

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: October 29, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Salnova, Springer) *JS NS MAS*
Office of the General Counsel (Young) *ALM*

RE: Docket No. 090446-EI – Request for approval of change rate used to account for allowance funds used during construction (AFUDC) from 7.79% to 8.17%, effective May 1, 2009, by Tampa Electric Company.

AGENDA: 11/10/09 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090446.RCM.DOC

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 COMMISSION
 CLERK

Case Background

Tampa Electric Company's (TECO or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.79 percent was approved in Order No. PSC-95-1229-FOF-EI, issued October 3, 1995, in Docket No. 950621-EI, In re: Request for approval to change allowance for funds used during construction (AFUDC) from 7.28% to 7.79% effective 1/1/95 by Tampa Electric Company. By letter dated September 10, 2009, TECO requests that its AFUDC rate be increased from 7.79 percent to 8.17 percent to reflect its current capital structure and cost rates. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

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Discussion of Issues

Issue 1: Should the Commission approve TECO's request to increase its AFUDC rate from 7.79 percent to 8.17 percent?

Recommendation: No. The appropriate AFUDC rate for TECO is 8.16 percent based on a 13-month average capital structure for the period ending April 30, 2009. (Slemkewicz, Springer, Salnova)

Staff Analysis: TECO has requested an increase in its AFUDC rate from 7.79 percent to 8.17 percent. Rule 25-6.0141, Florida Administrative Code (F.A.C.), Allowance for Funds Used During Construction, provides the following guidance:

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall 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 shall 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 shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

In support of the requested AFUDC rate of 8.17 percent, TECO provided its calculations and capital structure as Schedules A and B attached to its petition. Staff reviewed these calculations and determined that the requested rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. However, due to a rounding error involving the relative percentage of common equity, the correct AFUDC rate is 8.16 percent as shown on Schedule 1. The primary driver behind the increase in the requested AFUDC rate is an increase in the relative percentage of long-term debt in the capital structure. The factors contributing to the relative increase in the percentage of long-term debt are an increase in the absolute amount of long-term debt and a decrease in the relative percentages of deferred taxes and investment tax credits in the capital structure. In addition, the capital structure relied upon to determine the current AFUDC rate included preferred stock and short-term debt while the capital structure for the requested AFUDC rate includes neither of these relatively lower cost capital components. Finally, the upward pressure on the AFUDC rate due to the factors discussed above is partially offset by a decrease in the cost rates of common equity and long-term debt.

Based on its review, staff believes that the requested increase in the AFUDC rate from 7.79 percent to 8.17 percent is not appropriate. Instead, staff recommends that 8.16 percent is the appropriate AFUDC rate.

Issue 2: What is the appropriate monthly compounding rate to achieve the staff recommended 8.16 percent annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 8.16 percent is 0.655820 percent. (Slemkewicz, Salnova, Springer)

Staff Analysis: TECO has requested a monthly compounding rate of 0.656600 percent to achieve an annual AFUDC rate of 8.17 percent. In support of the requested monthly compounding rate of 0.656600 percent, TECO provided its calculations as Schedule C attached to its request. Rule 25-6.0141(3), 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 reduce TECO's requested annual AFUDC rate of 8.17 percent to 8.16 percent, the appropriate monthly compounding rate is .655820 percent as shown on Schedule 2. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.655820 percent be approved.

Issue 3: Should the Commission approve TECO's requested effective date of May 1, 2009, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC should be effective as of May 1, 2009, for all purposes except for Rule 25-6.0423, F.A.C., Nuclear or Integrated Gasification Combined Cycle Power Plant Cost Recovery. For the purposes of Rule 25-6.0423, F.A.C., 7.79 percent is the appropriate AFUDC rate to be utilized for computing carrying costs for power plant need petitions submitted on or before December 31, 2010. (Slemkewicz)

Staff Analysis: TECO's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending April 30, 2009. Rule 25-6.0141(5), F.A.C., provides that:

The new AFUDC rate shall 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 May 1, 2009, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

Rule 25-6.0423(5)(b)1, Nuclear or Integrated Gasification Combined Cycle Power Plant Cost Recovery, F.A.C., states the following:

For power plant need petitions submitted on or before December 31, 2010, the associated carrying costs shall be computed based on the pretax AFUDC rate in effect on June 12, 2007.

TECO's current AFUDC rate of 7.79 percent was approved¹ with an effective date of January 1, 1995, and was in effect on June 12, 2007. For the purposes of Rule 25-6.0423, F.A.C., 7.79 percent is the appropriate AFUDC rate to be utilized for computing carrying costs for power plant need petitions submitted on or before December 31, 2010.

¹ Order No. PSC-95-1229-FOF-EI, issued October 3, 1995, in Docket No. 950621-EI, In re: Request for approval to change allowance for funds used during construction (AFUDC) from 7.28% to 7.79% effective 1/1/95 by Tampa Electric Company.

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. (Young)

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
 DOCKET NO. 090446-EI
 BASIS FOR THE REQUESTED AFDUC RATE
 FPSC ADJUSTED BASIS
 APRIL, 2009**

SCHEDULE 1

Company As Filed

<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>AFDUC WEIGHTED COMPONENTS</u>
LONG TERM DEBT	\$ 1,370,916,433	41.45%	6.81%	2.82%
SHORT TERM DEBT	-	0.000%	2.72% *	0.00%
PREFERRED STOCK	-	0.000%	0.00%	0.00%
CUSTOMER DEPOSITS	94,789,129	2.87%	6.11% *	0.18%
COMMON EQUITY	1,518,259,773	45.92%	11.25%	5.17%
DEFERRED INCOME TAX	313,334,952	9.47%	0.00%	0.00%
INVESTMENT TAX CREDITS	9,718,779	0.29%	0.00%	0.00%
TOTAL	\$ 3,307,019,066	100.00%		8.17%

* 13-MONTH AVERAGE

Staff Adjusted

<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>AFDUC WEIGHTED COMPONENTS</u>
LONG TERM DEBT	\$ 1,370,916,433	41.4547%	6.81%	2.823%
SHORT TERM DEBT	-	0.0000%	2.72% *	0.000%
PREFERRED STOCK	-	0.0000%	0.00%	0.000%
CUSTOMER DEPOSITS	94,789,129	2.8663%	6.11% *	0.175%
COMMON EQUITY	1,518,259,773	45.9102%	11.25%	5.165%
DEFERRED INCOME TAX	313,334,952	9.4748%	0.00%	0.000%
INVESTMENT TAX CREDITS	9,718,779	0.2939%	0.00%	0.000%
TOTAL	\$ 3,307,019,066	100.00%		8.16%

* 13-MONTH AVERAGE

TAMPA ELECTRIC COMPANY
 DOCKET NO. 090446-EI
METHODOLOGY FOR COMPOUNDING AFUDC RATE

PER TAMPA ELECTRIC COMPANY

Time Period	(\$) AFUDC Expenditures	(\$) AFUDC Base	(\$) Monthly AFUDC	(\$) Cumulative AFUDC
1	1.0	1.000000	0.0065660	0.0065660
2			0.0066091	0.0131750
3			0.0066525	0.0198275
4			0.0066961	0.0265236
5			0.0067401	0.0332637
6			0.0067844	0.0400481
7			0.0068289	0.0468770
8			0.0068737	0.0537507
9			0.0069189	0.0606696
10			0.0069643	0.0676339
11			0.0070100	0.0746439
12			0.0070561	0.0817000

Annual Rate (R) = .0817
 Monthly Rate = $((1 + R)^{(1/12)} - 1) = .0065660$

STAFF ADJUSTED

Time Period	(\$) AFUDC Expenditures	(\$) AFUDC Base	(\$) Monthly AFUDC	(\$) Cumulative AFUDC
1	1.0	1.000000	0.0065582	0.0065582
2			0.0066012	0.0131594
3			0.0066445	0.0198039
4			0.0066881	0.0264920
5			0.0067319	0.0332239
6			0.0067761	0.0400000
7			0.0068205	0.0468205
8			0.0068653	0.0536858
9			0.0069103	0.0605961
10			0.0069556	0.0675517
11			0.0070012	0.0745529
12			0.0070471	0.0816000

Annual Rate (R) = .0816
 Monthly Rate = $((1 + R)^{(1/12)} - 1) = .0065582$