

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 27, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Springer) *JS*
Office of the General Counsel (Young) *CRS*
ALM *MSB* *MCB for* *by*

RE: Docket No. 080106-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.48% to 7.65%, effective January 1, 2008, by Gulf Power Company.

AGENDA: 04/08/08 – 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\080106.RCM.DOC

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Case Background

Gulf Power Company's (GPC or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.48 percent was approved in Order No. PSC-03-0497-PAA-EI, issued April 16, 2003, in Docket No. 030249-EI, In re: Request for approval to change allowance for funds used during construction (AFUDC) rate from 7.35% to 7.48%, effective 1/1/03, by Gulf Power Company. By letter dated February 19, 2008, GPC requests that its AFUDC rate be increased from 7.48 percent to 7.65 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.

DOCUMENT NUMBER-DATE

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Discussion of Issues

Issue 1: Should the Commission approve GPC's request to increase its AFUDC rate from 7.48 percent to 7.65 percent?

Recommendation: Yes. The appropriate AFUDC rate for GPC is 7.65 percent based on a 13-month average capital structure for the period ending December 31, 2007. (Slemkewicz, Springer)

Staff Analysis: GPC has requested an increase in its AFUDC rate from 7.48 percent to 7.65 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 7.65 percent, GPC provided its calculations and capital structure as Schedules A and B attached to its request. Staff reviewed these calculations and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested increase is due principally to an increase in the amount of common equity, slightly offset by an increase in the amount of cost-free deferred taxes and a lower cost rate for long-term debt.

Based on its review, staff believes that the requested increase in the AFUDC rate from 7.48 percent to 7.65 percent is appropriate and recommends that it be approved.

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Issue 2: What is the appropriate monthly compounding rate to achieve the requested 7.65 percent annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 7.65 percent is 0.616183 percent. (Slemkewicz, Springer)

Staff Analysis: GPC has requested a monthly compounding rate of 0.616183 percent to achieve an annual AFUDC rate of 7.65 percent. In support of the requested monthly compounding rate of 0.616183 percent, GPC 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.

Staff has reviewed the Company's calculations and has determined that they are in compliance with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.616183 percent be approved.

Issue 3: Should the Commission approve GPC's requested effective date of January 1, 2008, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC should be effective as of January 1, 2008, 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., 7.48 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: GPC's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending December 31, 2007. 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 January 1, 2008, 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.

GPC's current AFUDC rate of 7.48 percent was approved¹ with an effective date of January 1, 2003, and was in effect on June 12, 2007. For the purposes of Rule 25-6.0423, F.A.C., 7.48 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-03-0497-PAA-EI, issued April 16, 2003, in Docket No. 030249-EI, In re: Request for approval to change allowance for funds used during construction (AFUDC) rate from 7.35% to 7.48%, effective 1/1/03, by Gulf Power Company.

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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.