

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: July 20, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (McGowan, D. Buys) *ALM*
Office of the General Counsel (Brownless) *JSC*

RE: Docket No. 20230075-GU – Request for approval of an AFUDC rate for natural gas division, effective April 1, 2023, by Florida Public Utilities Company.

AGENDA: 08/01/23 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Florida Public Utilities Company (FPUC or Company) does not currently have an authorized rate for an Allowance for Funds Used During Construction (AFUDC) pertaining to its Gas Division. On June 6, 2023, FPUC filed its petition requesting approval of an AFUDC rate of 5.70 percent, effective April 1, 2023. As required by Rule 25-7.0141(5), Florida Administrative Code (F.A.C.), FPUC filed with its request Schedules A, B, and C identifying the capital structure, capital structure adjustments, and the methodology used to calculate the monthly AFUDC rate. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should the Commission approve FPUC's request to establish an AFUDC rate of 5.70 percent?

Recommendation: Yes. The appropriate AFUDC rate for FPUC is 5.70 percent based on a 13-month average capital structure for the period ended March 31, 2023. (McGowan)

Staff Analysis: FPUC filed a petition requesting approval of an AFUDC rate of 5.70 percent. Rule 25-7.0141(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 5.70 percent, FPUC provided its calculations and capital structure in Schedules A and B attached to its request. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-7.0141(3), F.A.C. In Schedule A, the Company appropriately used the mid-point return on equity of 10.25 percent, which was approved by Order No. PSC-2023-0103-FOF-GU.¹ The AFUDC rate calculation and capital structure are presented in Attachment 1.

Based on its review, staff believes that the requested AFUDC rate of 5.70 percent is appropriate and should be approved.

¹Order No. PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.*

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Issue 2: What is the appropriate monthly compounding rate to achieve FPUC's requested annual AFUDC of 5.70 percent?

Recommendation: The appropriate monthly compounding rate to achieve an annual AFUDC rate of 5.70 percent is 0.004630. (McGowan)

Staff Analysis: FPUC requested a monthly compounding rate of 0.004630 to achieve an annual AFUDC rate of 5.70 percent. In support of the requested monthly compounding rate of 0.004630, the Company provided its calculations in Schedule C attached with its request. Rule 25-7.0141(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.

Staff reviewed the Company's calculation and determined it was derived in accordance with Rule 25-7.0141(4), F.A.C., as presented in Attachment 2. Therefore, staff recommends that a monthly compounding AFUDC rate of 0.004630 be approved.

Date: July 20, 2023

Issue 3: Should the Commission approve FPUC's requested effective date of April 1, 2023, for implementing the AFUDC rate?

Recommendation: Yes. The AFUDC rate should be effective April 1, 2023, for all purposes. (McGowan)

Staff Analysis: FPUC's requested AFUDC rate was calculated using the most recent 13-month average capital structure for the period ended March 31, 2023. Rule 25-7.0141(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 April 1, 2023, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore, should be approved.

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. (Brownless)

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.

**FLORIDA PUBLIC UTILITIES COMPANY
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFUDC RATE
 AS OF MARCH 31, 2023**

COMPANY AS FILED				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
COMMON EQUITY	\$189,343,425	42.33%	10.25%	4.34%
LONG-TERM DEBT	140,420,661	31.39%	3.09%	0.97%
SHORT-TERM DEBT	37,581,090	8.40%	3.94%*	0.33%
CUSTOMER DEPOSITS	11,325,124	2.53%	2.34%*	0.06%
DEFERRED INCOME TAXES	68,636,012	15.34%	0.00%	0.00%
TOTAL	\$447,306,312	100.00%		5.70%

* 13-MONTH AVERAGE

**FLORIDA PUBLIC UTILITIES COMPANY
METHODOLOGY FOR COMPOUNDING AFUDC RATE
AS OF MARCH 31, 2023**

COMPANY AS FILED

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.000000	0.004630	0.004630
2	1.004630	0.004652	0.009282
3	1.009282	0.004673	0.013955
4	1.013955	0.004695	0.018650
5	1.018650	0.004717	0.023367
6	1.023367	0.004738	0.028105
7	1.028105	0.004760	0.032865
8	1.032865	0.004782	0.037648
9	1.037648	0.004805	0.042452
10	1.042452	0.004827	0.047279
11	1.047279	0.004849	0.052128
12	1.052128	0.004872	0.057000

Annual Rate (R) = 0.0570

Monthly Rate = $((1+R)^{(1/12)})-1 = 0.004630$