

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 24, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Brinkley, Lester)
Office of the General Counsel (Jaeger)

RE: Docket No. 050153-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.29% to 7.42%, effective January 1, 2005, by Florida Power & Light Company.

AGENDA: 04/05/05 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050153.RCM.DOC

Case Background

Florida Power & Light Company's (FPL or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 7.29% was approved in Order No. PSC-04-0416-PAA-EI, issued April 22, 2004, in Docket No. 040180-EI, In re: Request for approval to change rate used to capitalize allowance for funds used during construction (AFUDC) from 7.84% to 7.29%, effective 1/01/04, by Florida Power & Light Company. By letter dated February 25, 2005, FPL requests that its AFUDC rate be increased from 7.29% to 7.42% 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.

Discussion of Issues

Issue 1: Should the Commission approve FPL's request to increase its AFUDC rate from 7.29% to 7.42%?

Recommendation: Yes. The appropriate AFUDC rate for FPL is 7.42% based on a 13-month average capital structure for the period ending December 31, 2004. (Brinkley, Lester)

Staff Analysis: FPL has requested an increase in its AFUDC rate from 7.29% to 7.42%. In support of the new rate, FPL 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, Florida Administrative Code. The requested increase is due principally to an increase in the weighted cost of long-term debt and common equity, somewhat offset by a reduction in the weighted cost of preferred stock.

Based on its review, staff believes that the requested increase in the AFUDC rate from 7.29% to 7.42% is appropriate and recommends that it should be approved.

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 7.42% annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 7.42% is 0.598251%. (Brinkley)

Staff Analysis: Schedule C attached to FPL's request shows the formula used by FPL to discount the annual rate of 7.42% to reflect the effects of compounding monthly. According to the company's calculation, the monthly compounding rate to achieve an annual AFUDC rate of 7.42% is 0.5982507%.

According to Rule 25-6.0141(2)(b), Florida Administrative Code, "the annual percentage rate shall be calculated to two decimal places." The discounted monthly AFUDC rate is then calculated to six decimal places in order to arrive at the annual AFUDC rate to two decimal places. Using the methodology in Rule 25-6.0141(3), Florida Administrative Code, staff recalculated and recommends that a discounted monthly AFUDC rate of 0.598251% be approved.

Issue 3: Should the Commission approve Florida Power & Light Company's requested effective date of January 1, 2005, for implementing the revised AFUDC rate?

Recommendation: Yes. (Brinkley)

Staff Analysis: FPL's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending December 31, 2004. Pursuant to Rule 25-6.0141(5), Florida Administrative Code, "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, 2005, complies with the requirement that the effective date not precede the period used to calculate the rate and should be approved.

Issue 4: Should this docket be closed?

Recommendation: Yes, this docket should be closed upon issuance of a Consummating Order, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action order. (Jaeger)

Staff Analysis: Yes, this docket should be closed upon issuance of a Consummating Order, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action order.