

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)
Office of the General Counsel (Gilcher)

RE: Docket No. 140033-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 8.16% to 6.47%, effective January 1, 2014, by Tampa Electric 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\140033.RCM.DOC

Case Background

Tampa Electric Company's (Tampa Electric or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 8.16 percent was approved by Order No. PSC-09-0798-PAA-EI.¹ On February 12, 2014, Tampa Electric filed the required schedules and requested a decrease in its AFUDC rate from 8.16 percent to 6.47 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-09-0798-PAA-EI, issued December 2, 2009, in Docket No. 090446-EI, In re: Request for approval of change rate used to account for allowance for funds during construction (AFUDC) from 7.79% to 8.17% effective May 1, 2009, by Tampa Electric Company, consummated by Order No. PSC-10-0025-CO-EI, issued January 2, 2010.

Discussion of Issues

Issue 1: Should the Commission approve Tampa Electric's request to decrease its AFUDC rate from 8.16 percent to 6.47 percent?

Recommendation: No. The appropriate AFUDC rate for Tampa Electric is 6.46 percent based on a 13-month average capital structure for the period ending December 31, 2013. (Buys)

Staff Analysis: Tampa Electric has requested a decrease in its AFUDC rate from 8.16 percent to 6.47 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 the requested AFUDC rate of 6.47 percent, Tampa Electric provided its calculations and capital structure as Schedules A and B attached to its petition. Staff reviewed these calculations and determined that the requested rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. However, due to a rounding error involving the relative percentages of the capital components, the correct AFUDC rate is 6.46 percent as shown on Schedule 1. In its calculation of the capital component ratios, the Company used percentages carried out to two decimal places. Staff performed the same calculation using ratios carried out to three decimal places, which changed the weighted average cost of capital downward by one basis point. This is the same scenario that occurred in Tampa Electric's last request for a change in its AFUDC rate in Docket No. 090446-EI. In that docket, the Commission approved staff's recommended methodology and adjustment of one basis point.

The primary driver behind the decrease in the requested AFUDC rate is a decrease in the cost rates for long-term debt, common equity, and customer deposits. The cost rates of long-term debt, common equity, and customer deposits decreased from 6.81 percent to 5.61 percent, 11.25 percent to 10.25 percent, and 6.11 percent to 2.24 percent, respectively. In addition, the relative percentage of zero cost deferred income taxes in the capital structure increased from 9.47 percent to 18.20 percent, which resulted in lower relative percentages of long-term debt and common equity.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 8.16 percent to 6.47 percent is not appropriate. Instead, staff recommends that 6.46 percent is the appropriate AFUDC rate.

Issue 2: What is the appropriate monthly compounding rate to achieve the staff recommended 6.46 annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 6.46 percent is 0.523023 percent. (Buys)

Staff Analysis: Tampa Electric has requested a monthly compounding rate of 0.523810 percent to achieve an annual AFUDC rate of 6.47 percent. In support of the requested monthly compounding rate of 0.523810 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.

Based on staff's recommendation in Issue 1 to reduce Tampa Electric's requested annual AFUDC rate of 6.47 percent to 6.46 percent, the appropriate monthly compounding rate is 0.523023 percent as shown on Schedule 2. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.523023 percent be approved.

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Issue 3: Should the Commission approve Tampa Electric'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: Tampa Electric'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 does not precede the period used to calculate the rate, and therefore should be approved.

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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. (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.

**TAMPA ELECTRIC COMPANY
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFDUC RATE
 AS OF DECEMBER 31, 2013**

COMPANY AS FILED				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
LONG TERM DEBT	\$ 1,442,503,126	36.29%	5.61%	2.04%
SHORT TERM DEBT	-	0.000%	0.60% *	0.00%
CUSTOMER DEPOSITS	107,365,922	2.70%	2.24% *	0.06%
COMMON EQUITY	1,693,609,735	42.60%	10.25%	4.37%
DEFERRED INCOME TAXES	723,674,109	18.20%	0.00%	0.00%
INVESTMENT TAX CREDITS	8,177,269	0.21%	0.00%	0.00%
TOTAL	\$ 3,975,330,161	100.00%		6.47%

STAFF ADJUSTED BASIS				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
LONG TERM DEBT	\$ 1,442,503,126	36.286%	5.61%	2.036%
SHORT TERM DEBT	-	0.000%	0.60% *	0.000%
CUSTOMER DEPOSITS	107,365,922	2.701%	2.24% *	0.060%
COMMON EQUITY	1,693,609,735	42.603%	10.25%	4.367%
DEFERRED INCOME TAXES	723,674,109	18.204%	0.00%	0.000%
INVESTMENT TAX CREDITS	8,177,269	0.206%	0.00%	0.000%
TOTAL	\$ 3,975,330,161	100.00%		6.46%

* 13-MONTH AVERAGE

**TAMPA ELECTRIC COMPANY
 METHODOLOGY FOR COMPOUNDING AFUDC RATE
 AS OF DECEMBER 31, 2013**

COMPANY AS FILED

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.0000000	0.0052381	0.0052381
2	1.0052381	0.0052655	0.0105036
3	1.0105036	0.0052931	0.0157967
4	1.0157967	0.0053208	0.0211176
5	1.0211176	0.0053487	0.0264663
6	1.0264663	0.0053767	0.0318430
7	1.0318430	0.0054049	0.0372479
8	1.0372479	0.0054332	0.0426811
9	1.0426811	0.0054617	0.0481427
10	1.0481427	0.0054903	0.0536330
11	1.0536330	0.0055190	0.0591520
12	1.0591520	0.0055479	0.0647000

Annual Rate (R) = 0.0647

Monthly Rate = $((1+R)^{(1/12)}-1) = 0.0052381$

STAFF ADJUSTED BASIS

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.0000000	0.00523023	0.00523023
2	1.0052302	0.00525758	0.01048781
3	1.0104878	0.00528508	0.01577288
4	1.0157729	0.00531272	0.02108561
5	1.0210856	0.00534051	0.02642611
6	1.0264261	0.00536844	0.03179455
7	1.0317946	0.00539652	0.03719107
8	1.0371911	0.00542474	0.04261581
9	1.0426158	0.00545312	0.04806893
10	1.0480689	0.00548164	0.05355057
11	1.0535506	0.00551031	0.05906087
12	1.0590609	0.00553913	0.06460000

Annual Rate (R) = 0.0646

Monthly Rate = $((1+R)^{(1/12)}-1) = 0.00523023$