

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-**

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**DATE:** January 27, 2023

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Accounting and Finance (Buys, Cicchetti, Mouring) *ALM*  
Office of the General Counsel (Dose) *JSC*

**RE:** Docket No. 20220210-EI – Petition requesting approval of an AFUDC rate, effective January 1, 2023, by Florida Public Utilities Company.

**AGENDA:** 02/08/23 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

Florida Public Utilities Company (FPUC or Company) does not currently have an authorized rate for an Allowance for Funds Used During Construction (AFUDC). On December 9, 2022, FPUC (the electric division) filed its petition requesting approval of an AFUDC rate of 6.80 percent, effective on January 1, 2023. The Company's request did not comport with the filing requirements specified in Rule 25-6.0141, Florida Administrative Code (F.A.C). On December 20, 2022, FPUC filed its amended petition requesting approval of an AFUDC rate of 6.80 percent, effective on October 1, 2022. 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.

## Discussion of Issues

**Issue 1:** Should the Commission approve FPUC's request to establish an AFUDC rate of 6.80 percent?

**Recommendation:** Yes. The appropriate AFUDC rate for FPUC is 6.80 percent based on a 13-month average capital structure for the period ended September 30, 2022. (D. Buys)

**Staff Analysis:** In its amended petition filed on December 20, 2022, FPUC requested approval of an AFUDC rate of 6.80 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 6.80 percent, FPUC provided its calculations and capital structure in Schedules A and B attached to its request. Schedule A included the 13-month average capital structure ending September 30, 2022. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(3), F.A.C. In its calculation, the Company appropriately used the mid-point return on equity of 10.25 percent, which was approved by Order No. PSC-2014-0517-S-EI.<sup>1</sup> The AFUDC rate calculation is presented in Attachment 1.

Based on its review, staff believes that the requested AFUDC rate of 6.80 percent is appropriate and should be approved

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<sup>1</sup>Order No. PSC-2014-0517-S-EI, issued September 29, 2014, in Docket No. 20140025-EI, *In re: Application for rate increase by Florida Public Service Commission*.

**Issue 2:** What is the appropriate monthly compounding rate to achieve FPUC's requested annual AFUDC of 6.80 percent?

**Recommendation:** The appropriate compounding rate to achieve an annual AFUDC rate of 6.80 percent is 0.005497. (D. Buys)

**Staff Analysis:** FPUC requested a monthly compounding rate of 0.005497 to achieve an annual AFUDC rate of 6.80 percent. In support of the requested monthly compounding rate of 0.005497, the Company provided its calculations in Schedule C attached to its request. Rule 25-6.0141(4)(a), F.A.C., provides the following formula for discounting the annual AFUDC rate to reflect monthly compounding.

$$M = [(1 + A/100)^{1/12} - 1] \times 100$$

Where: M = discounted monthly AFUDC rate

A = annual AFUDC rate

The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff reviewed the Company's calculation and determined it was derived accordance with Rule 25-6.0141(4), F.A.C. Accordingly, the appropriate monthly compounding rate is 0.005497 as shown on Attachment 2. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.005497 be approved.

**Issue 3:** Should the Commission approve FPUC's requested effective date of October 1, 2022, for implementing the AFUDC rate?

**Recommendation:** Yes. The AFUDC rate should be effective October 1, 2022, for all purposes. (D. Buys)

**Staff Analysis:** FPUC's requested AFUDC rate was calculated using the most recent 13-month average capital structure for the period ended September 30, 2022. 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 October 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. (Dose)

**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.

**FLORIDA PUBLIC UTILITIES COMPANY  
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFDUC RATE  
 AS OF SEPTEMBER 30, 2022**

<b>COMPANY AS FILED</b>				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
COMMON EQUITY	\$62,165,119	57.23%	10.25%	5.87%
LONG-TERM DEBT	25,723,579	23.68%	3.29%	0.78%
SHORT-TERM DEBT	5,278,592	4.86%	1.54%*	0.07%
CUSTOMER DEPOSITS	3,922,366	3.61%	2.29%*	0.08%
DEFERRED INCOME TAXES	11,535,009	10.62%	0.00%	0.00%
<b>TOTAL</b>	<b>\$108,624,665</b>	<b>100.00%</b>		<b>6.80%</b>

\* 13-MONTH AVERAGE

**FLORIDA PUBLIC UTILITIES COMPANY  
METHODOLOGY FOR COMPOUNDING AFUDC RATE  
AS OF SEPTEMBER 30, 2022**

**COMPANY AS FILED**

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.000000	0.005497	0.005497
2	1.005497	0.005528	0.011025
3	1.011025	0.005558	0.016583
4	1.016583	0.005589	0.022171
5	1.022171	0.005619	0.027791
6	1.027791	0.005650	0.033441
7	1.033441	0.005681	0.039122
8	1.039122	0.005712	0.044834
9	1.044834	0.005744	0.050578
10	1.050578	0.005775	0.056354
11	1.056354	0.005807	0.062161
12	1.062161	0.005839	0.068000

**Annual Rate (R) = 0.0680**

**Monthly Rate =  $((1+R)^{(1/12)})-1 = 0.005497$**