DUKE ENERGY
FLORIDA

Matthew R. Bernier
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September 27, 2022

VIA ELECTRONIC FILING

Adam J. Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Storm Protection Plan Cost Recovery Clause;* Docket No. 20220010-EI

Dear Mr. Teitzman:

On behalf of Duke Energy Florida, LLC ("DEF"), please find enclosed for electronic filing in the above-referenced docket:

- DEF's Rebuttal Testimony of Christopher A. Menendez with Exhibit No. ___ (CAM-4); and
- DEF's Rebuttal Testimony of Brian M. Lloyd.

Thank you for your assistance in this matter. Please feel free to call me at (850) 521-1428 should you have any questions concerning this filing.

Respectfully,

s/ Matthew R. Bernier
Matthew R. Bernier

MRB/mw
Enclosures

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CERTIFICATE OF SERVICE
Docket No. 20220010-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished to the following by electronic mail this 27th day of September, 2022, to all parties of record as indicated below.

s/ Matthew R. Bernier
Attorney

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IN RE: STORM PROTECTION PLAN COST RECOVERY CLAUSE

REBUTTAL TESTIMONY OF CHRISTOPHER A. MENENDEZ

ON BEHALF OF DUKE ENERGY FLORIDA, LLC

DOCKET NO. 20220010-EI

SEPTEMBER 27, 2022

I. INTRODUCTION AND QUALIFICATIONS.

Q. Please state your name and business address.

A. My name is Christopher A. Menendez. My business address is Duke Energy Florida, LLC, 299 1st Avenue North, St. Petersburg, Florida 33701.

Q. Have you previously filed direct testimony in this docket?

A. Yes, I filed direct testimony supporting the Company's Storm Protection Plan Cost Recovery Clause ("SPPCRC") on May 2, 2022.

Q. Has your employment status and job responsibilities remained the same since discussed in your previous testimony?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to provide the Company's rebuttal to certain assertions and conclusions contained in the direct testimonies of OPC's witnesses Kollen and Mara. Mr. Lloyd will present additional rebuttal of the testimony of OPC's witness Mara.

Q. Do you have any exhibits to your testimony?

A. Yes, I am sponsoring Exhibit No. __ (CAM-4) that illustrates the significant reductions to DEF's capital investments that would result from Witness Mara's recommended reductions to DEF's revenue requirement budget in its Distribution Feeder Hardening and Lateral Hardening Programs. Also, while not attached to my testimony, I would note that on September 1, 2022, DEF filed updates to the Property Tax calculation in the Amended Exhibits Nos. _ (CAM-1), _ (CAM-2), and __ (CAM-3) which can be found on Line 8d, Property Taxes of the "Return on Capital Investments, Depreciation and Taxes" detail pages by FERC account. While DEF believes its previous calculation of property tax was reasonable, it also believes this action resolves the issue raised by OPC and satisfies its concerns of calculating property tax expense only on the plant in-service at the beginning of each year.

Q. Please summarize your testimony.

A. My testimony addresses certain assertions and conclusions contained in OPC Witness Mara's and Witness Kollen's testimonies pertaining to the issues to be decided in this docket, as governed by Rule 25-6.031, F.A.C. I have not attempted to rebut each and every factual error or misconception contained in these testimonies nor have I attempted to rebut issues more appropriately addressed in the Storm Protection Plan approval docket (Docket No. 20220050-EI).

Regarding Witness Mara's testimony, I generally focus on his argument for reducing the capital investment level for 2023, and specifically discuss the effect Paragraph 4 of DEF's 2021 Settlement Agreement in Docket No. 20210016-EI[1] has on DEF's 2023 SPPCRC investments.

Regarding Witness Kollen's testimony, I rebut two topics specifically and provide clarification to two other points:

• Address the concern regarding DEF's calculation of property tax (which DEF feels has been allayed by the revised exhibits discussed above);

• Address the improper recommendation to exclude construction work in progress ("CWIP") from the return on rate base, and instead allow a deferred return on the CWIP until it is converted to plant in service or prudently abandoned;

• Clarify DEF's position on the recommendation to require an SPPCRC credit from the cessation of depreciation expense on plant in service recovered in base rates for retirements due to SPP plant investments; and

• Clarify DEF's position on the recommendation to require an SPPCRC credit for O&M expenses recovered in base rates that may no longer will be incurred due to the SPP capital expenditure investments and O&M expenses.

[1] Approved by Final Order No. PSC-2021-0202-AS-EI.

III. REBUTTAL OF WITNESS MARA

Q. Mr. Mara states that the Commission should consider prior SPP-docket testimonies in full before setting the SPPCRC factors. Do you agree?

A. No. A complete reconsideration of all previously filed testimonies in the SPP docket as Mr. Mara suggests is improper and unnecessary. The SPP approval docket is a separate proceeding, with separate and distinct issues from the issues under consideration in this docket, and therefore the majority of the testimony in that proceeding is irrelevant to the issues to be determined in this docket. Moreover, Mr. Kollen acknowledged this separation when he discussed the Order striking portions of his testimony in the SPP docket, "The ruling delineates the issues to be addressed separately and sequentially in the SPP and SPPCRC dockets." (Kollen, p. 6, ll. 3-4). Quoting directly from the Order, Mr. Kollen noted,

> The Legislature intended that the SPP and SPPCRC hearings be bifurcated, driven by separate and distinct guidelines that are evident in the plain reading of both Rules 25-6.030 and 25-6.031, F.A.C., and Section 366.96, F.S.…The bifurcated process envisioned by the Statute creates an efficient regulatory process to encourage innovative storm protections programs. OPC's argument conflating the two ignores the plain reading of the separate and distinct guidelines for the SPP as opposed to the SPPCRC.

(Kollen, p. 6, ll. 7-21). What was true in the SPP docket is true in this docket; the dockets, though related, are nonetheless separate proceedings with distinct issues and they should remain that way.

Q. Do you agree with Witness Mara's conclusion and recommendation regarding the 2021 and 2022 True-up amounts filed by DEF?

A. Yes. While I cannot speak for the other companies' filings, DEF agrees with Mr. Mara's conclusion when he states, "I have no recommendations for the filed true-up of costs incurred or expected to be incurred in 2022 for FPL, DEF, and TECO. These costs are part of each utility's 2020 SPP. The OPC stipulated on a non-precedential basis to including the programs contained in those 2020 plans and resulting costs in the 2020 – 2022 SPPCRC only. Further, in my review of the discovery and testimony, I developed no basis for recommending exclusion of any of the 2022 costs associated with FPL's, DEF's or TECO's 2020 SPP." (Mara, p. 8, ll. 9-15).

Q. Do you agree with Witness Mara's conclusion that there should be no changes to DEF'S Capital and O&M costs projected for 2023 for those Programs that he specifically identifies in his testimony?

A. Yes. DEF agrees with Mr. Mara's recommendation, which is consistent with the Settlement Agreement approved in Order No. PSC-2021-0202A-AS-EI ("2021 Settlement Agreement"), that no changes to the 2023 SPPCRC recovery are necessary for DEF's Self-Optimizing Grid (SOG) Program, Underground Flood Mitigation, Substation Flood Mitigation, Loop Radially-Fed Substations, Substation Hardening, and portions of the Transmission Structure Hardening. The portions of the Transmission Structure Hardening Program including the Gang Operated Air Break switches, Towers Upgrades, Cathodic Protection, and

Overhead Ground Wire. However, as discussed below, paragraph 4 of the 2021 Settlement Agreement also applies to the Feeder and Lateral Hardening Programs, and that "consistency" with that Agreement must also lead to a conclusion that no reduction is appropriate for those programs. To suggest otherwise is an attack on DEF's 2021 Settlement Agreement, to which OPC is a signatory.

Q. Regarding Mr. Kollen's recommended reductions to the Feeder and Lateral Hardening Programs, can you please explain how you calculated the impacts as shown on Exhibit No. __ (CAM-4)?

A. Yes. Since the revenue requirement amounts are simply a "fallout" calculation based on the amount of capital investment and associated expenses, DEF solved for the approximate level of capital investment, and associated expenses, necessary to achieve his recommended amounts. These amounts are intended to be directional and indicative of the reductions necessary to achieve Mr. Mara's recommended cuts. Exhibit No. __ (CAM-4) illustrates the total revenue requirements for both programs, as filed by DEF on the line titled "Total Revenue Requirement." To the right, DEF included the capital investment and associated O&M expense included in the calculation of the "Total Revenue Requirement." Similarly, DEF included the recommended revenue requirement per Mr. Mara on the line titled "OPC Target." The level of capital investment and associated O&M expense necessary to achieve Mr. Mara's revenue requirement is similarly listed. Finally, variances are provided at the bottom of each table. As can be seen, the reductions are drastic, resulting in an approximate reduction of 66% in Feeder Hardening investment and

95% in Lateral Hardening investment, which combined only achieve a roughly 25% reduction in the revenue requirement for each program. Mr. Lloyd further addresses the impacts of such massive cuts to these programs.

Q. Regarding DEF's Distribution Lateral Hardening and Feeder Hardening Programs, Witness Mara recommends reduction in the 2023 projected investments and resulting recovery through the SPPCRC. Do you agree with these recommendations?

A. No, DEF disagrees entirely with Mr. Mara's recommendation. First, the 2021 Settlement Agreement affords the same treatment for DEF's Distribution Lateral and Feeder Hardening Programs. Nothing in the plain language of the Settlement calls for different treatment of these two programs versus those identified by Mr. Mara, for which he recommended no changes to the 2023 SPPCRC recovery "to be consistent" with the Settlement; indeed, the Feeder and Lateral Hardening Programs (and the Vegetation Management Programs for that matter) were "approved SPP programs ... properly recoverable through the SPP Cost Recovery Clause ('SPPCRC')" for which "DEF has properly removed all costs associated with the Storm Protection Plan ('SPP') from the costs included in DEF's MFRs [i.e., base rates]". Thus, if Mr. Mara believes consistency with the 2021 Settlement Agreement results in no recommended reduction to the programs he identified, then consistency would logically lead to the same result for the Feeder and Lateral Hardening Programs.

Second, DEF's proposed 2023 SPPCRC investments are consistent with those filed in DEF's 2023 SPP, which specifically included proposed projects for the first project year (2023) as required by Rule 25-6.030(3)(e)1., F.A.C.. Therefore, DEF believes that the Commission's decision in Docket No. 20220050-EI should be determinative in this docket. This is especially true where, as here, Mr. Mara is advancing the same argument related to inflationary pressures that he presented in the SPP docket, and which therefore the Commission will consider in its final determination in that docket. This docket should not be used as a second bite at the same apple.

Notwithstanding, Mr. Mara states, "[I]t is my belief that even though a program can provide benefits to customers, the roll out of the program should be prudent and reasonable." (Mara, p. 12, ll. 22-23). DEF agrees with that statement. Indeed, as Mr. Mara recognizes, DEF has "…developed a prioritization schedule for this work" (Mara, p. 13, l. 9) which clearly illustrates a prudent and reasonable approach to performing this work which aligns with the list of prioritized projects provided in DEF's 2023 SPP. Additionally, Mr. Mara does not suggest that the program is itself unreasonable or imprudent, rather he argues for the majority of the projects scheduled for 2023 to be delayed "until 2024." (Mara, p. 13, l. 10). As I said while responding to a line of questioning on the same topic in the SPP docket "when you decrease the investment, you are also decreasing the benefits. And while you can delay or defer investment and benefits, you cannot delay or defer the extreme weather. That extreme weather is going to come regardless." (Tr. 299).[2] For these reasons, and the reasons provided by Witness Lloyd in his rebuttal testimony in this docket, DEF strongly disagrees with the proposed reductions.

IV. WITNESS KOLLEN

Q. Do you agree with Witness Kollen's recommendation that the Commission should modify and correct the calculations of the SPPCRC revenue requirements and SPPCRC factors to exclude all SPP programs and the projected costs for 2023 that the Companies have failed to demonstrate are prudent and reasonable in this proceeding except to the extent this has been addressed through the 2021 Settlement Agreement for the years 2023 and 2024?

A. While DEF appreciates the effect of the settlement on this docket, I do not agree with the assertion that, absent that agreement, all of DEF's SPP program investments should have otherwise been excluded from recovery via the SPPCRC.

Q. Has DEF addressed the calculation of property tax expense?

A. Yes. On September 1, 2022, DEF updated the Property Tax calculation to utilize the January 1st, or beginning balance, amount in the calculation of property tax expense. DEF believes this action resolves the issue raised and satisfies OPC's concerns with regard to the calculation of property tax expense for this docket. I

[2] Docket No. 20220050-EI.

would also add that DEF continues to believe that its prior method was reasonable and permissible.

Q. Witness Kollen believes that the return on Construction Work In Progress ("CWIP") should not be included in calculation of the SPP revenue requirement, do you agree?

A. No. Mr. Kollen argues that SPP projects should not earn a return on CWIP because a current return on CWIP is not explicitly or expressly authorized in either the SPP Statute or the SPPCRC Rule; this is an incorrect view that is contradictory to traditional ratemaking and the Commission's Rules. Florida utilities are permitted to earn a return on invested capital, including CWIP; this is true in base rates as well as the other cost recovery clauses. Rule 25-6.0141, the "AFUDC Rule," addresses the return on invested capital and projects that meet that rule's eligibility requirements may earn AFUDC. Section 2 states "Construction work in progress (CWIP)... not under a lease agreement that is not included in rate base may accrue allowance for funds used during construction (AFUDC)." The AFUDC rule recognizes that projects which do not meet the AFUDC requirements will be included in rate base. For the 2023 SPPCRC, DEF's projects do not meet the requirements to accrue AFUDC; therefore, DEF has appropriately included these projects in SPPCRC rate base and the revenue requirements calculations for the 2023 SPPCRC.

Additionally, a return on CWIP is recognized in other clauses. For example, in Order No. PSC-1994-0044-FOF-EI, the Commission found that "[t]he utility's investment in plant under construction can be accounted for by either of two methods. An Allowance for Funds Used During Construction (AFUDC) may be applied to the balance to be capitalized and later recovered through depreciation charges once the plant is placed in service. When this method is chosen, the financial statements of the utility reflect income 'credits' associated with AFUDC, but the utility realizes no current cash earnings from the investment in CWIP. Alternatively, CWIP may be included as a portion of rate base. Where the latter treatment is allowed, CWIP generates cash earnings."

Further, DEF's treatment of CWIP in the 2023 SPPCRC is consistent with DEF's treatment of CWIP in the 2020 SPP and the SPPCRC filings made in 2020, 2021 and 2022. Paragraph 3(a) of the "2020 SPP/SPPCRC Agreement"[3] states that "[f]or those programs that are approved by the Commission in DEF's proposed SPP in 2020, DEF will include the Construction Work In Progress ('CWIP') balances as of January 1, 2021, as the beginning SPPCRC Rate Base balances and calculate a return on these costs from January 1, 2021, forward for cost recovery in 2021."

In summary, traditional ratemaking allows a utility to earn a return on invested capital, including CWIP; to deny this return in SPP or SPPCRC is improper ratemaking, and inconsistent with both the AFUDC Rule and the treatment for return on CWIP in other clauses.

[3] Approved in Order No. PSC-2020-0410-AS-EI (Docket No. 20200092-EI, issued Oct. 27, 2020).

Q. Witness Kollen offers alternatives to recovering a return on CWIP immediately, such as deferring CWIP either as allowance for funds used during construction ("AFUDC") or as a miscellaneous deferred debit; do you agree with either approach?

A. No. As previously stated, section 2(a) of the AFUDC Rule addresses the eligibility for a project to accrue AFUDC, and DEF's SPP projects do not meet those requirements and are thus ineligible to accrue AFUDC. Moreover, the use of miscellaneous deferred debit is wholly inappropriate and is inconsistent with the AFUDC rule. This idea of a deferred debit was discussed and rejected by Commission Staff during the SPP and SPPCRC rulemaking process and detailed in Staff's Recommendation and Analysis:[4] "Under OPC's interpretation, an IOU would incur costs in one year but couldn't request recovery of those costs until the next year's SPPCRC. If the Commission approved those costs in the SPPCRC, the utility could not begin recovering the costs until the year after. This leaves customers paying carrying costs for two years. Thus, using a cost recovery mechanism that should minimize that regulatory lag, as staff is recommending in draft Rule 25-6.031, F.A.C., should also minimize the carrying costs customers have to pay." Further in Staff's analysis, "Staff envisions the SPPCRC mirroring other Commission cost recovery clauses. In the Nuclear Cost Recovery Clause (NCRC), Energy Conservation Cost Recovery Clause (ECCR), and Environmental Cost Recovery Clause (ECRC), the Commission projects the costs the utility will

[4] *See* Docket No. 20190131-EU, Issue 1 (filed Sept. 20, 2019).

incur in the next year and sets a factor that will allow the company to recover those costs from customers as the costs are incurred." Lastly Staff states, "...allowing for the recovery of projected costs enables the IOUs to recover costs as they are incurred. This reduces regulatory lag and, ultimately, the costs passed on to customers, which is the purpose of cost recovery clauses. Staff believes IOUs will be entitled to recover carrying costs associated with the lag between when they incurred costs and when they recover them."

In summary, establishing a deferred debit, as Mr. Kollen advocates, is inappropriate and would ultimately cost customers more than if DEF recovers a return on CWIP. DEF is entitled to a return, which Mr. Kollen does not deny. Therefore, it does not make sense to establish an inappropriate recovery mechanism that will end up costing customers even more over the life of the project.

Q. Has OPC ever previously agreed that a return should be calculated on Construction Work In Progress ("CWIP") balances in the SPPCRC?

A. Yes, the 2020 SPP/SPPCRC Agreement states, "3. Rate Base Items. DEF will be permitted to seek recovery of return on capital expenditures and assets related to the SPP programs..." DEF's treatment in the current SPPCRC filings is consistent with the treatment set forth in that agreement for 2020 and 2021 SPPCRC CWIP.

Q. Mr. Kollen asserts that, "[c]osts cannot be deemed prudent or reasonable unless and until the costs are charged to specific projects, construction is

completed (or prudently abandoned), and the CWIP is converted to plant in service." Do you agree with this statement?

A. No. As stated in SPPCRC Rule 25-6.031, "[a]n annual hearing to address petitions for recovery of Storm Protection Plan costs **will be limited** to determining the **reasonableness of projected** Storm Protection Plan costs, the **prudence of actual** Storm Protection Plan costs **incurred** by the utility, and to establish Storm Protection Plan cost recovery factors consistent with the requirements of the Rule." This is consistent with the operation of the other clauses and process of filing and receiving approval of those costs. Mr. Kollen is attempting to alter this construct by adding an in-service or abandonment requirement. As established in the SPPCRC Rule and consistent with the other clauses, it is in the true-up of the previous year's actual costs where parties are permitted to challenge and the Commission ultimately determines prudence.

Q. Mr. Kollen states that DEF agrees that the depreciation expense on existing plant retired due to the implementation of the SPP Programs should be credited to the SPPCRC Revenue Requirements and reflected in the SPPCRC factors. Do you agree with this assertion that this is a requirement of the SPP Statute or the SPPCRC Rule?

A. While DEF has credited the SPPCRC Revenue Requirements for cessation of depreciation expense on plant in service recovered in base rates that is retired due to SPP plant investments, DEF does not agree that such treatment is required by either the SPP Statute or Rule 25-6.031 F.A.C., as Mr. Kollen suggests.

While DEF agreed to follow this treatment as part of the 2020 SPP/SPPCRC Agreement, DEF chose to include similar credits to depreciation expense in the current SPPCRC filings. Notwithstanding DEF's decision in this particular instance, the appropriate time to address any differences in depreciation expense would be in next base rate case or settlement.

Q. Mr. Kollen states each Company, except for DEF, failed to offset the SPP O&M expense with the savings in non-storm base O&M expense that have been or will be achieved due to the SPP programs and projects. DEF preemptively reflected these savings in the base revenue requirement in the settlement its most recent base rate case approved by the Commission in Order No. PSC-2021-0202A-AS-EI. Do you agree with this assertion that this is a requirement of the SPP or SPPCRC?

A. While I cannot speak for the other companies' filings, DEF agrees that the appropriate venue to address impacts to base rate O&M is in a base rate proceeding, such as DEF's 2021 Settlement. As DEF Witness Foster stated in Docket No. 20200069-EI:

> It is the normal process for base rate costs to change over time and this creates regulatory lag. Some costs will decrease, others will increase. The SPP Statute was not developed to address appropriate levels of costs in base rates, it was developed to facilitate investment in work that will strengthen the transmission and distribution systems from extreme weather to help reduce restoration times and costs. There is in fact already a way that the Commission monitors Florida utilities to ensure no excessive recovery is occurring. The Commission requires monthly Earnings Surveillance reports. These reports show the earned return on equity (ROE). In a rate case, the FPSC authorizes an allowed ROE for utilities. If a utility reports a ROE that is too high, the parties

> or the Commission itself may call the Utility in for a rate case. Unlike cost recovery clauses, the normal and established process for base rates involves regulatory lag.

I agree with Mr. Foster that impacts to base rate O&M are properly addressed in base rate proceedings, such as rate cases and settlements. DEF also agrees with Mr. Mara that this was properly addressed in DEF's 2021 Settlement; however, DEF does not agree that this treatment is required by either the SPP Statute or SPPCRC Rule.

Q. Do you agree with Mr. Kollen's assertion that in "conjunction with this sequential filing process and the three year SPP cycle, the Commission has three opportunities in the related three SPPCRC proceedings to assess the prudence of the SPP programs and whether the costs are prudent and reasonable. The most important of these opportunities occurs in the first year of the three year SPP cycle, in this case, the SPP programs and costs for the Companies' 2023 SPPs and their proposed SPPCRC factors for 2023. This opportunity is the most important because it occurs before the updated and new SPP programs are implemented and costs are incurred."?[5]

A. No, Mr. Kollen's contention misconstrues the clause recovery process in Florida and runs counter to the Commission's SPPCRC Rule, specifically subsection 3 of that rule. First, it's noteworthy that the Commission currently administers four other cost recovery clauses, each of which follow the same regulatory construct.

[5] Kollen, p. 8, ll. 3-10.

Utilities make true-up filings for the past year, current year actual and expected costs for the remainder of the year, and then projected costs for the coming year (which are ultimately trued-up with actuals), and then the cycle repeats itself annually. As Staff's Analysis of the proposed SPPCRC Rule indicated, "Staff envisions the SPPCRC mirroring other Commission cost recovery clauses." It is in the true-up of the previous year's actual costs where parties are permitted to challenge and the Commission ultimately determines prudence. Indeed, the section (3) of the Rule (quoted above) codified this construct. Accordingly, the Rule contemplates that the prudence review will be conducted on "actual . . . costs incurred", not costs projected to be incurred in the future. Therefore, I agree that during every three-year Plan filing cycle, the Commission will have three opportunities to review the prudence of the costs incurred, but the Rule does not envision a "before the fact" prudence review of programs/projects or their costs. Mr. Kollen's suggestion to the contrary is simply wrong.

V. CONCLUSION

Q. Mr. Menendez, your rebuttal covers a lot of ground, but did you respond to every contention regarding the Company's proposed plan in your rebuttal?

A. No. Intervenor testimony on the SPPCRC involved many pages of testimony, much of which related to Rule 25-6.030 and was not relevant to this docket, nor could I reasonably respond to every single statement or assertion and, therefore, I focused on the issues that I thought were most germane to this docket. As a result, my silence on any particular assertion in the intervenor testimony should not be read as agreement with or consent to that assertion.

I specifically did not challenge many of Messrs. Mara or Kollen's suggestions or recommendations related to the inclusion of SPP Programs, again not because I agree with them, but rather I believe those concerns were matters for the SPP docket and not appropriate for consideration or argument at this time.

Q. Does this conclude your testimony?

A. Yes.

Feeder Hardening			
DEF 2023 SPP	**Rev Req**	**Capital ($M)**	**O&M ($M)**
Feeder Hardening		**142.7**	**2.7**
Capital	$ 17,178,180		
O&M	$ 2,711,705		
Total Revenue Requirement	**$ 19,889,885**		
OPC TARGET	**$ 14,917,413**	**49.1**	**1.0**
Variance	**$ (4,972,472)**	**(93.6)**	**(1.7)**
Reduction	**-25%**	**-66%**	**-63%**

Lateral Hardening Overhead and Lateral Hardening Underground			
DEF 2023 SPP	**Rev Req**	**Capital ($M)**	**O&M ($M)**
Lateral Hardening OH		**41.7**	**0.8**
Capital	$ 9,047,481		
O&M	$ 754,463		
Revenue Requirement	**$ 9,801,944**		
	Rev Req	**Capital ($M)**	**O&M ($M)**
Lateral Hardening UG		**118.7**	**1.4**
Capital	$ 14,243,541		
O&M	$ 1,429,866		
Revenue Requirement	**$ 15,673,407**		
	Rev Req	**Capital ($M)**	**O&M ($M)**
Lateral Hardening TOTAL		**160.3**	**2.2**
Capital	**$ 23,291,022**		
O&M	**$ 2,184,329**		
Total Revenue Requirement	**$ 25,475,351**		
OPC TARGET	**$ 19,326,128**	**7.7**	**0.4**
Variance	**$ (6,149,223)**	**(152.6)**	**(1.8)**
Reduction	**-24%**	**-95%**	**-83%**

IN RE: STORM PROTECTION PLAN COST RECOVERY CLAUSE

REBUTTAL TESTIMONY OF BRIAN M. LLOYD

ON BEHALF OF DUKE ENERGY FLORIDA, LLC

DOCKET NO. 20220010-EI

SEPTEMBER 27, 2022

I. INTRODUCTION AND QUALIFICATIONS.

Q. Please state your name and business address.

A. My name is Brian M. Lloyd. My current business address is 3250 Bonnet Creek Road, Lake Buena Vista, FL 32830.

Q. Have you previously filed direct testimony in this docket?

A. Yes.

Q. Have your employment status and job responsibilities remained the same since discussed in your previous testimony?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the Company's rebuttal to assertions and conclusions regarding the Distribution program specific aspects of DEF's 2021-2023 Storm Protection Plan Cost Recovery Clause ("SPPCRC") contained in the direct testimony of OPC's witness Mara. Mr. Menendez will present additional rebuttal of the testimonies of OPC's witnesses.

Q. Do you have any exhibits to your rebuttal testimony?

A. No.

Q. Please summarize your testimony.

A. My rebuttal testimony focuses on witness Mara's testimony as it relates to the Distribution programs and rebuts the misinformation and incorrect conclusions contained within. Specifically, I explain why Mr. Mara's proposed reductions to the Lateral and Feeder Hardening Programs are unwarranted and unreasonable from any rational perspective and how the proposed reductions are inconsistent with DEF's 2023 Storm Protection Plan. As explained below, DEF's proposed 2023 investments in these critical programs are reasonable and should be approved as filed.

Q. On page 13 of his direct testimony, Mr. Mara recommends reducing the budget for the Distribution Lateral Hardening Program. Do you agree with his proposed reduction?

A. No, for a number of reasons I completely disagree with his proposed reduction. At the outset, I think it is important to remember exactly what this program involves: Lateral

Hardening is a long-term program that will systematically upgrade and harden branch line sections fed by the feeder backbone through two main approaches, undergrounding and overhead hardening; it also includes wood pole inspections and replacements, as well as various other subcomponents.[1]

I have to note it does not appear Mr. Mara actually understands what he is proposing. He contends that the Program's "budget" should be reduced from approximately $25.5 million to approximately $19.3 million; It appears to DEF that OPC is actually arguing that the Program's revenue requirement (which is $25.5 million) should be reduced by roughly $6 million. The 2023 budget for this Program (which includes both overhead and underground hardening subprograms but excluding wood pole inspections and replacements) is approximately $160.3 million; this aligns with the $25.5 million revenue requirement addressed by Mr. Mara.

Q. What is the importance of that distinction?

A. Mr. Menendez's exhibit provides the calculation, but in order to effectuate the approximate $6 million reduction in revenue requirements related to the Lateral Hardening Program, DEF would have to reduce the program's 2023 budget by roughly $152.5 million, leaving a 2023 program budget of around $7.8 million. Thus, what appears from Mr. Mara's testimony to be a recommended 25% reduction in program budget is actually a 95% reduction.

Q. What would be the practical effect of such a reduction?

[1] Additional detail regarding the Lateral Hardening Program are provided in Ex. BML-1, filed in Docket No. 20220050-EI. *See* doc. no. 02368-2022.

A. It would gut the program. If DEF were to follow Mr. Mara's recommendation to use its prioritization schedule to determine which projects should be delayed until 2024, the end result would be to delay 141 out of DEF's proposed 142 projects, all but eliminating this program (which was not even challenged in the SPP docket) from DEF's SPP for 2023. This would also have a cascading effect resulting in delay to the 2024 tranche of projects (and so on over the life of the 2023 SPP).

Q. You mentioned that this program was not challenged in Docket No. 20220050-EI. What was OPC's position regarding this Program in that docket?

A. In Mr. Mara's amended testimony, his "recommendation cap[ped] the annual spending for this program to roughly $180 million per year." Obviously, his recommended annual cap was not only greater than DEF's proposed budget of $160.3 million, but far greater than his new recommendation of approximately $8 million.

Q. Mr. Mara also recommended reductions to the Feeder Hardening Program. Do you have concerns with his proposed reductions?

A. Yes, I have similar concerns as Mr. Mara's proposed reduction of approximately $5 million (from $19,889,885 to $14,917,413) in program revenue requirements would require a budget reduction of approximately 65% (approximately $93 million) for this vital Program. Again, Mr. Menendez provides this calculation in his rebuttal exhibit.

Q. What would be the practical effect of such a reduction?

A. Similar to the earlier discussion pertaining to Lateral Hardening, such a reduction would essentially gut the Program and severely limit not only the projected reductions in restoration costs and outages directly attributable to this program, but also the benefits of “downstream” programs such as the lateral hardening program (beyond the lost benefits the program would already suffer if Mr. Mara’s drastic proposed reductions discussed above were accepted). The direct impacts of reducing the Feeder Hardening program’s 2023 investment would result in 32 projects out of 54 being delayed to 2024 (and the resulting cascading project shift over the remaining Plan years).

Q. How would these reductions impact DEFs customers?

A. The delaying of the 173 Lateral Hardening and Feeder Hardening projects would result in over 60,000 of the 85,000 planned customers receiving either reduced or zero benefits of the storm protection plan in 2023.

Q. What would these reductions look like to your average customer?

A. This would equate to a city the size of Tarpon Springs experiencing an entire additional 24 hours of power loss during an average storm event. This is 24 hours of no schools, hospitals, or lift stations; 24 hours of businesses shuttered, restaurants closed, attractions empty; traffic lights off, cell phones with no signal, and internet connectivity interrupted. The equivalent of Tarpon Springs and the lives of its 25,000 residents would remain at a standstill.

Q. If investments were held at the level OPC has recommended, how long would DEFs customers have to wait before they would experience the full benefit of the storm protection plan?

A. Continuing at this pace of improvement would result in more than 100 years before the system was completely hardened.

Q. What are your recommendations?

A. I recommend the Commission find the 2023 projected Lateral Hardening and Feeder Hardening Programs and projects are reasonable and permit DEF to recover the related costs through the SPPCRC in 2023. The projected costs are consistent with DEF's 2023 SPP and are projected to deliver the customer benefits discussed in Docket No. 20220050-EI.

Q. Does that conclude your testimony?

A. Yes.