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| State of Florida  pscSEAL | | 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: | June 25, 2021 | | |
| TO: | Office of Commission Clerk (Teitzman) | | |
| FROM: | Division of Accounting and Finance (Snyder, D. Buys, Mathis, Mouring)  Division of Economics (Coston, Ward)  Office of the General Counsel (Lherisson, Crawford, Osborn) | | |
| RE: | Docket No. 20210097-EI – Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Eta and Isaias, by Duke Energy Florida, LLC. | | |
| AGENDA: | 07/08/21 – Regular Agenda – Interested Persons May Participate | | |
| COMMISSIONERS ASSIGNED: | | | All Commissioners |
| PREHEARING OFFICER: | | | Graham |
| CRITICAL DATES: | | | 07/13/2021 (60 Days After Filing Date) |
| SPECIAL INSTRUCTIONS: | | | None |

Case Background

On May 14, 2021, Duke Energy Florida, LLC (DEF or Company) filed a petition for a limited proceeding seeking authority to implement an interim storm restoration recovery charge to recover $16.7 million for the incremental restoration costs related to Hurricanes Eta and Isaias. In its petition, DEF asserted that as a result of Hurricanes Eta and Isaias, it incurred total retail recoverable costs of approximately $20.1 million. DEF has proposed to reduce this amount by $3.4 million to offset the over-recovery of storm restoration costs collected through a Commission-approved storm recovery charge related to Hurricane Dorian and Tropical Storm Nestor.[[1]](#footnote-1) As a result, the Company’s proposed net recoverable cost is $16.7 million. This amount includes approximately $8,100 in interest.

DEF filed its petition pursuant to the provisions of the 2017 Second Revised and Restated Settlement Agreement (2017 Settlement) approved by the Commission in Order No. PSC-2017-0451-AS-EU.[[2]](#footnote-2) Pursuant to the 2017 Settlement, the Company 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 has proposed interim storm restoration charges applicable to all rate classes over a 12-month recovery period, effective with the first billing cycle of August 2021. For residential customers, the proposed interim storm recovery charge would be $0.55 on a 1,000 kilowatt hour (kWh) on a residential customer bill.

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

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. (Snyder)

***Staff Analysis:*** As stated in the Case Background, DEF filed a petition for a limited proceeding seeking authority to implement an interim storm restoration recovery charge to recover $16.7 million for the incremental restoration costs related to Hurricanes Eta and Isaias. 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 proposed an interim storm recovery charge of $0.55 per 1,000 kWh on a residential customer bill over a 12-month recovery period effective the first billing cycle of August 2021.

In its petition, DEF asserts that it incurred total retail recoverable costs of approximately $20.1 million as a result of Hurricanes Eta and Isaias. The Company 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 (F.A.C.). The net retail recoverable costs of $16.7 million were determined by reducing the $20.1 million total recoverable costs by the over-recovery of $3.4 million from the storm recovery charge for Hurricane Dorian and Tropical storm Nestor.

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 the Company 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 the Company’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:***

 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. DEF requested a 12-month collection period from August 2021 to July 2022 for interim storm cost recovery charges of $16.718 million related to Hurricanes Eta and Isaias. Staff reviewed DEF’s three most recent annual reports filed with the Commission (2019, 2018, and 2017) to determine if the Company can support a corporate undertaking to guarantee the funds collected for recovery of incremental storm restoration costs related to Hurricanes Eta and Isaias. DEF’s financial performance demonstrates the Company has adequate levels of liquidity, ownership equity, profitability, and interest coverage to cover a potential refund. Moreover, the Company participates in Duke Energy Corporation’s (DEF’s parent company) money pool and has access to additional funds if needed.

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 $16.718 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.

***Issue 3:***

  Should the Commission approve DEF's proposed interim storm restoration recovery charge tariff as shown in Attachment A to this recommendation?

***Recommendation:***

 Yes. The Commission should approve DEF's proposed interim storm restoration recovery charge tariff as shown in Attachment A to this recommendation. The proposed tariff should become effective with the first billing cycle of August 2021. (Ward)

***Staff Analysis:***

  In its petition, DEF proposed to begin applying the interim storm restoration recovery charge to customer bills effective with the first billing cycle of August 2021, and to include the charge in the non-fuel energy charge. The Company represented that it followed the methodology for allocation of storm costs among rate classes consistent with the rate design method approved in the 2017 Settlement. Staff reviewed DEF’s calculations and believes the allocation methodology to be appropriate and reasonable.

Application of the allocation methodology for the residential customer rate class results in a proposed interim storm recovery charge of 0.055 cents per kWh, which equates to $0.55 on a 1,000 kWh residential electric bill. If approved, the Company will notice customers of the pending charge with the July billing cycle. The proposed interim charges for all rate classes are presented in Revised Sheet No. 6.105, which is included in Attachment A to this recommendation.

Based on its review of the information provided by DEF, staff recommends the Commission approve the Company's proposed interim storm restoration recovery charge tariff as shown in Attachment A to this recommendation. The proposed tariff should become effective with the first billing cycle of August 2021.

***Issue 4:*** Should this docket be closed?

***Recommendation:*** No.This docket should remain open pending final reconciliation of actual recoverable storm costs with the amount collected pursuant to the interim storm restoration recovery charge, and the calculation of a refund or additional charge if warranted. (Lherisson)

***Staff Analysis:*** This docket should remain open pending final reconciliation of actual recoverable storm costs with the amount collected pursuant to the interim storm restoration recovery charge, and the calculation of a refund or additional charge if warranted.

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1. Order No. PSC-2020-0058-PCO-EI, issued February 24, 2020, in Docket No. 20190222-EI, *In re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Dorian and Tropical Storm Nestor.* [↑](#footnote-ref-1)
2. 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.* [↑](#footnote-ref-2)