funds Used During Construction rate shall be 7.08 percent based on a 13-month average capital structure for the period ended December 31, 2023. It is further

ORDERED that the appropriate compounding rate to achieve an annual AFUDC rate of 7.08 percent is 0.005717. It is further

ORDERED that the AFUDC rate shall be effective January 1, 2024, for all purposes. 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

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the Commission Clerk, 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 23rd day of May, 2024.



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ADAM J. TELTZMAN

Commission Clerk

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399

(850) 413-6770

[www.floridapsc.com](http://www.floridapsc.com)

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MRT

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 June 13, 2024.

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.

PEOPLES GAS SYSTEM, INC.  
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFUDC RATE  
 as of December 31, 2023

COMMISSION APPROVED				
<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	\$942,550,797	47.40%	10.15%	4.81%
LONG-TERM DEBT	\$543,872,462	27.35%	5.68%	1.55%
SHORT-TERM DEBT	\$236,704,341	11.89%	5.84%*	0.69%
CUSTOMER DEPOSITS	\$28,387,477	1.43%	2.41%*	0.03%
DEFERRED INCOME TAXES	\$237,186,904	11.93%	0.00%	
TOTAL	\$1,988,701,981	100.00%		7.08%

\* 13-MONTH AVERAGE

PEOPLES GAS SYSTEM, INC.  
 METHODOLOGY FOR MONTHLY COMPOUNDING AFUDC  
 RATE  
 as of December 31, 2023

COMMISSION APPROVED			
MONTHS	AFUDC BASE	MONTHLY AFUDC RATE	CUMULATIVE AFUDC RATE
1	1.000000	0.005717	0.005717
2	1.005717	0.005749	0.011466
3	1.011466	0.005782	0.017249
4	1.017249	0.005815	0.023064
5	1.023064	0.005849	0.028913
6	1.028913	0.005882	0.034795
7	1.034795	0.005916	0.040710
8	1.040710	0.005950	0.046660
9	1.046660	0.005984	0.052643
10	1.052643	0.006018	0.058661
11	1.058661	0.006052	0.064713
12	1.064713	0.006087	0.070800

Annual Rate (R) = 0.0708

Monthly Rate =  $((1+R)^{(1/12)})-1 = 0.005717$