

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

JULY 22, 1993

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MERTA, SM
LESTER) *DM JS*
DIVISION OF ELECTRIC AND GAS (WHEELER) *CAL*
DIVISION OF LEGAL SERVICES (HELTON) *net MP* *JDJ*

RE : DOCKET NO. 930516-EI - REQUEST TO CHANGE ALLOWANCE FOR
FUNDS USED DURING CONSTRUCTION (AFUDC) RATES FROM 7.93%
TO 7.70% AS OF 12/31/92 BY TAMPA ELECTRIC COMPANY

AGENDA : AUGUST 3, 1993 - PROPOSED AGENCY ACTION -
NONCONTROVERSIAL - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\930516.RCM
ATTACHMENT A IS NOT AVAILABLE

DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate allowance for funds used during construction (AFUDC) rate for Tampa Electric Company (TECO or the Company)?

RECOMMENDATION: The appropriate AFUDC rate for TECO is 7.70% resulting from a 13-month average capital structure for the period ending December 31, 1992.

STAFF ANALYSIS: TECO has requested a reduction in its AFUDC rate from 7.93% to 7.70% (Attachment A). This reduced rate reflects changes in the dollar amounts and cost rates of the components of TECO's capital structure. The rate was calculated in accordance with Rule 25-6.0141, Florida Administrative Code (F.A.C.). The AFUDC rate calculation and supporting data were audited and verified.

DOCUMENT NUMBER-DATE

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RECORDS/REPORTING

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Since its last AFUDC filing in Docket No. 900072-EI, the utility's equity ratio has increased from 54.08% as of December 31, 1990 to 55.74% as of December 31, 1992. For AFUDC purposes, the authorized return on equity has decreased from 12.50% to 12.00%. The cost rates for long-term debt and short-term debt have decreased significantly, and the cost rate for preferred stock has essentially remained the same. The decreases in the cost rates for common equity, long-term debt, and short-term debt have more than offset the increase in the equity ratio and have resulted in the decrease in the AFUDC rate.

Reducing the AFUDC rate from 7.93% to 7.70% will result in a lower AFUDC accrual. Based on TECO's recent rate case and projections of 1993's average balance of CWIP eligible to earn AFUDC, the 1993 annual accrual will be decreased by \$135,700.

Staff recommends that the reduction in the AFUDC rate from 7.93% to 7.70% be approved (Attachment B).

ISSUE 2: What is the appropriate monthly compounding rate?

RECOMMENDATION: The appropriate monthly compounding rate to maintain a simple rate of 7.70% is .620076%.

STAFF ANALYSIS: Attachment C shows the formula to discount the simple interest rate of 7.70% to reflect the effects of compounding monthly. The monthly compounding rate to achieve an annual AFUDC rate of 7.70% is .620076%.

Staff recommends that the monthly compound rate of .620076% be approved.

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ISSUE 3: Should TECO's requested effective date of February 1, 1993 for implementing the revised AFUDC rate be approved?

RECOMMENDATION: No. The revised AFUDC rate should become effective January 1, 1993.

STAFF ANALYSIS: In its Petition, the Company inadvertently requested an effective date of February 1, 1993 to implement its revised rate. Staff and the Company agree that the appropriate effective date is January 1, 1993.

The AFUDC rate was calculated using a 13-month average capital structure for the period ending December 31, 1992. Pursuant to Rule 25-6.0141(5), F.A.C., "...[t]he new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate...." Therefore, since a December 31, 1992 period was used to calculate the rate, the effective date should be January 1, 1993.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. This docket should be closed if no objections are filed within the protest period.

STAFF ANALYSIS: If no objections are received during the 21 day protest period, this docket should be automatically closed.

TAMPA ELECTRIC COMPANY
 Capital Structure Used for AFUDC Calculation
 As of December 31, 1992

	Adjusted Average Balance	Ratio	Cost Rate	Weighted Cost (%)
Long-Term Debt	\$500,578,496	27.57%	7.24%	2.00%
Preferred Stock	53,306,511	2.94%	6.49%	0.19%
Common Equity	782,125,834	43.08%	12.00%	5.17%
Customer Deposits	42,100,383	2.32%	8.02%	0.19%
Short-Term Debt	67,217,104	3.70%	4.00%	0.15%
Deferred Taxes	298,213,018	16.43%	-	-
Job Development Credits	71,855,042	3.96%	-	-
Total	<u>\$1,815,396,388</u> =====	<u>100.00%</u> =====		<u>7.70%</u> =====

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STAFF COMPUTATION

ATTACHMENT B

TAMPA ELECTRIC COMPANY
AFUDC RATE COMPUTATION
DOCKET NO. 930516-EI

DECEMBER 31, 1992

WEIGHTED AVERAGE COST OF CAPITAL

	ADJUSTED AVERAGE BALANCE	RATIO	COST RATE	WEIGHTED COST
LONG-TERM DEBT	\$500,578,496	27.57%	7.24%	2.00%
PREFERRED STOCK	53,306,511	2.94%	6.49%	0.19%
COMMON EQUITY	782,125,834	43.08%	12.00%	5.17%
CUSTOMER DEPOSITS	42,100,383	2.32%	8.02%	0.19%
SHORT TERM DEBT	67,217,104	3.70%	4.00%	0.15%
DEFERRED TAXES	298,213,018	16.43%	0.00%	0.00%
JOB DEVELOPMENT CREDITS	71,855,042	3.96%	0.00%	0.00%
TOTAL	<u>\$1,815,396,388</u>	<u>100.00%</u>		<u>7.70%</u>

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STAFF COMPUTATION

ATTACHMENT C

TAMPA ELECTRIC COMPANY
AFUDC RATE COMPUTATION
DOCKET NO. 930516-EI

DECEMBER 31, 1992

DISCOUNTED MONTHLY AFUDC RATE

Formula for derivation of monthly AFUDC rate:

$$M = ((1+A)^{(1/12)}) - 1$$

where M is the discounted monthly AFUDC rate, and
A is the annual AFUDC rate.

A = 7.70%
=====

M = 0.620076%
=====