

State of Florida



Public Service Commission

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COMMISSION
CLERK

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RECEIVED-FPSC

DATE: JANUARY 9, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK AND
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (BRINKLEY, LESTER) *MB P2 JS pm 1/98*
OFFICE OF THE GENERAL COUNSEL (C. KEATING) *WCK WCK JDT*

RE: DOCKET NO. 021213-EI - REQUEST FOR APPROVAL TO CHANGE RATE
USED TO CAPITALIZE ALLOWANCE FOR FUNDS USED DURING
CONSTRUCTION (AFUDC) FROM 8.26% TO 7.84% EFFECTIVE
11/01/02 BY FLORIDA POWER & LIGHT COMPANY.

AGENDA: 01/21/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\021213.RCM

CASE BACKGROUND

Florida Power & Light Company's (FPL or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 8.26% was approved in Order No. PSC-93-1457-FOF-EI, issued October 7, 1993, in Docket No. 930383-EI. By letter dated December 6, 2002, FPL requests that its AFUDC rate be reduced from 8.26% to 7.84% to reflect its current capital structure and cost rates. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

DOCUMENT NUMBER-DATE

00260 JAN-98

FPSC-COMMISSION CLERK

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve FPL's request to reduce its AFUDC rate from 8.26% to 7.84%?

RECOMMENDATION: Yes. The appropriate AFUDC rate for FPL is 7.84% based on a 13-month average capital structure for the period ending October 31, 2002. (BRINKLEY, LESTER)

STAFF ANALYSIS: FPL has requested a decrease in its AFUDC rate from 8.26% to 7.84%. In support of the new rate, FPL provided its calculations and capital structure as Schedules A and B attached to its request. These calculations have been reviewed by staff. Staff has determined that the proposed rate was calculated in accordance with Rule 25-6.0141, Florida Administrative Code. The requested change reflects decreases in all of the cost rates of FPL's investor-supplied sources of funds and the cost rate for customer deposits. These reductions were partially offset by an increase in the percentage of common equity from 37.92% in 1993 to 54.42% on October 31, 2002.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 8.26% to 7.84% is appropriate and recommends that it should be approved.

ISSUE 2: What is the appropriate monthly compounding rate to achieve the requested 7.84% annual rate?

RECOMMENDATION: The appropriate monthly compounding rate to maintain a simple rate of 7.84% is 0.630969%. (BRINKLEY)

STAFF ANALYSIS: Schedule C attached to FPL's request shows the formula used by FPL to discount the simple interest rate of 7.84% to reflect the effects of compounding monthly. The monthly compounding rate to achieve an annual AFUDC rate of 7.84% is 0.630969%. Staff recalculated and verified this schedule in accordance with the methodology found in Rule 25-6.0141(3), Florida Administrative Code, and recommends that the monthly compounding rate of 0.630969% be approved.

DOCKET NO. 021213-EI
DATE: January 9, 2003

ISSUE 3: Should the Commission approve Florida Power & Light Company's requested effective date of November 1, 2002, for implementing the revised AFUDC rate?

RECOMMENDATION: Yes. (BRINKLEY)

STAFF ANALYSIS: FPL's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending October 31, 2002. Pursuant to Rule 25-6.0141(5), Florida Administrative Code, "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 November 1, 2002, complies with the requirement that the effective date not precede the period used to calculate the rate. However, the timing of the Company's filing and the time required to process the Company's request preclude the issuance of a final order before the end of the Company's fiscal year ending December 31, 2002.

Once a fiscal year is closed, it is preferable, from an accounting standpoint, that items resulting in prior period adjustments not be retroactively applied to that closed year. It should be noted that FPL did not capitalize any AFUDC during 2002. In fact, FPL has not capitalized any AFUDC since 1996. Because no AFUDC has been capitalized during 2002, the granting of FPL's requested effective date of November 1, 2002, would not result in any retroactive application of the revised AFUDC rate. Given the unique set of circumstances in this docket, staff recommends that the Commission approve FPL's requested effective date of November 1, 2002.

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. (C. KEATING)

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