

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: May 2, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Smith II, Buys, Cicchetti) *SSA* *AB* *MC* *CR* *ALM*
Office of the General Counsel (Brownless) *MB*

RE: Docket No. 20190069-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.44% to 6.46%, effective January 1, 2019, by Duke Energy Florida, LLC d/b/a Duke Energy.

AGENDA: 05/14/19 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Duke Energy Florida LLC's (DEF or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.44 percent was approved in Order No. PSC-10-0604-PAA-EI¹ and reaffirmed in Order No. PSC-13-0598-FOF-EI.² On March 21, 2019, DEF filed a request to decrease its AFUDC rate from 7.44 percent to 6.46 percent, effective January 1, 2019. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Section 366.04, 366.05, and 366.06, F.S.

¹ Order No. PSC-10-0604-PAA-EI, issued October 4, 2010, in Docket No. 100134-EI, *In re: Review of Progress Energy Florida, Inc.'s current allowance for funds used during construction.*

² Order No. PSC-13-0598-FOF-EI, issued November 12, 2013, in Docket No. 130208-EI, *In re: Petition for limited proceeding to approve revised and restated stipulation and settlement agreement by Duke Energy Florida, Inc. d/b/a Duke Energy.*

Discussion of Issues

Issue 1: Should the Commission approve DEF's request to decrease its AFUDC rate from 7.44 percent to 6.46 percent?

Recommendation: Yes. The appropriate AFUDC rate for DEF is 6.46 percent based on a 13-month average capital structure for the period ended December 31, 2018. (Smith II)

Staff Analysis: DEF has requested a decrease in its AFUDC rate from 7.44 percent to 6.46 percent. Rule 25-6.0141(2), 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 6.46 percent, DEF provided its calculations and capital structure as Schedules A and B attached to its request. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested decrease in the AFUDC rate is due principally to a decrease of 63 basis points in the weighted cost of long term debt and a decrease of 15 basis points in the weighted cost of common equity. Customer deposits are 13 basis points lower and short-term debt is 6 basis points lower. DEF used the midpoint return on equity of 10.50 percent, which was approved by the Commission in Order No. PSC-10-0131-FOF-EI.³

Based on its review, staff believes that the requested decrease in the AFUDC rate from 7.44 percent to 6.46 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends it be approved.

³ 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. & Docket No. 090144-EI, In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc.*

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 6.46 percent annual AFUDC rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 6.46 percent is 0.523400 percent. (Smith II)

Staff Analysis: DEF requested a monthly compounding rate of 0.523400 percent to achieve an annual AFUDC rate of 6.46 percent. In support of the requested monthly compounding rate of 0.523400 percent, DEF provided its calculation 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 reviewed the Company's calculations and determined that they comply with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.523400 percent be approved.

Issue 3: Should the Commission approve DEF's requested effective date of January 1, 2019, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of January 1, 2019, for all purposes. (Smith II)

Staff Analysis: DEF's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2017. 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, 2019, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

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. (Brownless)

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.