

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 (Watrous) *JSC*

RE: Docket No. 20230031-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.22% to 6.37%, effective January 1, 2023, by Florida Power & Light 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 Power & Light Company's (FPL or Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.22 percent was approved by Order No. PSC-2019-0218-EI, issued June 3, 2019.¹ On March 2, 2023, FPL filed its request for approval to change its AFUDC rate from 6.22 percent to 6.37 percent, effective January 1, 2023. As required by Rule 25-6.014(5), Florida Administrative Code, (F.A.C.), FPL filed with its request 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 366.074, 366.05, and 366.06, F.S.

¹Order No. PSC-2019-0218-PAA-EI, issued June 3, 2019, in Docket No. 20190087-EI, *In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 5.97% to 6.22%, effective January 1, 2019, by Florida Power & Light Company.*

Discussion of Issues

Issue 1: Should the Commission approve FPL's request to increase its AFUDC rate from 6.22 percent to 6.37 percent?

Recommendation: Yes. The appropriate AFUDC rate for FPL is 6.37 percent based on a 13-month average capital structure for the period ended December 31, 2022. (D. Buys)

Staff Analysis: FPL requested an increase in its AFUDC rate from 6.22 percent to 6.37 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 6.37 percent, FPL 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 to an increase of 37 basis points in the weighted cost of common equity, offset by a decrease of 17 basis points in the weighted cost of long-term debt, and a decrease of 5 basis points in the weighted cost of short-term debt. In its calculation, the Company appropriately used the mid-point return on equity of 10.80 percent, which was approved by Order No. PSC-2022-0358-FOF-EI, issued October 1, 2022.² The AFUDC rate calculation and capital structure are presented in Attachment 1.

Based on its review, staff believes that the requested increase in the AFUDC rate from 6.22 percent to 6.37 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends it be approved.

²Order No. PSC-2022-0358-FOF-EI, issued October 21, 2022, in Docket No. 20210015-EI, *In re: Petition for rate increase by Florida Power & Light Company*.

Issue 2: What is the appropriate monthly compounding rate to achieve FPL's requested annual AFUDC rate of 6.37 percent?

Recommendation: The appropriate monthly compounding rate to achieve an annual AFUDC rate of 6.37 percent is 0.005159. (D. Buys)

Staff Analysis: FPL requested a monthly compounding rate of 0.005159 to achieve an annual AFUDC rate of 6.37 percent. In support of the requested monthly compounding rate of 0.005159, 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.

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

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 that it was derived in accordance with Rule 25-6.0141(4), F.A.C. as shown on Attachment 2. Therefore, staff recommends that a monthly compounding AFUDC rate of 0.005159 be approved.

Issue 3: Should the Commission approve FPL's requested effective date of January 1, 2023, for implementing the new AFUDC rate?

Recommendation: Yes. The AFUDC rate should be effective January 1, 2023, for all purposes. (D. Buys)

Staff Analysis: FPL's requested AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 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 January 1, 2023, 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. (Watrous)

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 POWER & LIGHT COMPANY
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFDUC RATE
 AS OF DECEMBER 31, 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	\$26,855,347,514	48.08%	10.80%	5.19%
LONG-TERM DEBT	17,473,378,641	31.29%	3.63%	1.14%
SHORT-TERM DEBT	807,452,438	1.45%	1.93%*	0.03%
CUSTOMER DEPOSITS	431,270,364	0.77%	2.12%*	0.02%
DEFERRED INCOME TAXES	6,310,858,685	11.30%	0.00%	0.00%
FAS 109 DEFERRED INC. TAX	3,029,951,855	5.43%	0.00%	0.00%
INVESTMENT TAX CREDITS	942,149,496	1.69%	0.00%	0.00%
TOTAL	\$55,850,408,993	100.00%		6.37%

* 13-MONTH AVERAGE

**FLORIDA POWER & LIGHT COMPANY
METHODOLOGY FOR COMPOUNDING AFUDC RATE
AS OF DECEMBER 31, 2022**

COMPANY AS FILED			
MONTHS	AFUDC BASE	MONTHLY AFUDC RATE	CUMULATIVE AFUDC RATE
1	1.000000	0.005159	0.005159
2	1.005159	0.005186	0.010345
3	1.010345	0.005213	0.015558
4	1.015558	0.005240	0.020798
5	1.020798	0.005267	0.026064
6	1.026064	0.005294	0.031358
7	1.031358	0.005321	0.036679
8	1.036679	0.005349	0.042028
9	1.042028	0.005376	0.047404
10	1.047404	0.005404	0.052808
11	1.052808	0.005432	0.058240
12	1.058240	0.005460	0.063700

Annual Rate (R) = 0.0637

Monthly Rate = $((1+R)^{(1/12)})-1 = 0.005159$