



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-

11 APR 19 8:09 AM
11 APR 19 11:00 AM

DATE: APRIL 19, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ECONOMIC REGULATION (REVELL, MAUREY, LESTER, C. BROMIG, BRINKLEY) *mb*
DIVISION OF LEGAL SERVICES (HART) *RUE For ODH* *DM* *P2 JS* *T98 ALM*

RE: DOCKET NO. 010300-EI - REQUEST FOR APPROVAL TO INCREASE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) RATE TO 7.35% EFFECTIVE 1/1/01 BY GULF POWER COMPANY.

AGENDA: 05/1/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010300.RCM
ATTACHMENTS ARE NOT AVAILABLE

CASE BACKGROUND

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 is requesting an updated rate to reflect its current cost of capital. Gulf is requesting that its AFUDC rate be increased from 7.27% to 7.35%.

DOCUMENT NUMBER-DATE

04832 APR 19 01

PSC-DIVISION OF RECORDS AND REPORTING

DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate AFUDC rate for Gulf Power Company?

RECOMMENDATION: The appropriate AFUDC rate for Gulf is 7.35% resulting from a 13-month average capital structure for the period ending December 31, 2000. (REVELL, LESTER)

STAFF ANALYSIS: Gulf has requested an increase in its AFUDC rate from 7.27% to 7.35%. (Gulf's Schedule A) The rate was calculated in accordance with Rule 25-6.0141, Florida Administrative Code. Gulf's calculations and the capital structure (Gulf's Schedule B) have been reviewed by staff. 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, increased from 35.47% to 40.04% since 1993, the last time Gulf requested a change in its AFUDC rate. This increased the weighted cost rate for common equity to 4.60% from 4.26%, and the overall cost of capital to 7.35% from 7.27%.

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.

Staff recommends that the requested increase in the AFUDC rate from 7.27% to 7.35% be approved.

ISSUE 2: What is the appropriate monthly compounding rate?

RECOMMENDATION: The appropriate monthly compounding rate to maintain a simple rate of 7.35% is 0.592786%. (REVELL)

STAFF ANALYSIS: Gulf's 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%.

Staff reviewed this calculation and recommends that the monthly compound rate of 0.592786% be approved.

ISSUE 3: Should Gulf Power Company's requested effective date of January 1, 2001, for implementing the revised AFUDC rate be approved?

RECOMMENDATION: Yes. (REVELL)

STAFF ANALYSIS: 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 a December 31, 2000 period was used to calculate the rate, the effective date should be January 1, 2001.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. (HART)

STAFF ANALYSIS: If no timely protest to the proposed agency action is filed within 21 days of the date of issuance of the Consummating Order, this docket should be closed upon the issuance of a Consummating Order.

DOCKET NO. 010300-EI
 DATE: April 19, 2001

**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	<u>115,481,887</u>	<u>12.90%</u>		
Total	<u>895,815,560</u>	<u>100.00%</u>		<u>7.35</u>

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	69,353,996
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	(86,575,612)	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:

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

Where:

M= Discounted monthly AFUDC rate.

A= Annual AFUDC rate.

Using the requested rate of 7.35%

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

$$M = \{ (1 + 0.073500)^{1/12} - 1 \} \times 100$$

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

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

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

$$M = \underline{\underline{0.592786}}$$