

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for limited proceeding for approval to include in base rates the revenue requirement for the Citrus combined cycle project, by Duke Energy Florida, LLC.

DOCKET NO. 20180084-EI  
ORDER NO. PSC-2018-0367-TRF-EI  
ISSUED: July 25, 2018

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
JULIE I. BROWN  
DONALD J. POLMANN  
GARY F. CLARK  
ANDREW GILES FAY

ORDER APPROVING LIMITED PROCEEDING TO INCLUDE IN BASE RATES THE  
REVENUE REQUIREMENT FOR THE CITRUS COMBINED CYCLE PROJECT

BY THE COMMISSION:

**Background**

On May 27, 2014, Duke Energy Florida, LLC (DEF) filed a petition for a determination of need for the Citrus County Combined Cycle Power Plant Project (Citrus Combined Cycle Project). DEF plans to complete construction of the 1,640-megawatt, two-unit plant on a site adjacent to its Crystal River Energy Center in Citrus County, Florida, by December 2018. We granted DEF's determination of need for the Citrus Combined Cycle Project by Order No. PSC-14-0557-FOF-EI.<sup>1</sup> In that proceeding, we found that the Citrus Combined Cycle Project, at an estimated construction cost of approximately \$1.514 billion, represented the optimal resource option to meet DEF's projected generation need.

On August 29, 2017, DEF filed a petition for a limited proceeding to approve its 2017 Second Revised and Restated Settlement Agreement (2017 Settlement). The 2017 Settlement was signed and executed by DEF, the Office of Public Counsel, the Florida Industrial Power Users Group, the Florida Retail Federation, White Springs Agricultural Chemicals, Inc. (d/b/a PCS Phosphate), and the Southern Alliance for Clean Energy. The signatories to the 2017 Settlement are organizations that represent DEF's major customer groups. We approved the 2017 Settlement on November 20, 2017, by Order No. PSC-2017-0451-AS-EU.<sup>2</sup>

<sup>1</sup>Order No. PSC-14-0557-FOF-EI, issued October 10, 2014, in Docket No. 20140110-EI, In re: Petition for determination of need for Citrus County Combined Cycle Power Plant, by Duke Energy Florida, Inc.

<sup>2</sup>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.

If DEF constructs and places in service the Citrus Combined Cycle Project in 2018, Paragraph 14(a) of the 2017 Settlement provides a base rate increase referred to as the 2018 Generation Base Rate Adjustment (GBRA). As required under Paragraph 14(a) of the 2017 Settlement, DEF's initial 2018 GBRA for the Citrus Combined Cycle Project must reflect the costs used to support the need determination case.

On April 2, 2018, DEF filed the instant petition for a limited proceeding for approval to include in base rates the revenue requirement for the Citrus Combined Cycle Project. The project is expected to be placed in service in two phases: September 2018 and November 2018. Phase 1 will include the construction of Unit 1 and the associated transmission/common equipment. Phase 2 will include the construction of Unit 2. DEF has requested that we approve the estimated revenue requirement of \$200,488,588 for the entire GBRA and approve the necessary tariffs to reflect the change in base rates in October 2018 and December 2018.

DEF waived the 60-day file and suspend provision of Section 366.06(3), Florida Statutes (F.S.). We have jurisdiction pursuant to Section 366.06 and 366.076, F.S.

### **Decision**

#### **Petition to include in base rates the revenue requirement for the Citrus Combined Cycle Project**

DEF stated in its petition that the Citrus Combined Cycle Project will be placed in service in two phases: September 2018 and November 2018. DEF requested that we approve the revenue requirement necessary for the rate increase in both phases, with an estimated retail revenue requirement totaling \$200,488,588.

As discussed in the background, this Commission evaluated the estimated cost for the Citrus Combined Cycle Project in the need determination, and the GBRA cost recovery method was set forth in the 2017 Settlement. Our review of DEF's cost estimate and revenue requirement calculations are discussed below along with the rate impact.

#### **Cost Estimate**

Based upon Exhibit B, which DEF attached to its petition, the total operating expenses for Unit 1, Unit 2, and transmission/common equipment are \$53,006,000, \$38,811,000, and \$2,406,000, respectively, for the first year. These costs include operating and maintenance (O&M), depreciation, property insurance, and property tax. DEF affirmed that these costs are the same as those used by DEF to support its need determination case, consistent with the requirement under Paragraph 14(a) of the 2017 Settlement.<sup>3</sup>

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<sup>3</sup>Document No. 03716-2018 – DEF's response to Commission staff's second data request, No. 1.

The estimated capital cost of approximately \$1.514 billion is the same as in the need determination. DEF stated that while this is a reasonable and accurate projection, there are a variety of events that can impact the schedule and cost of the overall project. These may include skilled labor and supply availability, severe weather events, and other force majeure events.<sup>4</sup>

Paragraph 14(d) of DEF's 2017 Settlement addresses the circumstance in which DEF's actual capital cost is lower than the projected cost used to develop the initial 2018 GBRA factor. Under this circumstance, the lower actual cost will be the basis for the full revenue requirements and a one-time credit is required to be made through the Capacity Cost Recovery Clause. In addition, Paragraph 14(e) addresses the situation in which DEF's actual capital cost is higher than the projected cost used to develop the initial 2018 GBRA factor. Under this circumstance, DEF may, at its option, initiate a limited proceeding to seek to increase the 2018 GBRA factor by the corresponding incremental revenue requirement. We find that these measures protect customers against unwarranted cost increases over the cost used in the need determination case.

### **Revenue Requirement Calculation**

Based on the estimated cost of the project and the commercial in-service dates for the two phases as described above, DEF calculated a revenue requirement of \$200,488,588 for the entire GBRA. DEF estimated the revenue requirement for Phase 1 to be \$123,180,439 and \$77,308,149 for Phase 2. In accordance with Paragraph 14(c) of the 2017 Settlement, DEF utilized its projected 13-month average capital structure for the first 12 months of operation, and a 10.50 percent return on equity to calculate the revenue requirement. The revenue requirement calculation also included the recovery of O&M expenses, depreciation expense, property insurance, property tax, and income tax. We verified the revenue requirement of \$200,488,588 based on the capital structure provided by DEF, which reflected a projected 13-month average capital structure for the first 12 months of operation. We find that \$200,488,588 is the appropriate revenue requirement based on the 2017 Settlement.

### **Conclusion**

Consistent with the 2017 Settlement, DEF's 2018 GBRA for the Citrus Combined Cycle Project reflects the costs pursuant to which the need determination was granted. Therefore, we approve DEF's petition.

Approval of proposed tariffs and associated charges needed to implement the two phases of the Citrus Combined Cycle Project

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<sup>4</sup>Document No. 03532-2018 – DEF's response to Commission staff's first data request, No. 4.

As discussed in above, we approve a revenue requirement totaling \$200,488,588 for both phases of the Citrus Combined Cycle Project. Consistent with Paragraph 14(b) of DEF's 2017 Settlement, and as shown in Exhibit C of the petition, the requested total amount shall be applied as a uniform percentage to all rate classes at 6.88 percent for Phase 1 and at 4.04 percent for Phase 2. At these uniform percentage rates, a residential customer using 1,000 kWh per month will see a bill increase of \$3.59 for Phase 1 and \$2.25 for Phase 2. The combined base rate increase of \$5.84 on a 1,000 kWh bill is \$0.71 lower than the estimated increase stated in Docket No. 20140110-EI.

### Customer Notification

DEF stated that it will notify its customers of the rate changes via bill inserts in their August 2018 bill for Phase 1, and via bill inserts in their October 2018 bill for Phase 2.<sup>5</sup> Electronic bill customers will receive a link to the bill insert via email. The bill insert will also be posted on DEF's website.

### **Conclusion**

We grant Commission staff the administrative authority to approve tariffs and associated charges that implement our approval regarding base rate inclusion of DEF's Citrus Combined Cycle Project, which will be placed in service in two phases. The tariffs and associated charges for Phase 1 shall go into effect with the first billing cycle in October 2018, and the tariffs and associated charges for Phase 2 of the Citrus Combined Cycle Project shall go into effect with the first billing cycle in December 2018. If the commercial in-service date of Phase 1 of the project is delayed, the tariff shall become effective with the first billing cycle after Phase 1 is completed and placed in commercial service. If Phase 2 is delayed, the tariff shall become effective with the first billing cycle after Phase 2 is completed and placed in commercial service. If this Order is protested, DEF shall implement the rates subject to refund pending the results of any subsequent hearing.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Duke Energy Florida, LLC's (DEF) 2018 GBRA for the Citrus Combined Cycle Project reflects, consistent with the 2017 Settlement, the costs pursuant to which the need determination was granted. We therefore approve inclusion in base rates the revenue requirement for the Citrus Combined Cycle Project. It is further

ORDERED that Commission staff is granted the administrative authority to approve tariffs and associated charges that implement our vote regarding the Citrus Combined Cycle Project, which will be placed in service in two phases. The tariffs and associated charges for Phase 1 shall go into effect with the first billing cycle in October 2018, and the tariffs and associated charges for Phase 2 of the Citrus Combined Cycle Project shall go into effect with the first billing cycle in December 2018. If the commercial in-service date of Phase 1 of the project

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<sup>5</sup> If the implementation of the tariff is delayed, the notice shall be delayed accordingly.

is delayed, the tariff shall become effective with the first billing cycle after Phase 1 is completed and placed in commercial service. If Phase 2 is delayed, the tariff shall become effective with the first billing cycle after Phase 2 is completed and placed in commercial service. If this Order is protested, DEF shall implement the rates subject to refund pending the results of any subsequent hearing. It is further,

ORDERED that if no timely protest is filed, this docket shall be closed upon the issuance of a consummating order. If a protest is filed within 21 days of the issuance of this order, the tariff shall remain in effect, with any revenues held subject to refund, pending resolution of the protest.

By ORDER of the Florida Public Service Commission this 25th day of July, 2018.



CARLOTTA S. STAUFFER

Commission Clerk

Florida Public Service Commission

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Tallahassee, Florida 32399

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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 15, 2018.

In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.