

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 25, 2022

TO: Office of Commission Clerk (Teitzman)

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

RE: Docket No. 20220076-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.46% to 5.97%, effective January 1, 2022, by Tampa Electric Company.

AGENDA: 06/07/22 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Tampa Electric Company's (Tampa Electric or Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.46 percent was approved by Order No. PSC-14-0176-PAA-EI, issued April 18, 2014.¹ On April 14, 2022, Tampa Electric filed a petition for approval to change its AFUDC rate from 6.46 percent to 5.97 percent, effective January 1, 2022. As required by Rule 25-6.0141(5), Florida Administrative Code (F.A.C.), Tampa Electric 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

¹Order No. PSC-2014-0176-PAA-EI, issued April 18, 2014, in Docket No. 20140033-EI, *In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 8.16% to 6.46%, effective January 1, 2014, by Tampa Electric Company.*

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jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should the Commission approve Tampa Electric's request to decrease its AFUDC rate from 6.46 percent to 5.97 percent?

Recommendation: No. The appropriate AFUDC rate for Tampa Electric is 5.98 percent based on a 13-month average capital structure for the period ended December 31, 2021. (Mathis)

Staff Analysis: Tampa Electric requested a decrease in its AFUDC rate from 6.46 percent to 5.97 percent. Rule 25-6.0141(3), 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 5.97 percent, Tampa Electric 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. However, due to a rounding error involving the relative percentages of the capital structure components, the correct AFUDC rate is 5.98 percent as shown on Schedule 1. In its calculation of the capital structure 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 upward 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. 20140033-EI. In that docket, the Commission approved staff's recommended methodology and downward adjustment of one basis point.

The requested decrease in the AFUDC rate is due principally to a decrease of 60 basis points in the weighted cost of long-term debt, offset by an increase of 11 basis points in the weighted cost of common equity and an increase of 2 basis points in the weighted cost of short-term debt. In its calculation, the Company appropriately used the mid-point return on equity of 9.95 percent, which was approved by Order No. PSC-2021-0423-S-EI.²

²Order No. PSC-2021-0423-S-EI, issued November 10, 2021, in Docket No. 20210034-EI, *In re: Petition for rate increase by Tampa Electric Company*, and Docket No. 20200264-EI, *In re: Petition for approval of 2020 depreciation and dismantlement study and capital recovery schedules, by Tampa Electric Company*.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 6.46 percent to 5.97 percent is not appropriate. Alternatively, staff recommends that 5.98 percent is the appropriate AFUDC rate.

Issue 2: What is the appropriate monthly compounding rate to achieve the staff recommended 5.98 percent annual AFUDC rate?

Recommendation: The appropriate compounding rate to achieve an annual AFUDC rate of 5.98 percent is 0.004852. (Mathis)

Staff Analysis: Tampa Electric requested a monthly compounding rate of 0.004844 to achieve an annual AFUDC rate of 5.97 percent. In support of the requested monthly compounding rate of 0.004844, 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.

Based on staff's recommendation in Issue 1 to increase Tampa Electric's requested annual AFUDC rate of 5.97 percent to 5.98 percent, the appropriate monthly compounding rate is 0.004852 as shown on Schedule 2. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.004852 be approved.

Issue 3: Should the Commission approve Tampa Electric's requested effective date of January 1, 2022, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective January 1, 2022, for all purposes. (Mathis)

Staff Analysis: Tampa Electric's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2021. 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, 2022, 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. (Stiller)

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, 2021**

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	\$2,352,903,208	33.47%	4.31%	1.44%
SHORT TERM DEBT	269,093,425	3.83%	0.62% *	0.02%
CUSTOMER DEPOSITS	86,592,589	1.23%	2.39% *	0.03%
COMMON EQUITY	3,166,789,469	45.06%	9.95%	4.48%
DEFERRED INCOME TAXES	954,820,454	13.58%	0.00%	0.00%
TAX CREDITS - WC	199,246,164	2.83%	0.00%	0.00%
TOTAL	\$7,029,445,310	100.00%		5.97%
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	\$2,352,903,208	33.472%	4.31%	1.443%
SHORT TERM DEBT	269,093,425	3.828%	0.62% *	0.024%
CUSTOMER DEPOSITS	86,592,589	1.232%	2.39% *	0.029%
COMMON EQUITY	3,166,789,469	45.050%	9.95%	4.483%
DEFERRED INCOME TAXES	954,820,454	13.583%	0.00%	0.000%
TAX CREDITS - WC	199,246,164	2.834%	0.00%	0.000%
TOTAL	\$7,029,445,309	100.00%		5.98%

* 13-MONTH AVERAGE

**TAMPA ELECTRIC COMPANY
 METHODOLOGY FOR COMPOUNDING AFUDC RATE
 AS OF DECEMBER 31, 2021**

COMPANY AS FILED

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.000000	0.004844	0.004844
2	1.004844	0.004867	0.009711
3	1.009711	0.004891	0.014602
4	1.014602	0.004915	0.019517
5	1.019517	0.004939	0.024456
6	1.024456	0.004963	0.029419
7	1.029419	0.004987	0.034406
8	1.034406	0.005011	0.039417
9	1.039417	0.005035	0.044452
10	1.044452	0.005059	0.049511
11	1.049511	0.005084	0.054595
12	1.054595	0.005109	0.059704

Annual Rate (R) = 0.0597

Monthly Rate = ((1+R)^(1/12))-1 = 0.004844

STAFF ADJUSTED BASIS

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.000000	0.004852	0.004852
2	1.004852	0.004876	0.009728
3	1.009728	0.004899	0.014627
4	1.014627	0.004923	0.019550
5	1.019550	0.004947	0.024497
6	1.024497	0.004971	0.029467
7	1.029467	0.004995	0.034462
8	1.034462	0.005019	0.039482
9	1.039482	0.005044	0.044525
10	1.044525	0.005068	0.049593
11	1.049593	0.005093	0.054686
12	1.054686	0.005117	0.059803

Annual Rate (R) = 0.0598

Monthly Rate = ((1+R)^(1/12))-1 = 0.004852