

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: September 30, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Wooten, Ellis, King) *TB*
Division of Accounting and Finance (Brown, Higgins, Mouring) *ALM*
Division of Economics (Kunkler, Smith II) *JGH*
Office of the General Counsel (Trierweiler) *JSC*

RE: Docket No. 20210107-EI – Petition for limited proceeding to true-up third SoBRA, by Tampa Electric Company.

AGENDA: 10/12/21 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Passidomo

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

By Order No. PSC-2017-0456-S-EI, issued on November 27, 2017, the Florida Public Service Commission (Commission) approved Tampa Electric Company's (TECO or Company) Amended and Restated Stipulation and Settlement Agreement (2017 Settlement).¹ The 2017 Settlement allows for the inclusion of solar projects that meet certain criteria into base rates through a Solar Base Rate Adjustment (SoBRA) mechanism.

¹Order No. PSC-2017-0456-S-EI, issued November 27, 2017, in Docket No. 20170210-EI, *In re: Petition for limited proceeding to approve 2017 amended and restated stipulation and settlement agreement, by Tampa Electric Company*, and Docket No. 20160160-EI, *In re: Petition for approval of energy transaction optimization mechanism, by Tampa Electric Company*.

Docket No. 20210107-EI
Date: September 30, 2021

On November 12, 2019, the Commission approved TECO's Third SoBRA in Order No. PSC-2019-0477-FOF-EI.² The Third SoBRA consisted of two solar projects, Wimauma and Little Manatee River (LMR), with a total installed capacity of 149.3 megawatts (MW). The base rates and charges that will recover the revenue requirement associated with the actual installed cost of the Third SoBRA will be determined in its pending rate case proceeding in Docket No. 20210034-EI, filed on April 9, 2021.³

On May 27, 2021, TECO filed a petition for a true-up of the Third SoBRA. The Commission has jurisdiction pursuant to Sections 366.06 and 366.076, Florida Statutes (F.S.).

²Order No. PSC-2019-0477-FOF-EI, issued on November 12, 2019, in Docket No 20190136-EI, *In re: Petition for a limited proceeding to approve third SoBRA, by Tampa Electric Company.*

³Docket No. 20210034-EI, *In re: Petition for rate increase by Tampa Electric Company*, filed April 9, 2021.

Discussion of Issues

Issue 1: What are the actual total costs for TECO's Third SoBRA projects?

Recommendation: The actual total costs for TECO's Third SoBRA projects are as listed in Table 1-3. However, Wimauma Solar, with an actual installed cost of \$1,537/kilowatt-alternative current (kW_{ac}), exceeds the \$1,500/kW_{ac} cost cap provision of the 2017 Settlement. Therefore, TECO's recovery of installed costs for Wimauma Solar should be limited to \$112,200,000 through the SoBRA Mechanism. (Wooten)

Staff Analysis: The 2017 Settlement allows TECO to recover the cost of solar projects that meet certain criteria through a base rate adjustment, using estimated costs and in-service dates with a true-up mechanism. Paragraph 6(c) of the 2017 Settlement states that the SoBRA rate adjustment for each tranche will be implemented on the earliest in-service date specified in paragraph 6(b) and based on estimated installation cost. Each SoBRA rate adjustment will subsequently be trued-up based on actual in-service dates and installation costs.

Paragraph 6(d) of the 2017 Settlement specifies a total installed capital cost cap for each project of \$1,500/kW_{ac}. LMR Solar is below the cost cap. However, Wimauma Solar, with an actual installed cost of \$1,537/kW_{ac}, exceeds the cost cap provision of the 2017 Settlement. Paragraph 6(e) of the 2017 Settlement states that if a project cost more than \$1,500/kW_{ac}, the Company can only recover the installed costs up to the cost cap. Therefore, TECO's recovery of installed costs for Wimauma Solar should be limited to \$1,500/kW_{ac} or \$112,200,000 through the SoBRA Mechanism.

In-Service Dates

Neither project entered commercial service on their estimated in-service dates. Both Wimauma Solar and LMR Solar received their environmental and construction permits about three months later than the Company expected, subsequently delaying construction on the projects until July 2019. The contractors for LMR Solar lessened the delay by increasing the number of employees on the job and working weekends. The estimated and actual in-service dates for each solar project are listed in Table 1-1.

Table 1-1
In-Service Dates for Third SoBRA

Project Name	Estimated In-Service Date	Actual In-Service Date
Wimauma Solar	January 1, 2020	April 1, 2020
LMR Solar	January 1, 2020	February 7, 2020

Source: Exhibit JSC-1 from Document No. 04308-2021

Installed Costs

Pursuant to paragraph 6(d) of the 2017 Settlement, the allowable installed costs include all types of costs that have traditionally been allowed in rate base for solar projects, including engineering,

procurement, and construction (EPC) contracts. For TECO’s Third SoBRA, the EPC contracts include major equipment (i.e., solar modules, inverters), balance of system (i.e., racking, collection cables), and development. The EPC contract accounts for the majority of the project costs followed by land, transmission interconnection, and owner’s costs. Both Wimauma and LMR were above estimated installed costs by 4% and 0.1%, respectively. Wimauma Solar’s actual installed costs varied from the estimated installed cost due to an increase in EPC cost and higher allowance for funds used during construction (AFUDC) cost due to the longer than expected construction period. LMR Solar’s actual installed costs varied from the estimated installed cost due to an increase in EPC costs. The cost variances for each category and the total cost variances are listed in Table 1-2.

**Table 1-2
 Total Installed Cost Variances by Project for Third SoBRA**

Project Name	EPC Cost (\$)	Land Cost (\$)	Transmission Cost (\$)	Owner’s Cost (\$)	Total Variance (\$)
Wimauma Solar	2,067,780	(197,320)	(1,915,202)	332,323	287,581
LMR Solar	7,269,645	0	(6,565,372)	(556,337)	147,935

Source: Exhibit SGS-1 from Document No. 04308-2021

EPC Costs

EPC costs represent approximately 89 percent of the total costs on average for the Third SoBRA. Wimauma Solar’s actual EPC costs varied from the estimate due to change orders for additional modules needed for breakage spares. LMR Solar’s actual EPC costs varied from the estimated cost due to the EPC contractor constructing the required 230 kilovolt (kV) ring bus switchyard, as opposed to TECO. The costs associated with this equipment were originally estimated in the transmission cost category but were moved to the EPC cost category. The EPC contractor also completed all permitting activities.

Land and Transmission Costs

The land and transmission costs represent approximately 12 and 4 percent of the total costs on average, respectively, and each of the solar projects were at or below the original estimated costs. LMR Solar is constructed on land obtained through a long-term lease and has no costs associated with the installed cost of the project. The largest variance for transmission cost was for the LMR project, due to previously mentioned 230 kV ring bus switchyard costs being reassigned to EPC costs.

Total Costs

Pursuant to paragraph 6(d) of the 2017 Settlement, in addition to the installed costs discussed above, TECO is eligible to include AFUDC associated with SoBRA projects, which represent approximately 6 percent of the total costs of Wimauma Solar. LMR Solar has no AFUDC cost and as it is constructed on leased land there is no land cost included in the total costs. The actual cost for each project, inclusive of the variances above and AFUDC, are listed on a total cost and per kW_{ac} cost basis in Table 1-3. Based on staff’s analysis, only LMR Solar is below the cost cap

specified in paragraph 6(d) of the 2017 Settlement of \$1,500 per kW_{ac}. As Wimauma Solar exceeds the cost cap, total cost recovery for the project is limited by the \$1,500 per kW_{ac} cost cap. Staff has reviewed the total actual costs, and they appear reasonable and consistent with the 2017 Settlement.

Table 1-3
Total Costs for Third SoBRA

Project Name	Total Cost (\$)	Total Cost (\$/kW_{ac})
Wimauma Solar	114,962,604	1,537
LMR Solar	105,247,935	1,413

Source: Exhibit SGS-1 from Document No. 04308-2021

Conclusion

The actual total costs for TECO's Third SoBRA projects are as listed in Table 1-3. However, Wimauma Solar, with an actual installed cost of \$1,537/kW_{ac}, exceeds the \$1,500/kW_{ac} cost cap provision of the 2017 Settlement. Therefore, TECO's recovery of installed costs for Wimauma Solar should be limited to \$112,200,000 through the SoBRA Mechanism.

Issue 2: What is the adjusted annual revenue requirement for TECO's Third SoBRA projects?

Recommendation: The adjusted cumulative annual revenue requirement associated with TECO's Third SoBRA Project is \$26,612,000. (Higgins)

Staff Analysis: In 2017, TECO received authorization for a framework to recover costs associated with the construction and operation of a then-conceptual series of solar generating facilities.⁴ The framework includes conditions by which the Company can petition the Commission to implement project-specific estimated annual revenue requirements, beginning on specified dates, subject to certain agreed-upon conditions.⁵ The revenue collected is subject to true-up. The actual annual revenue requirement, and its difference from the currently-approved annual revenue requirement, is the focus of staff's recommendation in this issue.

The Company is requesting the Commission approve an adjusted cumulative annual revenue requirement based on the actual installed costs of the plants associated with its previously-approved Third SoBRA Project.⁶ The adjusted cumulative annual revenue requirement for the Third SoBRA Project is specifically associated with the Wimauma Solar and LMR Solar plants.

The adjusted cumulative annual revenue requirement is formulated using the actual capital cost (Issue 1) including incentives of the Third SoBRA Project in place of the originally-estimated capital cost. All other components of the estimated annual revenue requirement calculation remain the same, e.g. operation and maintenance expense, rate of depreciation, capital structure, and tax rates.⁷ The specific true-up amounts produced by this change are the subject of Issue 3. Additionally, a separate provision contained in the 2017 Settlement addressing potential tax rate changes during the settlement period was activated.⁸

On September 12, 2019, the Florida Department of Revenue issued a Tax Information Publication (TIP) announcing the reduction in Florida's corporate income tax rate from 5.5 percent to 4.458 percent retroactively effective to January 1, 2019 (State Tax Rate Change). The State Tax Rate Change remains in effect through December 31, 2021. The Company addressed the impact of the State Tax Rate Change through a reduction to the estimated revenue requirement associated with its Third SoBRA approved on October 17, 2019. Since the Third SoBRA-related revenue requirement had yet to take effect, TECO simply amended the estimated revenue requirement to incorporate the State Tax Rate Change. The Third SoBRA-related estimated revenue requirement amount pre-tax rate change was \$26,596,000, while the estimated

⁴Order No. PSC-2017-0456-S-EI, issued November 27, 2017, in Docket No. 20170210-EI, *In re: Petition for limited proceeding to approve 2017 amended and restated stipulation and settlement agreement, by Tampa Electric Company*, and Docket No. 20160160-EI, *In re: Petition for approval of energy transaction optimization mechanism, by Tampa Electric Company*.

⁵Tampa Electric Company's 2017 Amended and Restated Stipulation and Settlement Agreement, ¶6(b).

⁶Order No. PSC-2019-0477-FOF-EI, issued November 12, 2019, in Docket No. 2019136-EI, *In re: Petition for a limited proceeding to approve third SoBRA, by Tampa Electric Company*.

⁷By Order No. PSC-2019-0524-PAA-EI, in Docket 20190203-EI, *In re: Petition for limited proceeding to reduce base rates and charges to reflect impact of the 2019 temporary state income tax rate reduction, by Tampa Electric Company*, the Commission approved an update/reduction to the Company's previously-filed Third SoBRA revenue requirement to reflect a temporary reduction in Florida's state corporate income tax rate.

⁸Tampa Electric Company's 2017 Amended and Restated Stipulation and Settlement Agreement, ¶6(a) and ¶9(b).

revenue requirement post-tax rate change, or the revenue requirement actually charged to customers, was \$26,452,000. The State Tax Rate Change as it relates to the Third SoBRA Project represents a revenue requirement reduction of \$144,000.⁹ By Order No. PSC-2019-0524-PAA-EI, the Commission found that:

Adjusting the Third SoBRA Paragraph 9(b) of the 2017 Agreement requires the Company to “adjust any SoBRAs that have not yet gone into effect to specifically account for Tax Reform.” As indicated in the Company’s petition, the annual revenue requirement for the Third SoBRA re-calculated using the 4.458 percent state corporate income tax rate is \$26,452,000, which is \$144,000 lower than the amount approved in the Third SoBRA docket. The Company’s petition showed the revenue requirement for the Third SoBRA using the new state rate. We have reviewed the calculations regarding the revenue requirement for the third SoBRA included with the Company’s petition and approve \$26,452,000 as the revised revenue requirement for the Third SoBRA.¹⁰

Table 2-1 displays the estimated plant-specific Third SoBRA annual revenue requirements, which include the effect of the State Tax Rate Change discussed above.

Table 2-1
Third SoBRA Estimated Annual Revenue Requirements¹¹

Plant	Revenue Requirement
Wimauma Solar	\$13,225,000
LMR Solar	<u>13,227,000</u>
Total	<u>\$26,452,000</u>

Sources: Order No. PSC-2019-0477-FOF-EI, Order No. PSC-2019-0524-PAA-EI, and the Prepared Direct Testimony and Exhibit of TECO witness Jose A. Aponte, page 6.

Table 2-2 displays the proposed adjusted annual Third SoBRA revenue requirements associated with each project and plant.

Table 2-2
Third SoBRA Adjusted Annual Revenue Requirements

Plant	Revenue Requirement
Wimauma Solar	\$13,367,000
LMR Solar	<u>13,245,000</u>
Total	<u>\$26,612,000</u>

Source: Prepared Direct Testimony and Exhibit of TECO witness Jose A. Aponte, pages 6-12.

⁹Order No. PSC-2019-0524-PAA-EI, issued December 17, 2019, in Docket No. 20190203-EI, *In re: Petition for limited proceeding to reduce base rates and charges to reflect impact of the 2019 temporary state income tax rate reduction, by Tampa Electric Company.*

¹⁰*Id.*

¹¹*Id.*

The proposed adjusted cumulative annual revenue requirement is \$26,612,000. The revision represents an increase of \$160,000 as compared to the previously-estimated cumulative annual revenue requirement of \$26,452,000.

Conclusion

Staff recommends the adjusted cumulative annual revenue requirement associated with TECO's Third SoBRA Project is \$26,612,000.

Issue 3: What is the appropriate true-up amount that should be reflected in the Capacity Cost Recovery Clause (CCRC), pursuant to paragraph 6(n) of the 2017 Settlement?

Recommendation: Staff recommends the appropriate net true-up amount (Total True-up) associated with the Third SoBRA Project that should be reflected in the CCRC, pursuant to subparagraph 6(n) of the 2017 Settlement, is a credit of \$4,155,553. After accounting for the preliminary Third SoBRA-related credit of \$4,069,905 in 2020, the net amount owed to customers is \$85,648. The Remaining Net True-up amount of \$85,648 has been reflected in TECO's proposed 2022 Capacity Cost Recovery rates. (Higgins)

Staff Analysis: In 2017, TECO received authorization for a framework to recover costs associated with the construction and operation of a then-conceptual series of solar generating facilities.¹² The framework includes conditions by which the Company can petition the Commission to implement project-specific estimated annual revenue requirements beginning on specified dates subject to certain agreed-upon conditions.¹³ The revenue collected is subject to true-up. The Total True-up is the focus of staff's recommendation in this issue. The relevant time period used in formulating the Total True-up is January 1, 2020, through December 31, 2021.

As discussed in Issue 1, both the capital costs and the in-service dates of the two plants comprising the Third SoBRA Project differ from those originally projected. Relative to the revenue collected, these two differences inherently produce two distinct true-ups; a cost true-up, and an in-service date or "timing" true-up. The cost true-up is the difference between the adjusted annual revenue requirement that incorporates actual capital costs and the current annual revenue requirement based on estimated capital costs from the point of (actual) plant in-service through December 31, 2021. The timing true-up simply captures the effect of matching a specific plant's assumed in-service date to its actual in-service date. The net dollar impact including interest, or Total True-up, as required by subparagraph 6(n) of TECO's 2017 Settlement is flowed through the CCRC.

¹²Order No. PSC-2017-0456-S-EI.

¹³Tampa Electric Company's 2017 Amended and Restated Stipulation and Settlement Agreement, ¶6(b).

Table 3-1 displays the components and associated amounts of the proposed Third SoBRA Project Total True-up.

Table 3-1
Third SoBRA Project Total True-up

Component	Amount (01/01/2020 through 12/31/2021)
Total Cost True-up	(\$282,112)
Total Timing True-up	4,064,011
Total Net Interest ¹⁴	<u>373,654</u>
Total True-up	<u>\$4,155,553</u>

Source: Prepared Direct Testimony of TECO witness Jeffery S. Chronister, Exhibit No. JSC-1, Page 1 of 4.

The Total True-up associated with TECO’s Third SoBRA is \$4,155,553. With respect to accounting for the Total True-Up on September 11, 2020, the Company filed its final Estimated/Actual testimony for calendar year 2020 which contained a preliminary credit/refund (timing true-up) associated with the Third SoBRA in the amount of \$4,069,905.¹⁵ This amount is currently embedded in TECO’s 2021 CCRC factors.¹⁶ After accounting for the preliminary credit, the outstanding amount owed to customers is \$85,648 (Remaining Net True-up).

Table 3-2 displays the components and associated amounts of the proposed Third SoBRA Project Remaining Net True-up.

Table 3-2
Third SoBRA Project Remaining Net True-up

Component	Amount
Total True-up	\$4,155,553
Preliminary Credit/Refund ¹⁷	<u>(4,069,905)</u>
Remaining Net True-up	<u>\$85,648</u>

Source: Prepared Direct Testimony of TECO witness Jeffery S. Chronister, Exhibit No. JSC-1, Page 1 of 4.

¹⁴“Total Net Interest” is calculated at an annual Allowance for Funds Used During Construction (AFUDC) rate of 6.46 percent, less interest expense accrued in the capacity clause at the then-prevailing monthly Commercial Paper Rate.

¹⁵Document No. 06604-2020.

¹⁶Order No. PSC-2020-0439-FOF-EI, issued November 16, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, and Order No. PSC-2021-0329-PCO-EI, issued August 30, 2021, Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

¹⁷*Id.*

According to TECO witness Chronister at the time of filing the instant petition, the Company's intent was to include the Remaining Net True-up balance of the Total True-Up in its 2022 CCRC rate request, which was filed on September 3, 2021.¹⁸ Staff has confirmed the remaining balance of the Total True-Up has been included in TECO's requested 2022 CCRC rates.

Conclusion

Staff recommends the appropriate Total True-up associated with the Third SoBRA Project that should be reflected in the CCRC, pursuant to subparagraph 6(n) of the 2017 Settlement, is a credit of \$4,155,553. After accounting for the preliminary Third SoBRA-related credit of \$4,069,905 in 2020, the Remaining Net True-up amount owed to customers is \$85,648. The Remaining Net True-up amount of \$85,648 has been reflected in TECO's proposed 2022 Capacity Cost Recovery rates.

¹⁸Document No. 10086-2021.

Issue 4: Should this docket be closed?

Recommendation: Yes. 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. (Trierweiler)

Staff Analysis: 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.