

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition requesting approval of an  
AFUDC rate, effective January 1, 2023, by  
Florida Public Utilities Company.

DOCKET NO. 20220210-EI  
ORDER NO. PSC-2023-0140-PAA-EI  
ISSUED: April 21, 2023

The following Commissioners participated in the disposition of this matter:

ANDREW GILES FAY, Chairman  
ART GRAHAM  
GARY F. CLARK  
MIKE LA ROSA  
GABRIELLA PASSIDOMO

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING AFUDC RATE FOR FLORIDA PUBLIC UTILITIES COMPANY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

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. Our 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 On February 3, 2023, the recommendation was withdrawn from the February 8, 2023 Commission Conference to allow our staff more time to evaluate the Company's adjustments to the capital structure used to calculate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 our staff to resolve the concerns of the parties. On March 3, 2023, FPUC filed revised Schedules A, B, and C<sup>1</sup> in support of an AFUDC rate of 5.82 percent to be

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<sup>1</sup> Schedule A shows the capital structure, cost rates and weighted average cost of capital that is the basis for the AFUDC rate; Schedule B shows the capital structure adjustments including the unadjusted capital structure,

effective October 1, 2022.<sup>2</sup> 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 our staff on March 17, 2023, reflecting an AFUDC rate of 5.12 percent.<sup>3</sup> We have jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

### Decision

#### I. AFUDC Rate

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.<sup>4</sup> Schedule A included the 13-month average capital structure ended September 30, 2022. We 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>5</sup> The AFUDC rate calculation and capital structure are presented in Attachment 1, attached to this Order.

Based on our review, we find that the requested AFUDC rate of 5.12 percent is appropriate and shall be approved.

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reconciling adjustments and adjusted capital structure that are the basis for the AFUDC rate; Schedule C shows the calculation of the monthly AFUDC rate.

<sup>2</sup>Document No. 01750-2023.

<sup>3</sup>Document No. 02318-2023.

<sup>4</sup>Document No. 02318-2023.

<sup>5</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*.

II. Monthly Compounding Rate

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 our staff's data request submitted on March 17, 2023.<sup>6</sup> 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.

We 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, attached hereto. Therefore, we find that a monthly compounding AFUDC rate of 0.004170 shall be approved.

III. Effective Date

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 shall be approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company's AFUDC rate of 5.12 percent based on a 13-month average capital structure for the period ending September 30, 2022 shall be approved. It is further

ORDERED that the appropriate monthly compounding rate to achieve an annual AFUDC rate of 5.12 percent shall be 0.004170. It is further

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<sup>6</sup>Document No. 02318-2023.

ORDERED that the AFUDC rate shall be effective October 1, 2022, for all purposes. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 21st day of April, 2023.



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ADAM J. FEITZMAN  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 12, 2023.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

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

| <b>COMPANY AS FILED</b>          |  |                                 |                                   |  |
|----------------------------------|--|---------------------------------|-----------------------------------|--|
| <b><u>CAPITAL COMPONENTS</u></b> | <b><u>JURISDICTIONAL<br/>AVERAGE</u></b> | <b><u>CAPITAL<br/>RATIO</u></b> | <b><u>COST OF<br/>CAPITAL</u></b> | <b><u>WEIGHTED<br/>COST OF<br/>CAPITAL</u></b> |
| 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%  |
| <b>TOTAL</b>                     | <b>\$108,624,666</b>                     | <b>100.00%</b>                  |                                   | <b>5.12%</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<br/>AFUDC RATE</u> | <u>CUMULATIVE<br/>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**