

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-**

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**DATE:** April 23, 2020

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Accounting and Finance (Richards, D. Buys, Cicchetti) *MC ALM*  
Office of the General Counsel (Trierweiler) *JC*

**RE:** Docket No. 20200062-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.46% to 6.07%, effective January 1, 2020, by Duke Energy.

**AGENDA:** 05/05/20 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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### Case Background

Duke Energy Florida, LLC's (DEF or Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.46 percent was approved on June 3, 2019 by Order No. PSC-2019-0219-PAA-EI.<sup>1</sup> On February 26, 2020, DEF filed the required schedules and requested a decrease in its AFUDC rate from 6.46 percent to 6.07 percent, effective January 1, 2020. 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.

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<sup>1</sup>Order No. PSC-2019-0219-PAA-EI, issued June 3, 2019, in Docket No. 20190069-EI, *In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.44% to 6.46%, effective January 1, 2019, by Duke Energy Florida, LLC d/b/a Duke Energy.*

## Discussion of Issues

**Issue 1:** Should the Commission approve DEF's request to decrease its AFUDC rate from 6.46 percent to 6.07 percent?

**Recommendation:** Yes. The appropriate AFUDC rate for DEF is 6.07 percent based on a 13-month average capital structure for the period ended December 31, 2019. (Richards)

**Staff Analysis:** DEF requested a decrease in its AFUDC rate from 6.46 percent to 6.07 percent. Rule 25-6.0141(2), Florida Administrative Code (F.A.C.), Allowance for Funds Used During Construction, provides the following guidance:

(2) 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 6.07 percent, DEF 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 25-6.0141(2), F.A.C. The requested decrease in the AFUDC rate is due principally to a decrease of 19 basis points in the weighted cost of long-term debt and a decrease of 31 basis points in the weighted cost of common equity. DEF used the midpoint return on equity of 10.50 percent, which was approved by Order No. PSC-2010-0131-FOF-EI.<sup>2</sup>

Based on its review, staff believes that the requested decrease in the AFUDC rate from 6.46 percent to 6.07 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends it be approved.

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<sup>2</sup>Order No. PSC-2010-0131-FOF-EI, issued March 5, 2010, in Docket No. 20090079-EI, *In re: Petition for increase in rates by Progress Energy Florida, Inc.* and Docket No. 20090144-EI, *In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc.*

**Issue 2:** What is the appropriate monthly compounding rate to achieve the requested 6.07 percent annual AFUDC rate?

**Recommendation:** The appropriate compounding rate to maintain an annual rate of 6.07 percent is 0.491920 percent. (Richards)

**Staff Analysis:** DEF requested a monthly compounding rate of 0.491920 percent to achieve an annual AFUDC rate of 6.07 percent. In support of the requested monthly compounding rate of 0.491920 percent, DEF provided its calculations in 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.

Staff reviewed the Company's calculations and determined that they comply with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.491920 percent be approved.

**Issue 3:** Should the Commission approve DEF's requested effective date of January 1, 2020, for implementing the revised AFUDC rate?

**Recommendation:** Yes. The revised AFUDC rate should be effective as of January 1, 2020, for all purposes. (Richards)

**Staff Analysis:** DEF's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2019. Rule 25-6.0141(5), 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 January 1, 2020, 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. (Trierweiler)

**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.