

State of Florida



Public Service Commission

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COMMISSION
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-M-E-M-O-R-A-N-D-U-M-

DATE: September 1, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Donoho, Buys, Davis) *ALM*
Office of the General Counsel (Crawford) *JS*

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

AGENDA: 09/14/10 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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

Case Background

Progress Energy Florida, Inc.'s (PEF or the Company) current allowance for funds used during construction rate of 8.848 percent, effective January 1, 2006, was authorized in PEF's stipulated rate case in Docket No. 050078-EI.¹ In Order No. PSC-10-0258-PCO-EI, the Commission initiated a proceeding to revise PEF's current AFUDC rate and required PEF to file the schedules prescribed in Rule 25-6.0141(4), Florida Administrative Code (F.A.C.), for the period ended March 31, 2010.² On May 20, 2010, PEF filed the required schedules and

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-10-0258-PCO-EI, issued April 26, 2010, in Docket No. 100134-EI, In re: Review of Progress Energy Florida, Inc.'s current allowance for funds during construction rate.

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period ended March 31, 2010.² On May 20, 2010, PEF filed the required schedules and requested a decrease in its AFUDC rate from 8.848 percent to 7.44 percent. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

² Order No. PSC-10-0258-PCO-EI, issued April 26, 2010, in Docket No. 100134-EI, In re: Review of Progress Energy Florida, Inc.'s current allowance for funds during construction rate.

Discussion of Issues

Issue 1: Should the Commission approve PEF's request to decrease its AFUDC rate from 8.848 percent to 7.44 percent?

Recommendation: Yes. The appropriate AFUDC rate for PEF is 7.44 percent based on a 13-month average capital structure for the period ended March 31, 2010. (Donoho, Buys)

Staff Analysis: PEF has requested a decrease in its AFUDC rate from 8.848 percent to 7.44 percent. Rule 25-6.0141(2), F.A.C., Allowance for Funds Used During Construction, provides the following guidance:

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

In support of the requested AFUDC rate of 7.44 percent, PEF provided its calculations and capital structure as Schedules A and B attached to its request. Staff has reviewed these calculations and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C., with the exception of making an adjustment to short-term debt to remove the amounts related to PEF's unrecovered fuel cost balance. The specific adjustment to short-term debt to remove unrecovered balances related to fuel costs was not made when reconciling the capital structure to the rate base in PEF's last rate case. However, the adjustment is consistent with Commission precedent and adjustments made in PEF's 2005 rate case in Docket No.050078-EI. The requested decrease in the AFUDC rate is due principally to a reduction in both the cost rate and the relative percentage of common equity in the capital structure.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 8.848 percent to 7.44 percent is appropriate and recommends that it be approved.

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 7.44 percent annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 7.44 percent is 0.5995 percent. (Donoho, Buys)

Staff Analysis: PEF has requested a monthly compounded rate of 0.5995 percent to achieve an annual AFUDC rate of 7.44 percent. In support of the requested monthly compounding rate of 0.5995 percent, PEF provided its calculations as Schedule C attached to its request. Rule 25-6.0141(3), F.A.C., provides a formula for discounting the annual AFUDC rate to reflect monthly compounding. The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff has reviewed the Company's calculations and has determined that they are in compliance with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.5995 percent be approved.

Issue 3: Should the Commission approve PEF's requested effective date of April 1, 2010, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of April 1, 2010, for all purposes except for Rule 25-6.0423, F.A.C., Nuclear or Integrated Gasification Combined Cycle Power Plant Recovery. For the purposes of Rule 25-6.0423, F.A.C., 8.848 percent is the appropriate AFUDC rate to be utilized for compounding carrying costs for power plant need petitions submitted on or before December 31, 2010. (Donoho)

Staff Analysis: PEF's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended March 31, 2010. Rule 25-6.014(5), F.A.C., provides that:

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 April 1, 2010, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

Rule 25-6.0423(5)(b)1, Nuclear or Integrated Gasification Combined Cycle Power Plant Cost Recovery, F.A.C., states the following:

For power plant need petitions submitted on or before December 31, 2010, the associated carrying costs shall be computed based on the pretax AFUDC rate in effect on January 1, 2006.

PEF's AFUDC rate in effect on January 1, 2006 was 8.848 percent.³ For the purpose of Rule 25-6.0423, F.A.C., staff recommends that 8.848 percent is the appropriate AFUDC rate to be utilized for computing carrying costs for power plant need petitions submitted on or before December 31, 2010.

³ 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.

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Issue 4: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Crawford)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.