

State of Florida



Public Service Commission
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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION
CLERK

DATE: APRIL 3, 2003

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

FROM: DIVISION OF ECONOMIC REGULATION (BRINKLEY, MAUREY) ^{MB}
OFFICE OF THE GENERAL COUNSEL (RODAN) ^{JS} ^{DM} ¹²⁸
^{JAR} ^{Walt} ^{JDJ} ^{ALM}

RE: DOCKET NO. 030249-EI - REQUEST FOR APPROVAL TO CHANGE
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) RATE
FROM 7.35% TO 7.48% EFFECTIVE 1/1/03, BY GULF POWER
COMPANY.

AGENDA: 04/15/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030249.RCM

CASE BACKGROUND

Gulf Power Company's (Gulf or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.35% was approved in Order No. PSC-01-1159-PAA-EI, issued May 21, 2001, in Docket No. 010300-EI. By letter dated March 5, 2003, Gulf requests that its AFUDC rate be increased from 7.35% to 7.48% 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.

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DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Gulf's request to increase its AFUDC rate from 7.35% to 7.48%?

RECOMMENDATION: Yes. The appropriate AFUDC rate for Gulf is 7.48% based on a 13-month average capital structure for the period ending December 31, 2002. (BRINKLEY, MAUREY)

STAFF ANALYSIS: Gulf has requested an increase in its AFUDC rate from 7.35% to 7.48%. In support of the new rate, Gulf 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. Although cost rates for debt, preferred stock, and customer deposits decreased, the requested increase in the AFUDC rate reflects a slight increase in the percentage of long-term debt utilized and an increase in the allowed Return on Equity from 11.50% to 12.00% as provided in Order No. PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI.

Order No. PSC-02-0787-FOF-EI provided that a 25 basis point reward was to be added to an 11.75% midpoint and that the "12% ROE shall be used for all regulatory purposes, including, for example, implementing the cost recovery clauses and allowances for funds used during construction."

Based on its review, staff believes that the requested increase in the AFUDC rate from 7.35% to 7.48% is appropriate and recommends that it should be approved.

ISSUE 2: What is the appropriate monthly compounding rate to achieve the requested 7.48% annual rate?

RECOMMENDATION: The appropriate monthly compounding rate to maintain a simple rate of 7.48% is 0.602932%. (BRINKLEY)

STAFF ANALYSIS: Schedule C attached to Gulf's request shows the formula used by Gulf to discount the simple interest rate of 7.48% to reflect the effects of compounding monthly. The monthly compounding rate to achieve an annual AFUDC rate of 7.48% is

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0.602932%. 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 0.602932% be approved.

ISSUE 3: Should the Commission approve Gulf Power Company's requested effective date of January 1, 2003, for implementing the revised AFUDC rate?

RECOMMENDATION: Yes. (BRINKLEY)

STAFF ANALYSIS: Gulf's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending December 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." Since a December 31, 2002 period was used to calculate the rate, the effective date should be January 1, 2003.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed upon the 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. (RODAN)

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.