

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: January 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Galloway, Kunkler)
Office of the General Counsel (Brownless) *CH* *MS* *JSC* *WOM*

RE: Docket No. 20190183-EI – Petition for approval of a new depreciation class and for energy storage equipment, by Duke Energy Florida, LLC.

AGENDA: 02/04/20 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On September 18, 2019, Duke Energy Florida, LLC (DEF or Company) filed a request for approval of a new depreciation classification and depreciation rate for the accounting of its energy storage equipment (Petition). The Company's request is in accordance with Rule 25-6.0436(3)(b), Florida Administrative Code (F.A.C.), which requires that: "[u]pon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category."

Pursuant to Rule 25-6.0436(3)(a), F.A.C., electric utilities are required to maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts in accordance with the

Uniform System of Accounts for Public Utilities and Licensees, as found in the Code of Federal Regulations, which is incorporated by reference in Rule 25-6.014(1), F.A.C.¹

In November 2017, DEF received Commission authorization to implement a 50 megawatt (MW) battery storage pilot program (Battery Storage Pilot) pursuant to the terms of the Company's 2017 Second Revised and Restated Settlement Agreement (2017 Settlement) which resolved all issues in DEF's 2017 limited proceeding and associated dockets.²

According to DEF, the Company has not begun to install any batteries and/or storage-associated equipment with regard to the 50 MW Battery Storage Pilot Program.³ However, the Company indicated that they have tentatively scheduled four installations for 30.25 MW of the 50 MW Battery Storage Pilot Program. These installations are scheduled to begin during the fourth quarter of 2020, subject to completing a competitive procurement process for the Engineering, Procurement and Construction (EPC) of each project and receiving final interconnection study results. The Company also stated that the remaining 19.75 MW have not been scheduled at this time, but intends to have the full 50 MW Battery Storage Pilot implemented by December 31, 2021.⁴

Currently, the Company reports that it does not specifically classify nor have an authorized depreciation rate for the types of equipment required to implement its planned Battery Storage Pilot or any other energy storage endeavors.⁵ Therefore, no accounting adjustments, such as transfers of plant investments and associated book reserves, should be authorized as part of this docket.

In 2017, the Commission approved a similar petition filed by Florida Power and Light (FPL) for approval of a new depreciation class and rate for energy storage equipment. In that docket, the Commission allowed a 10 percent depreciation rate and zero net salvage for similar equipment.⁶

Staff is not aware of any public comments or concerns on this matter.

The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

¹ Code of Federal Regulations, Title 18, Subchapter C, Part 101, for Major Utilities, as revised April 1, 2013.

² Order No. PSC-2017-0451-AS-EI, issued November 20, 2017, in Docket No. 20170183-EI, *In re: Application for limited proceeding to approve 2017 second revised and restated settlement agreement, including certain rate adjustments, by Duke Energy Florida, LLC.*

³ Document No. 10655-2019, DEF's Responses to Staff's First Documents Request, No. 3.

⁴ Document No. 10655-2019, DEF's Responses to Staff's First Documents Request, Nos. 4 and 6.

⁵ Document No. 10655-2019, DEF's Responses to Staff's First Documents Request, No. 5.

⁶ Order No. PSC-16-0560-AS-EI, issued December 15, 2016, in Docket No. 160021-EI, *In re: Petition for rate increase by Florida Power & Light Company*; Docket No. 160061-EI, *In re: Petition for approval of 2016-2018 storm hardening plan, by Florida Power & Light Company.*

Discussion of Issues

Issue 1: Should the Commission establish an annual depreciation rate applicable to energy storage equipment for DEF?

Recommendation: Yes. Staff recommends that an annual depreciation rate of 10 percent applicable to DEF's energy storage equipment be approved. (Kunkler)

Staff Analysis: As outlined in its petition, DEF does not currently maintain a stand-alone classification, nor does it have a specifically-authorized depreciation rate, for investments related to energy storage. The Company is requesting authorization to record and depreciate energy storage-related investments by plant function in Federal Energy Regulatory Commission (FERC) Accounts; 348 - Energy Storage Equipment – Production, 351 - Energy Storage Equipment – Transmission, and 363 - Energy Storage Equipment – Distribution. These accounts were originally established by the FERC in 2013, by Order No. 784, with the primary purpose of accounting for energy storage investments based on how specific assets are used in providing electric service.⁷

Requested Depreciation Parameters

The Company has requested Commission approval of a 10-year average service life (ASL), and a zero percent net salvage level (NS), for depreciating its energy storage equipment. An annual depreciation rate of 10 percent is computed by using these parameters.⁸

Industry-wide depreciation data and regulatory guidance regarding energy storage equipment is limited. However, through data request responses, DEF referenced the 2017 FPL petition for similar authority to establish an annual depreciation rate for energy storage equipment.⁹ In that docket, FPL provided documentation detailing regulatory approvals of ASL and NS values similar to its proposals that are applicable to other electric utilities operating in the United States; namely, Consolidated Edison of New York (ConEd) and Pacific Gas & Electric (PG&E).¹⁰ With respect to the ConEd decision, the New York Public Service Commission authorized an ASL of either 10 or 15 years (depending on the specific project), and a zero percent NS level.¹¹ The California Public Utility Commission authorized an ASL of 15 years, and a zero percent NS level applicable to PG&E's energy storage equipment.¹²

⁷ U.S. Federal Energy Regulatory Commission, Order No. 784, issued July 18, 2013, in Docket Nos. RM11-24-000 and AD10-13-000, *In re: Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies*.

⁸ Rules 25-6.0436(1)(e) and 25-6.0436(1)(m), F.A.C., specify the Commission's depreciation rate formulae and methodologies.

⁹ Document No. 10655-2019, DEF's Responses to Staff's First Documents Request, No. 1.

¹⁰ Document No. 05395-2017, in Docket No. 20170097-EI, FPL's Responses to Staff's First Data Request, No. 8.

¹¹ State of New York Public Service Commission, Order Approving Electric and Gas Rate Plans, issued January 25, 2017, CASE 16-E-0060, *In re: Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service*.

¹² Public Utilities Commission of the State of California, Decision 17-05-013, issued May II, 2017, Application 15-09-00 I, *In re: Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January I, 2017 (U39M)*.

The Commission approved FPL's petition for approval of a new depreciation class and rate for energy storage equipment in 2017, allowing a 10 percent depreciation rate and zero net salvage for similar equipment. Additionally, to support these proposed parameters, DEF explained in response to staff's data request, that the Company held consultations with its engineering subject matter experts, as well as energy storage equipment manufacturers, and industry peers, including FPL, to arrive at the proposed 10-year ASL and zero percent NS level parameter.

Given the fact that utility-scale energy storage equipment/technology is a relatively new technology, staff believes the Company, in proposing an ASL at the bottom-end of a 10- to 15-year range represents a measured and reasonable approach in life estimation. DEF makes clear in its Petition that its request is for accounting purposes only, and will have no impact on base rates during the term of the 2017 Settlement.¹³ Staff agrees.

Further, the Commission will have future opportunities based on existing rules to evaluate DEF's depreciation data associated with useful lives and net salvage levels and to order modifications as appropriate.¹⁴ Staff also believes the Company's account classifications outlined in its petition, to which any newly-established depreciation rate would apply, comport with recent accounting guidance from the FERC.

For the reasons outlined in this analysis, staff recommends that an annual depreciation rate of 10 percent, applicable to DEF's newly-established Account 348 - Energy Storage Equipment – Production, Account 351 - Energy Storage Equipment – Transmission, and Account 363 - Energy Storage Equipment – Distribution, be approved.

¹³ Paragraph 27, 2017 Settlement Agreement.

¹⁴ Rule 25-6.0436(4)(a), F.A.C., requires investor-owned electric companies to file a depreciation study for Commission review at least once every four years from submission of the previous study and/or pursuant to Commission order.

Issue 2: If a new depreciation rate for energy storage equipment is authorized in Issue 1, what should be the effective date?

Recommendation: Staff recommends that any newly-authorized depreciation rate for energy storage equipment applicable to Account 348 - Energy Storage Equipment – Production, Account 351 - Energy Storage Equipment – Transmission, and Account 363 - Energy Storage Equipment – Distribution, become effective upon the issuance of a final Commission Order in this docket. (Kunkler)

Staff Analysis: If the Commission establishes a new depreciation rate for DEF’s energy storage equipment, applicable to Accounts 348 - Energy Storage Equipment – Production, Account 351 - Energy Storage Equipment – Transmission, and Account 363 - Energy Storage Equipment – Distribution, the effective date should be upon the issuance of a final Commission Order in this docket.

Issue 3: 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: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.