

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 23, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (D. Buys, 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: 04/04/23 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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 an amended petition requesting approval of an AFUDC rate of 6.80 percent, effective October 1, 2022. Staff filed its initial recommendation for this matter on January 27, 2023, for the February 8, 2023 Commission Conference. On February 3, 2023, the recommendation was withdrawn from the February 8, 2023 Commission Conference to allow staff more time to evaluate the Company's adjustments to the capital structure used to calculate the AFUDC rate. An informal meeting was held telephonically with FPUC, the Office of Public Counsel (OPC), and staff to resolve the concerns of the parties. On March 3, 2023, FPUC filed

revised Schedules A, B, and C in support of an AFUDC rate of 5.82 percent to be effective October 1, 2022.¹ Subsequently, FPUC realized Schedules A, B, and C, filed on March 3, 2023, did not reflect the appropriate adjustment to the accumulated deferred tax balance in the capital structure. Corrected versions of Schedules A, B, and C were submitted by FPUC to staff on March 17, 2023, reflecting an AFUDC rate of 5.12 percent.² 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.

¹Document No. 01750-2023.

²Document No. 02318-2023.

Discussion of Issues

Issue 1: Should the Commission approve FPUC's request to establish an AFUDC rate of 5.12 percent?

Recommendation: Yes. The appropriate AFUDC rate for FPUC is 5.12 percent based on a 13-month average capital structure for the period ended September 30, 2022. (D. Buys)

Staff Analysis: Based on its amended petition filed on December 20, 2022, and revised Schedules A and B submitted on March 17, 2023, FPUC requested approval of an AFUDC rate of 5.12 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 5.12 percent, FPUC provided its calculations and capital structure in Schedules A and B submitted on March 17, 2023.³ Schedule A included the 13-month average capital structure ended 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.⁴ The AFUDC rate calculation and capital structure are presented in Attachment 1.

Based on its review, staff believes that the requested AFUDC rate of 5.12 percent is appropriate and should be approved.

³Document No. 02318-2023.

⁴Order 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*.

Date: March 23, 2023

Issue 2: What is the appropriate monthly compounding rate to achieve FPUC's requested annual AFUDC of 5.12 percent?

Recommendation: The appropriate monthly compounding rate to achieve an annual AFUDC rate of 5.12 percent is 0.004170. (D. Buys)

Staff Analysis: FPUC requested a monthly compounding rate of 0.004170 to achieve an annual AFUDC rate of 5.12 percent. In support of the requested monthly compounding rate of 0.004170, the Company provided its calculations in Schedule C included in its corrected response to staff's data request submitted on March 17, 2023.⁵ 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 in accordance with Rule 25-6.0141(4), F.A.C., as presented in Attachment 2. Therefore, staff recommends that a monthly compounding AFUDC rate of 0.004170 be approved.

⁵Document No. 02318-2023.

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**

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>
COMMON EQUITY	\$42,066,879	38.73%	10.25%	3.97%
LONG-TERM DEBT	30,217,101	27.82%	3.34%	0.93%
SHORT-TERM DEBT	9,456,215	8.71%	1.66%*	0.14%
CUSTOMER DEPOSITS	3,922,366	3.61%	2.29%*	0.08%
DEFERRED INCOME TAXES	22,962,105	21.14%	0.00%	0.00%
TOTAL	\$108,624,666	100.00%		5.12%

* 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	0.004170	0.004170
2	1.004170	0.004187	0.008357
3	1.008357	0.004205	0.012561
4	1.012561	0.004222	0.016783
5	1.016783	0.004240	0.021023
6	1.021023	0.004257	0.025280
7	1.025280	0.004275	0.029556
8	1.029556	0.004293	0.033848
9	1.033848	0.004311	0.038159
10	1.038159	0.004329	0.042488
11	1.042488	0.004347	0.046835
12	1.046835	0.004365	0.051200

Annual Rate (R) = 0.0512

Monthly Rate = $((1+R)^{(1/12)})-1 = 0.004170$