

State of Florida



Public Service Commission  
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**DATE:** March 25, 2004

**TO:** Director, Division of the Commission Clerk & Administrative Services (Bayó)

**FROM:** Division of Economic Regulation (Bramley, Lester) <sup>MB</sup> PL <sup>at</sup> 198  
Office of the General Counsel (Jaeger) <sup>Watt</sup> JS <sup>JDJ</sup>

**RE:** Docket No. 040180-EI – Request for approval to change rate used to capitalize allowance for funds used during construction (AFUDC) from 7.84% to 7.29%, effective 1/1/04, by Florida Power & Light Company.

**AGENDA:** 04/06/04 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\040180.RCM.DOC

**Case Background**

Florida Power & Light Company's (FPL or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.84% was approved in Order No. PSC-03-0189-PAA-EI, issued February 7, 2003, in Docket No. 021213-EI, In re: 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. By letter dated February 27, 2004, FPL requests that its AFUDC rate be reduced from 7.84% to 7.29% 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 FPL's request to reduce its AFUDC rate from 7.84% to 7.29%?

**Recommendation:** Yes. The appropriate AFUDC rate for FPL is 7.29% based on a 13-month average capital structure for the period ending December 31, 2003. (Brinkley, Lester)

**Staff Analysis:** FPL has requested a decrease in its AFUDC rate from 7.84% to 7.29%. In support of the new rate, FPL provided its calculations and capital structure as Schedules A and B attached to its request. Staff reviewed these calculations and 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.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 7.84% to 7.29% is appropriate and recommends that it should be approved.

**Issue 2:** What is the appropriate monthly compounding rate to achieve the requested 7.29% annual rate?

**Recommendation:** The appropriate monthly compounding rate to maintain a simple rate of 7.29% is 0.588100%. (Brinkley)

**Staff Analysis:** Schedule C attached to FPL's request shows the formula used by FPL to discount the simple interest rate of 7.285896% to reflect the effects of compounding monthly. According to the company's calculation, the monthly compounding rate to achieve an annual AFUDC rate of 7.285896% is 0.587779%.

According to Rule 25-6.0141(2)(b), Florida Administrative Code, "the annual percentage rate shall be calculated to two decimal places." The monthly discount rate is then calculated to six decimal places in order to arrive at the annual AFUDC rate to two decimal places. Using the methodology in Rule 25-6.0141(3), Florida Administrative Code, staff recalculated and recommends that the monthly compounding rate of 0.588100% be approved.

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**Issue 3:** Should the Commission approve Florida Power & Light Company's requested effective date of January 1, 2004, 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 December 31, 2003. 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 January 1, 2004, complies with the requirement that the effective date not precede the period used to calculate the rate and should be approved.

**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. (Jaeger)

**Staff Analysis:** 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.