

State of Florida



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-

DATE: March 25, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Maurey) *JS ALM CRBS*
Office of the General Counsel (Brubaker) *JB*

RE: Docket No. 100134-EI – Review of Progress Energy Florida, Inc.'s current allowance for funds used during construction rate.

AGENDA: 04/06/10 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100134.RCM.DOC

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Case Background

Progress Energy Florida, Inc.'s (PEF) current Allowance for Funds Used During Construction (AFUDC) rate of 8.848 percent, effective January 1, 2006, was authorized in PEF's stipulated rate case in Docket No. 050078-EI.¹ The stipulated 8.848 percent AFUDC rate calculation was based on a projected 13-month average capital structure with an 11.75 percent return on equity (ROE) for the period ended December 31, 2006. In its recently concluded rate case in Docket No. 090079-EI,² PEF was authorized an ROE midpoint of 10.50 percent.

¹ Order No. PSC-05-0945-S-EI, issued September 28, 2005, in Docket No. 050078-EI, In re: Petition for rate increase by Progress Energy Florida, Inc.

² Order No. PSC-10-0131-FOF-EI, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.

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In the prescribed Uniform System of Accounts,³ AFUDC is defined as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds (preferred stock and common equity) when so used.⁴ To the extent practicable, the AFUDC rate should reflect the current costs for borrowed and other funds. Based on the newly authorized ROE of 10.50 percent, PEF's current AFUDC rate may be lower than the authorized 8.848 percent.

Pursuant to Rule 25-6.0141(7), Florida Administrative Code (F.A.C.), the Commission may, on its own motion, initiate a proceeding to revise a utility's AFUDC rate. This recommendation addresses the initiation of a proceeding to revise PEF's AFUDC rate. The Commission has jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

³ Rule 25-6.014(1), F.A.C.

⁴ 18 C.F.R. Part 101 (2009), Electric Plant Instruction No. 3.A.(17)

Discussion of Issues

Issue 1: Should the Commission initiate a proceeding to revise PEF's current Allowance for Funds Used During Construction (AFUDC) rate?

Recommendation: Yes. The Commission should initiate a proceeding to revise PEF's current AFUDC rate and require PEF to file the schedules prescribed in Rule 25-6.0141(4), F.A.C., for the period ending March 31, 2010, with an effective date of April 1, 2010. The schedules should include the appropriate rate case adjustments consistent with the determinations reflected in Order No. PSC-10-0131-FOF-EI. The schedules should be filed no later than May 20, 2010. (Slemkewicz, Maurey)

Staff Analysis: PEF's current AFUDC rate of 8.848 percent, effective January 1, 2006, was authorized in PEF's stipulated rate case in Docket No. 050078-EI.⁵ The stipulated 8.848 percent AFUDC rate calculation was based on a projected 13-month average capital structure with an 11.75 percent ROE for the period ended December 31, 2006.

In the prescribed Uniform System of Accounts,⁶ AFUDC is defined as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds (preferred stock and common equity) when so used.⁷ To the extent practicable, the AFUDC rate should reflect the current costs for borrowed and other funds. In its recently concluded rate case in Docket No. 090079-EI,⁸ PEF was authorized an ROE midpoint of 10.50 percent. Based on the period ended December 31, 2009, and a 10.50 percent ROE, staff estimates that a more current AFUDC rate would be approximately 7.91 percent. This AFUDC rate is significantly lower than the currently authorized AFUDC rate of 8.848 percent.

Pursuant to Rule 25-6.0141(7), F.A.C., the Commission may, on its own motion, initiate a proceeding to revise a utility's AFUDC rate. Based on its analysis, staff believes that a more current AFUDC rate would be significantly lower than the currently authorized AFUDC rate of 8.848 percent. Therefore, staff recommends that the Commission initiate a proceeding to revise PEF's AFUDC rate. PEF should be required to file the schedules prescribed in Rule 25-6.0141(4), F.A.C., for the period ending March 31, 2010, with an effective date of April 1, 2010. March 2010 represents the first full month subsequent to the February 10, 2010, effective date for the implementation of the new rates authorized in the rate case. The schedules should include the appropriate rate case adjustments consistent with the determinations reflected in Order No. PSC-10-0131-FOF-EI. The schedules should be filed no later than May 20, 2010.

⁵ Order No. PSC-05-0945-S-EI, issued September 28, 2005, in Docket No. 050078-EI. In re: Petition for rate increase by Progress Energy Florida, Inc.

⁶ Rule 25-6.014(1), F.A.C.

⁷ 18 C.F.R. Part 101 (2009), Electric Plant Instruction No. 3.A.(17)

⁸ Order No. PSC-10-0131-FOF-EI, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.

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Issue 2: Should this docket be closed?

Recommendation: No. This docket should remain open pending the review of the required AFUDC filing and the subsequent filing of a recommendation in this docket. (Brubaker)

Staff Analysis: This docket should remain open pending the review of the required AFUDC filing and the subsequent filing of a recommendation in this docket.