

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 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.

DOCKET NO. 090446-EI
ORDER NO. PSC-09-0798-PAA-EI
ISSUED: December 2, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
NANCY ARGENZIANO
NATHAN A. SKOP
DAVID E. KLEMENT

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING CHANGE IN RATE FOR ALLOWANCE
FOR FUNDS USED DURING CONSTRUCTION

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

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 to reflect its current capital structure and cost rates. 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.

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.

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FPSC-COMMISSION CLERK

(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. We 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 the attached 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 our review, the requested increase in the AFUDC rate from 7.79 percent to 8.17 percent is not appropriate. Instead, we find that 8.16 percent is the appropriate AFUDC rate.

Additionally, 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 our decision to reduce TECO's requested annual AFUDC rate of 8.17 percent to 8.16 percent, the appropriate monthly compounding rate is 0.655820 percent, as shown on Schedule 2, a copy of which is attached. Therefore, we approve a discounted monthly AFUDC rate of 0.655820 percent.

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. Therefore, we approve it.

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company's request for an increase in the AFUDC rate is hereby approved effective May 1, 2009. It is further

ORDERED that Tampa Electric Company's AFUDC rate shall be increased from 7.79 percent to 8.16 percent for the reasons set forth herein. It is further

ORDERED that Tampa Electric Company's discounted monthly AFUDC rate shall be changed to 0.655820 percent. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of this order, this docket shall be closed upon the issuance of a consummating order.

By ORDER of the Florida Public Service Commission this 2nd day of December, 2009.



ANN COLE
Commission Clerk

(S E A L)

KY

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.

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 December 23, 2009.

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.

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

SCHEDULE 1

<u>Company As Filed</u>	<u>JURISDICTIONAL</u>	<u>CAPITAL</u>	<u>COST OF</u>	<u>AFDUC WEIGHTED</u>
<u>CAPITAL COMPONENTS</u>	<u>AVERAGE</u>	<u>RATIO</u>	<u>CAPITAL</u>	<u>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

<u>COMMISSION ADJUSTED</u>	<u>JURISDICTIONAL</u>	<u>CAPITAL</u>	<u>COST OF</u>	<u>AFDUC WEIGHTED</u>
<u>CAPITAL COMPONENTS</u>	<u>AVERAGE</u>	<u>RATIO</u>	<u>CAPITAL</u>	<u>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 = $((1 + R)^{(1/12)}) - 1 = .0065660$

COMMISSION 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 = $((1 + R)^{(1/12)}) - 1 = .0065582$