

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 Accounting and Finance (Sewards, M. Andrews, D. Buys, Mouring) *MA DBB*
Division of Economics (Hampson) *CH EJD*
Office of the General Counsel (Schrader, Lherisson) *KS JSH BE*

RE: Docket No. 20190222-EI – Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Dorian and Tropical Storm Nestor, by Duke Energy Florida, LLC. *ALM*

AGENDA: 02/04/2020 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: 03/01/2020 (Requested Implementation Date)

SPECIAL INSTRUCTIONS: None

Case Background

On December 19, 2019, Duke Energy Florida, LLC (DEF or Company) filed a petition for a limited proceeding seeking authority to recover a total of \$171.3 million for the incremental restoration costs related to Hurricane Dorian and Tropical Storm Nestor. This amount includes \$2.1 million for interest and the regulatory assessment fee gross-up. In its petition, DEF requests approval of an interim storm restoration recovery charge to commence with the first billing cycle of March 2020.

DEF filed its petition pursuant to the provisions of the Second Revised and Restated 2017 Settlement Agreement (2017 Settlement) approved by the Commission in Order No. PSC-2017-

0451-AS-EU.¹ Pursuant to the 2017 Settlement, DEF can recover storm costs, without a cap on the level of charges on customer bills, on an interim basis beginning 60 days following the filing of a petition for recovery. DEF proposes to implement an interim charge for a 12-month period effective March 2020. The interim charge results in an increase of \$5.34 per 1,000 kilowatt hour (kWh) on a residential bill.

On December 31, 2019, White Springs Agricultural Chemicals, Inc. filed a petition to intervene.² On January 7, 2020, the Office of Public Counsel filed a petition to intervene.³

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, 366.06, and 366.076, Florida Statutes.

¹ Order No. PSC-2017-0451-AS-EU, 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.*

² Document No. 00028-2020

³ Document No. 00099-2020

Discussion of Issues

Issue 1: Should the Commission authorize DEF to implement an interim storm restoration recovery charge?

Recommendation: Yes, the Commission should authorize DEF to implement an interim storm restoration recovery charge. Once the total actual storm costs are known, DEF should be required to file documentation of the total storm costs for Commission review and true-up of any excess or shortfall. (Sewards)

Staff Analysis: As stated in the Case Background, DEF filed a petition for a limited proceeding seeking authority to recover a total of \$171.3 million for the incremental restoration costs related to Hurricane Dorian and Tropical Storm Nestor. The \$171.3 million includes \$2.1 million for interest and regulatory assessment fee gross-up. The petition was filed pursuant to the provisions of the 2017 Settlement approved by the Commission in Order No. PSC-2017-0451-AS-EU. Pursuant to Paragraph 38 of the 2017 Settlement, DEF can begin recovery of storm costs, without a cap, 60 days following the filing of a petition for recovery. DEF has requested an interim storm restoration recovery charge to implement for a 12-month period, effective the first billing cycle of March 2020 and continuing through February 2021.

In its petition, DEF asserts that it incurred total retail recoverable costs of approximately \$171.3 million as a result of Hurricane Dorian and Tropical Storm Nestor. DEF further asserts that this amount was calculated in accordance with the Incremental Cost and Capitalization Approach (ICCA) methodology prescribed in Rule 25-6.0143, Florida Administrative Code.

The approval of an interim storm restoration recovery charge is preliminary in nature and is subject to refund pending further review once the total actual storm restoration costs are known. After the actual costs are reviewed for prudence and reasonableness, and are compared to the actual amount recovered through the interim storm restoration recovery charge, a determination will be made whether any over/under recovery has occurred. The disposition of any over/under recovery, and associated interest, would be considered by the Commission at a later date.

Based on a review of the information provided by DEF in its petition, staff recommends that the Commission authorize DEF to implement an interim storm restoration recovery charge, subject to refund. Once the total actual storm costs are known, DEF should be required to file documentation of the storm costs for Commission review and true-up of any excess or shortfall. Staff emphasizes that this recommendation is only for interim recovery charges and is not a confirmation or endorsement of the prudence of DEF's forecasted costs and plans. This recommendation only allows DEF to begin recovery on an interim basis in accordance with the 2017 Settlement. This interim recovery is subject to refund following a hearing or formal proceeding where the veracity and prudence of DEF's actual restoration costs can be fully vetted.

Issue 2: Should the Commission approve DEF's proposed Hurricane Dorian and Tropical Storm Nestor interim storm cost recovery surcharges and associated tariffs?

Recommendation: Yes. The Commission should approve DEF's proposed Hurricane Dorian and Tropical Storm Nestor interim storm cost recovery surcharges and associated tariffs, as effective with the first billing cycle of March 2020, subject to a final true-up. (Hampson)

Staff Analysis: DEF is seeking approval of interim storm cost recovery surcharges associated with Hurricane Dorian and Tropical Storm Nestor as shown in proposed Tariff Sheet Nos. 6.105 and 6.106 (Attachment A to this recommendation). The surcharges will be applicable to all rate classes. Tariff Sheet No 6.105 shows the proposed interim storm cost recovery surcharges and Tariff Sheet No. 6.106 defines the storm cost recovery surcharge.

DEF explains that it has allocated the storm cost recovery amount to the rate classes consistent with the rate design approved in the 2017 Settlement. The calculation is shown in Appendix A on page 6 of DEF's petition. For residential customers, the surcharge is 0.534 cents per kilowatt-hour (kWh), which equates to \$5.34 on a 1,000 kWh residential bill. The storm cost recovery surcharge will be included in the non-fuel energy charge on customer bills.

Conclusion: Staff recommends that the Commission should approve DEF's proposed Hurricane Dorian and Tropical Storm Nestor interim storm cost recovery surcharges and associated tariffs, effective with the first billing cycle of March 2020, subject to a final true-up.

Issue 3: What is the appropriate security to guarantee the amount collected subject to refund through the interim storm restoration recovery charge?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (D. Buys)

Staff Analysis: Staff recommends that all funds collected subject to refund be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed DEF's financial statements to determine if the Company can support a corporate undertaking to guarantee the funds collected for recovery of incremental storm restoration costs related to Hurricane Dorian and Tropical Storm Nestor. DEF's 2016, 2017, and 2018 financial statements were used to determine the financial condition of the Company. DEF's financial performance demonstrates adequate levels of ownership equity, profitability, and interest coverage, but marginal liquidity due to negative working capital. However, the Company participates in Duke Energy Corporation's (DEF's parent company) money pool and has access to additional funds if needed.

DEF requested a 12-month collection period from March 2020 to February 2021 for Interim Storm Cost Recovery Charges of \$171.2 million related to Hurricane Dorian and Tropical Storm Nestor. By Order No. PSC-2019-0268-PCO-EI, the Commission approved DEF's request for Interim Storm Cost Recovery Charges of \$223.5 million for recovery of costs incurred due to Hurricane Michael to be collected during a 12-month period from July 2019 to June 2020.⁴ In that Order, the Commission approved DEF's Second Implementation Stipulation whereby DEF agreed to use the annual tax reform benefits resulting from the Tax Cuts and Jobs Act of 2017 as a direct offset to avoid implementing a separate cost recovery of storm damage costs that customers would have otherwise been obligated to pay.⁵ With the addition of the Interim Storm Cost Recovery Surcharges for Hurricane Dorian and Tropical Storm Nestor in the instant docket, the cumulative interim amount subject to refund would be \$394.8 million through February 2021. However, the interim amount held subject to refund for Hurricane Michael is being offset by income tax savings and not billed to the ratepayers.

Staff believes DEF has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a corporate undertaking of \$171.2 million is acceptable. This brief financial analysis is only appropriate for deciding if the Company can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

⁴Order No. PSC-2019-0268-PCO-EI, issued July 1, 2019, in Docket No. 20190110-EI, *In re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Michael and approval of second implementation stipulation, by Duke Energy Florida, LLC.*

⁵ *Id.*

Issue 4: Should this docket be closed?

Recommendation: No, this docket should remain open pending final reconciliation of actual recoverable Hurricane Dorian and Tropical Storm Nestor storm costs with the amount collected pursuant to the interim storm restoration recovery charge. The disposition of any over or under recovery, and associated interest, should be considered by the Commission at a later date. (Schrader, Lherisson)

Staff Analysis: No, this docket should remain open pending final reconciliation of actual recoverable Hurricane Dorian and Tropical Storm Nestor storm costs with the amount collected pursuant to the interim storm restoration recovery charge. The disposition of any over or under recovery, and associated interest, should be considered by the Commission at a later date.



SECTION NO. VI
 EIGHTY-SEVENTH REVISED SHEET NO. 6.105
 CANCELS EIGHTY-SIXTH REVISED SHEET NO. 6.105

**RATE SCHEDULE BA-1
 BILLING ADJUSTMENTS**

Applicable:

To the Rate Per Month provision in each of the Company's filed rate schedules which reference the billing adjustments set forth below.

COST RECOVERY FACTORS										
Rate Schedule/Metering Level	Fuel Cost Recovery ⁽¹⁾			ECCR ⁽²⁾		CCR ⁽²⁾		ECRC ⁽⁴⁾	ASC ⁽⁵⁾	SCRS ⁽⁶⁾
	Levelized ¢/ kWh	On-Peak ¢/ kWh	Off-Peak ¢/ kWh	¢/ kWh	\$/ kW	¢/ kWh	\$/ kW	¢/ kWh	¢/ kWh	¢/ kWh
RS-1, RST-1, RSL-1, RSL-2, RSS-1 (Sec.) < 1000 > 1000	3.067 4.067	4.308	2.921	0.339	-	1.200	-	0.079	0.235	0.534
GS-1, GST-1 Secondary Primary Transmission	3.350 3.317 3.283	4.308 4.266 4.222	2.921 2.892 2.863	0.327 0.324 0.320	- - -	1.147 1.136 1.124	- - -	0.079 0.078 0.077	0.222 0.220 0.218	0.444 0.440 0.435
GS-2 (Sec.)	3.350	-	-	0.226	-	0.690	-	0.075	0.135	0.207
GSD-1, GSDT-1, SS-1* Secondary Primary Transmission	3.350 3.317 3.283	4.308 4.266 4.222	2.921 2.892 2.863	- - -	1.09 1.08 1.07	- - -	3.60 3.56 3.53	0.076 0.075 0.074	0.175 0.173 0.172	0.320 0.317 0.314
CS-1, CST-1, CS-2, CST-2, CS-3, CST-3, SS-3* Secondary Primary Transmission	3.350 3.317 3.283	4.308 4.266 4.222	2.921 2.892 2.863	- - -	0.46 0.46 0.45	- - -	1.38 1.37 1.35	0.072 0.071 0.071	0.120 0.119 0.118	0.518 0.513 0.508
IS-1, IST-1, IS-2, IST-2, SS-2* Secondary Primary Transmission	3.350 3.317 3.283	4.308 4.266 4.222	2.921 2.892 2.863	- - -	0.95 0.94 0.93	- - -	3.00 2.97 2.94	0.073 0.072 0.072	0.144 0.143 0.141	0.199 0.197 0.195
LS-1 (Sec.)	3.181	-	-	0.103	-	0.147	-	0.070	0.027	0.379
*SS-1, SS-2, SS-3 Monthly Secondary Primary Transmission Daily Secondary Primary Transmission	- - - - - - - - -	- - - - - - - - -	- - - - - - - - -	- - - - - - - - -	0.106 0.105 0.104 0.050 0.050 0.049	- - - - - -	0.349 0.346 0.342 0.166 0.164 0.163	- - - - - -	- - - - - -	- - - - - -
GSLM-1, GSLM-2	See appropriate General Service rate schedule									

(1) Fuel Cost Recovery Factor:

The Fuel Cost Recovery Factors applicable to the Fuel Charge under the Company's various rate schedules are normally determined annually by the Florida Public Service Commission for the billing months of January through December. These factors are designed to recover the costs of fuel and purchased power (other than capacity payments) incurred by the Company to provide electric service to its customers and are adjusted to reflect changes in these costs from one period to the next. Revisions to the Fuel Cost Recovery Factors within the described period may be determined in the event of a significant change in costs.

(2) Energy Conservation Cost Recovery Factor:

The Energy Conservation Cost Recovery (ECCR) Factor applicable to the Energy Charge under the Company's various rate schedules is normally determined annually by the Florida Public Service Commission for twelve-month periods beginning with the billing month of January. This factor is designed to recover the costs incurred by the Company under its approved Energy Conservation Programs and is adjusted to reflect changes in these costs from one period to the next. For time of use demand rates the ECCR charge will be included in the base demand only.

(Continued on Page No. 2)

ISSUED BY: Javier J. Portuondo, Managing Director Rates & Regulatory Strategy – FL

EFFECTIVE:



SECTION NO. VI
TWENTY-EIGHTH REVISED SHEET NO. 6.106
CANCELS TWENTY-SEVENTH REVISED SHEET NO. 6.106

Page 2 of 3

**RATE SCHEDULE BA-1
BILLING ADJUSTMENTS**
(Continued from Page 1)

(3) Capacity Cost Recovery Factor:

The Capacity Cost Recovery (CCR) Factors applicable to the Energy Charge under the Company's various rate schedules are normally determined annually by the Florida Public Service Commission for the billing months of January through December. This factor is designed to recover the cost of capacity payments made by the Company for off-system capacity and is adjusted to reflect changes in these costs from one period to the next. For time of use demand rates the CCR charge will be included in the base demand only.

(4) Environmental Cost Recovery Clause Factor:

The Environmental Cost Recovery Clause (ECRC) Factors applicable to the Energy Charge under the Company's various rate schedules are normally determined annually by the Florida Public Service Commission for the billing months of January through December. This factor is designed to recover environmental compliance costs incurred by the Company and is adjusted to reflect changes in these costs from one period to the next.

(5) Asset Securitization Charge Factor:

The Asset Securitization Charge (ASC) Factors applicable to the Energy Charge under the Company's various rate schedules represent a Nuclear Asset-Recovery Charge approved in a financing order issued to the Company by the Florida Public Service Commission and are adjusted at least semi-annually to ensure timely payment of principal, interest and financing costs of nuclear asset-recovery bonds from the effective date of the ASC until the nuclear asset-recovery bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a Special Purpose Entity (SPE) has been created and is the owner of all rights to the Nuclear Asset-Recovery Charge. The Company shall act as the SPE's collection agent or servicer for the Nuclear Asset-Recovery Charge. The Nuclear Asset-Recovery Charge shall be paid by all existing or future customers receiving transmission or distribution service from the Company or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from alternative electric suppliers following a fundamental change in regulation of public utilities in this state.

(6) Storm Cost Recovery Surcharge Factor:

In accordance with a Florida Public Service Commission ruling, the Storm Cost Recovery Surcharge (SCRS) factor is applicable to the Energy Charge under the Company's various rate schedules for the billing months of March 2020 through February 2021. This surcharge is designed to recover storm-related costs incurred by the Company related to Hurricane Dorian and Tropical Storm Nestor in 2019.

Gross Receipts Tax Factor:

In accordance with Section 203.01(1)(a)1 of the Florida Statutes, a factor of 2.5641% is applicable to electric sales charges for collection of the state Gross Receipts Tax.

Right-of-Way Utilization Fee:

A Right-of-Way Utilization Fee is applied to the charges for electric service (exclusive of any Municipal, County, or State Sales Tax) provided to customers within the jurisdictional limits of each municipal or county governmental body or any unit of special-purpose government or other entity with authority requiring the payment of a franchise fee, tax, charge, or other imposition whether in money, service, or other things of value for utilization of rights-of-way for location of Company distribution or transmission facilities. The Right-of-Way Utilization Fee shall be determined in a negotiated agreement (i.e., franchise and other agreements) in a manner which reflects the Company's payments to a governmental body or other entity with authority plus the appropriate Gross Receipts Taxes and Regulatory Assessment Fees resulting from such additional revenue. The Right-of-Way Utilization Fee is added to the charges for electric service prior to the application of any appropriate taxes.

Municipal Tax:

A Municipal Tax is applied to the charge for electric service provided to customers within the jurisdictional limits of each municipal or other governmental body imposing a utility tax on such service. The Municipal Tax shall be determined in accordance with the governmental body's utility tax ordinance, and the amount collected by the Company from the Municipal Tax shall be remitted to the governmental body in the manner required by law. No Municipal Tax shall apply to fuel charges in excess of 0.60¢/kWh.

Sales Tax:

A State Sales Tax is applied to the charge for electric service provided to all non-residential customers and equipment rental provided to all customers (unless a qualified sales tax exemption status is on record with the Company). The State Sales Tax shall be determined in accordance with the State's sales tax laws. The amount collected by the Company shall be remitted to the State in the manner required by law. In those counties that have enacted a County Discretionary Sales Surtax, such tax shall be applied and paid in a like manner. An additional tax factor is applied to the charge for electric service consistent with the applicability of State Sales Tax as described in this paragraph, in accordance with Section 203.01(1)(a)3 and (b)4 of the Florida Statutes.

(Continued on Page No. 3)

ISSUED BY: Javier J. Portuondo, Managing Director Rates & Regulatory Strategy – FL

EFFECTIVE:



SECTION NO. VI
ORIGINAL SHEET NO. 6.107

Page 3 of 3

**RATE SCHEDULE BA-1
BILLING ADJUSTMENTS**
(Continued from Page 2)

Governmental Undergrounding Fee:

Applicable to customers located in a designated Underground Assessment Area within a local government (a municipality or a county) that requires the Company to collect a Governmental Undergrounding Fee from such customers to recover the local government's costs of converting overhead electric distribution facilities to underground facilities. The Governmental Undergrounding Fee billed to a customer's account shall not exceed the lesser of (i) 15 percent of a customer's total net electric service charges, or (ii) a maximum monthly amount of \$30 for residential customers and \$50 for each 5,000 kilowatt-hour increment of consumption for commercial/industrial customers, unless the Commission approves a higher percentage or maximum monthly amount. The maximum monthly amount shall apply to each line of billing in the case of a customer receiving a single bill for multiple service points, and to each occupancy unit in the case of a master metered customer. The Governmental Undergrounding Fee shall be calculated on the customer's charges for electric service before the addition of any applicable taxes.

ISSUED BY: Javier J. Portuondo, Managing Director Rates & Regulatory Strategy – FL
EFFECTIVE: