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Date: April 22, 2021

Issue 0

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: April 22, 2021

TO: Office of Commission Clerk (Teitzman)

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

RE: Docket No. 20210040-GU – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 5.97% to 6.00%, effective 1/1/21, by Peoples Gas System.

AGENDA: 05/04/21 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Peoples Gas System's (PGS or Company) current Allowance for Funds Used During Construction (AFUDC) rate of 5.97 percent was approved by Order No. PSC-2019-0291-PAA-GU, issued July 22, 2019.¹ On February 12, 2021, PGS filed a petition for approval to change its AFUDC rate from 5.97 percent to 6.00 percent, effective January 1, 2021. As required by Rule 25-7.0141(5), Florida Administrative Code (F.A.C.), PGS filed with its petition 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.

¹Order No. PSC-2019-0291-PAA-GU, issued July 22, 2019, in Docket No. 20190091-GU, *In re: Docket No. 20190091-GU, Petition of Peoples Gas System for Authority to Accrue AFUDC.*

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Discussion of Issues

Issue 1: Should the Commission approve PGS's request to increase its AFUDC rate from 5.97 percent to 6.00 percent?

Recommendation: Yes. The appropriate AFUDC rate for PGS is 6.00 percent based on a 13-month average capital structure for the period ended December 31, 2020. (Osorio)

Staff Analysis: PGS requested an increase in its AFUDC rate from 5.97 percent to 6.00 percent. Rule 25-7.0141(3), Florida Administrative Code (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, must be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the Company'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 will be calculated to two decimal places.

In support of its requested AFUDC rate of 6.00 percent, PGS 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. The requested increase in the AFUDC rate is due principally to an increase of 4 basis points in the weighted cost of long-term debt and an increase of 3 basis points in the weighted cost of common equity, offset by a 2 basis point decrease in the weighted cost of customer deposits. In its calculation, the Company appropriately used the mid-point return on equity of 9.90 percent, which was approved by Order No. PSC-2020-0485-FOF-GU.²

Based on its review, staff believes that the requested increase in the AFUDC rate from 5.97 percent to 6.00 percent is appropriate, consistent with Rule 25-7.0141, F.A.C., and recommends it be approved.

²Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020, in Docket No. 20200051-GU, *In re: Petition for rate increase by Peoples Gas System*, Docket No. 20200166-GU, *In re: Petition for approval of 2020 depreciation study by Peoples Gas System*, and Docket No. 20200178-GU, *In re: Petition for approval to track, record as a regulatory asset, and defer incremental costs resulting from the COVID-19 pandemic, by Peoples Gas System*.

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Issue 2: What is the appropriate monthly compounding rate to achieve the requested 6.00 percent annual AFUDC rate?

Recommendation: The appropriate compounding rate to achieve an annual AFUDC rate of 6.00 percent is 0.004868. (Osorio)

Staff Analysis: PGS requested a monthly compounding rate of 0.004868 to achieve an annual AFUDC rate of 6.00 percent. In support of the requested monthly compounding rate of 0.004868, the Company provided its calculations in Schedule C attached to its request. Rule 25-7.0141(4), 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 must be calculated to six decimal places.

Staff reviewed the Company's calculations and determined that they comply with the requirements of Rule 25-7.0141(4), F.A.C. Therefore, Staff recommends that a monthly compounding AFUDC rate of 0.004868 be approved.

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Issue 3: Should the Commission approve PGS's requested effective date of January 1, 2021, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective January 1, 2021, for all purposes. (Osorio)

Staff Analysis: PGS's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2020. 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 January 1, 2021, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

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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.