

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 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Buys, Cicchetti, Prestwood) *DB MC CP CCB*
Office of the General Counsel (Gilcher) *JG JSC* *12*

RE: Docket No. 140046-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.26% to 5.73%, effective January 1, 2014, by Gulf Power Company.

AGENDA: 04/10/14 – 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\AFD\WP\140046.RCM.DOC

Case Background

Gulf Power Company's (Gulf or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.26 percent was approved in Order No. PSC-12-0482-PAA-EI.¹ On March 3, 2014, Gulf filed the required schedules and requested a decrease in its AFUDC rate from 6.26 percent to 5.73 percent, effective January 1, 2014. 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.

¹ Order No. PSC-12-0482-PAA-EI, issued September 19, 2012, in Docket No. 120179-EI, In re: Request for approval to capitalize allowance for funds used during construction (AFUDC) from 7.65% to 6.26%, effective May 1, 2012, by Gulf Power Company, consummated by Order No. PSC-12-0545-CO-EI, issued October 15, 2012.

Discussion of Issues

Issue 1: Should the Commission approve Gulf's request to decrease its AFUDC rate from 6.26 percent to 5.73 percent?

Recommendation: Yes. The appropriate AFUDC rate for Gulf is 5.73 percent based on a 13-month average capital structure for the period ending December 31, 2013. (Buys)

Staff Analysis: Gulf has requested a decrease in its AFUDC rate from 6.26 percent to 5.73 percent. Rule 25-6.0141, Florida Administrative Code (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 its requested AFUDC rate of 5.73 percent, Gulf 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(2), F.A.C. The requested decrease is due principally to a reduction in both the cost rate and the relative percentage of long-term debt in the capital structure, which resulted in a decrease in the weighted cost rate from 2.07 percent to 1.73 percent, or 34 basis points. The other main contributor to the lower AFUDC rate is a decrease in the relative percentage of common equity in the capital structure, which is due to an increase in the relative percentage of deferred taxes. The weighted cost rate of common equity decreased from 3.88 percent to 3.73 percent, or 15 basis points. In addition, the cost rate for customer deposits decreased from 6.26 percent to 2.38 percent, which lowered the weighted cost rate by 6 basis points.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 6.26 percent to 5.73 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends that it be approved.

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 5.73 percent annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 5.73 percent is 0.465400 percent. (Buys)

Staff Analysis: Gulf has requested a monthly compounding rate of 0.465400 percent to achieve an annual AFUDC rate of 5.73 percent. In support of the requested monthly compounding rate of 0.465400 percent, the Company 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 Gulf'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 0.465400 percent be approved.

Issue 3: Should the Commission approve Gulf's requested effective date of January 1, 2014, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of January 1, 2014, for all purposes. (Buys)

Staff Analysis: Gulf's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending December 31, 2013. Rule 25-6.0141(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 January 1, 2014, complies with the requirement that the effective date not precede the period used to calculate the rate, and therefore should be approved.²

² Due to changes made to Section 366.93, F.S., during the 2013 Legislative Session, Rule 25-6.0423, F.A.C., was amended in January 2014 to provide that for the purposes of nuclear or integrated gasification combined cycle power plant cost recovery, carrying costs pursuant to the rule shall be calculated using the utility's most recently approved pretax AFUDC rate at the time an increment of cost recovery is sought. Prior to the amendment, the rule had provided that for power plant need petitions submitted on or before December 31, 2010, the associated carrying costs would be computed based on the pretax AFUDC rate in effect on June 12, 2007. Therefore, staff recommends that a single AFUDC rate should be effective for all purposes, including for computing carrying costs for cost recovery sought pursuant to Section 366.93, F.S.

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Issue 4: Should this docket be closed?

Recommendation: Yes. 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. (Gilcher)

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.