

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.65% to 6.26%, effective May 1, 2012, by Gulf Power Company.

DOCKET NO. 120179-EI  
ORDER NO. PSC-12-0482-PAA-EI  
ISSUED: September 19, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman  
LISA POLAK EDGAR  
ART GRAHAM  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING GULF POWER COMPANY'S REQUESTED DECREASE 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.).

Gulf Power Company's (Gulf or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.65 percent was approved in Order No. PSC-08-0263-PAA-EI.<sup>1</sup> We have jurisdiction over this matter pursuant to Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

By letter dated June 25, 2012, Gulf requested that its AFUDC rate be decreased from 7.65 percent to 6.26 percent, effective May 1, 2012, to reflect its current capital structure and cost rates. Rule 25-6.0141, F.A.C., Allowance for Funds Used During Construction, provides the following guidance:

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

<sup>1</sup> See Order No. PSC-08-0263-PAA-EI, issued April, 28, 2008, in Docket No. 080106-EI, In re: Request for approval to capitalize allowance for funds used during construction (AFUDC) from 7.48% to 7.65%, effective January 1, 2008, by Gulf Power Company.

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(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 6.26 percent, Gulf provided its calculations and capital structure as Schedules A and B attached to its request. We reviewed these calculations and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested decrease is due principally to a reduction in both the cost rate and the relative percentage of common equity and preferred stock in the capital structure. In particular, the weighted cost of common equity decreased from 5.09 percent to 3.88 percent, and the weighted cost of preferred stock decreased from 0.38 percent to 0.21 percent. A reduction in the cost rate for long-term debt also contributed to the decrease in the AFUDC rate.

Based on our review, we find that the requested decrease in the AFUDC rate from 7.65 percent to 6.26 percent is appropriate and is approved.

Gulf requested a monthly compounding rate of 0.507272 percent to achieve an annual AFUDC rate of 6.26 percent. In support of the requested monthly compounding rate of 0.507272 percent, Gulf 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.

We reviewed the Company's monthly compounding rate of 0.507272 percent and agree that Gulf's calculations are in compliance with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, we approve Gulf's discounted monthly AFUDC rate of 0.507272 percent.

Gulf requested that its revised AFUDC be effective as of May 1, 2012. Gulf's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending April 30, 2012. 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, 2012, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore is approved, except as follows.

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.

Gulf's AFUDC in effect on June 12, 2007 was 7.48 percent.<sup>2</sup> For the purpose 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.

Based on the foregoing, the revised AFUDC shall be effective as of May 1, 2012, 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the rate for Gulf Power Company's Allowance for Funds Used During Construction for all purposes except nuclear or integrated gasification combined cycle power plants shall be 6.26 percent, effective May 1, 2012. It is further

ORDERED that Gulf Power Company's monthly compounding rate shall be 0.507272 percent. 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.

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<sup>2</sup> See 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 ORDER of the Florida Public Service Commission this 19th day of September, 2012.



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ANN COLE  
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.

LCB

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 October 10, 2012.

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.