

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: April 22, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Mathis, D. Buys, Cicchetti) *ALM*
Office of the General Counsel (Trierweiler) *JSC*

RE: Docket No. 20210046-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.07% to 6.18%, effective January 1, 2021, by Duke Energy Florida, LLC.

AGENDA: 05/04/21 – Regular Agenda – Proposed Agency Action – 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 Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.07 percent was approved by Order No. PSC-2020-0169-PAA-EI, issued May 26, 2020.¹ On February 26, 2021, DEF filed a petition for approval to change its AFUDC rate from 6.07 percent to 6.18 percent, effective January 1, 2021. As required by Rule 25-6.0141(5), Florida Administrative Code (F.A.C.), DEF filed with its petition Schedules A, B, and C identifying the capital structure, capital structure adjustments, and the methodology used to calculate the monthly AFUDC rate. 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.

¹Order No. PSC-2020-0169-PAA-EI, issued May 26, 2020, in Docket No. 20200062-EI, *In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.46% to 6.07%, effective January 1, 2020, by Duke Energy.*

Discussion of Issues

Issue 1: Should the Commission approve DEF's request to increase its AFUDC rate from 6.07 percent to 6.18 percent?

Recommendation: Yes. The appropriate AFUDC rate for DEF is 6.18 percent based on a 13-month average capital structure for the period ended December 31, 2020. (Mathis)

Staff Analysis: DEF requested an increase in its AFUDC rate from 6.07 percent to 6.18 percent. Rule 25-6.0141(3), Florida Administrative Code (F.A.C.), Allowance for Funds Used During Construction, provides the following guidance:

(3) The applicable AFUDC rate will be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, will 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 will 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 will be based on end of period cost. The annual percentage rate must be calculated to two decimal places.

In support of its requested AFUDC rate of 6.18 percent, DEF provided its calculations and capital structure in 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(3), F.A.C. The requested increase in the AFUDC rate is due principally to an increase of 5 basis points in the weighted cost of long-term debt and an increase of 10 basis points in the weighted cost of common equity, offset by a decrease of 3 basis points in the weighted cost of short-term debt. In its calculation, the Company appropriately used the mid-point return on equity of 10.50 percent, which was approved by Order No. PSC-2010-0131-FOF-EI.²

Based on its review, staff believes that the requested increase in the AFUDC rate from 6.07 percent to 6.18 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends it be approved.

²Order No. PSC-2010-0131-FOF-EI, issued March 5, 2010, in Docket No. 20090079-EI, *In re: Petition for increase in rates by Progress Energy Florida, Inc.*, and Docket No. 20090144-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 6.18 percent annual AFUDC rate?

Recommendation: The appropriate compounding rate to achieve an annual AFUDC rate of 6.18 percent is 0.005008. (Mathis)

Staff Analysis: DEF requested a monthly compounding rate of 0.005008 to achieve an annual AFUDC rate of 6.18 percent. In support of the requested monthly compounding rate of 0.005008, the Company provided its calculations in Schedule C attached to its request. Rule 25-6.0141(4), 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(4), F.A.C. Therefore, staff recommends that a monthly compounding AFUDC rate of 0.005008 be approved.

Issue 3: Should the Commission approve DEF's requested effective date of January 1, 2021, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective January 1, 2021, for all purposes. (Mathis)

Staff Analysis: DEF's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2020. Rule 25-6.0141(6), F.A.C., provides that:

No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate will 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, 2021, 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. (Trierweiler)

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.