

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 7.48% to 7.65%, effective January 1, 2008, by Gulf Power Company.

DOCKET NO. 080106-EI
ORDER NO. PSC-08-0263-PAA-EI
ISSUED: April 28, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING AFUDC RATE

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

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 has requested that its AFUDC rate be increased from 7.48 percent to 7.65 percent 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.

Discussion

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.), AFUDC, provides the following guidance:

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

DOCUMENT NUMBER-DATE

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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 7.65 percent, GPC provided its calculations and capital structure as Schedules A and B attached to its request. We have reviewed the calculations, and have 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 our review, we believe that the requested increase in the AFUDC rate from 7.48 percent to 7.65 percent is appropriate, and we therefore approve GPC's request.

GPC also 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.

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

Additionally, GPC requested an effective date of January 1, 2008, for implementing the revised AFUDC rate. 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 proceed the period used to calculate the rate, and therefore it shall 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that GPC's requested increase in the AFUDC rate from 7.48 percent to 7.65 percent shall be approved. It is further

ORDERED that GPC's discounted monthly AFUDC rate of 0.616183 percent shall be approved. It is further

ORDERED that the Company's requested effective date of January 1, 2008 shall be approved. 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.

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.

By ORDER of the Florida Public Service Commission this 28th day of April, 2008.



ANN COLE
Commission Clerk

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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 May 19, 2008.

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.