

RRA REGULATORY FOCUS

Duke Energy Florida, Tampa Electric file for ROE triggers due to rising yields

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Market Intelligence

Duke Energy Florida LLC and Tampa Electric Co. filed petitions with the Florida Public Service Commission seeking to enact triggers that would increase their authorized returns on equity due to rising federal government bond yields.

Under settlements approved in 2021 for both utilities resolving general rate cases, both Duke Energy Florida, or DEF, and Tampa Electric, or TE, were allowed to petition the commission for a limited proceeding to increase their authorized return on equity by 25 basis points in the event the 30-year U.S. Treasury Bond yield rate rose beyond a threshold.

DEF on Aug. 12 petitioned the commission for a limited proceeding to implement the return on equity trigger provisions of its 2021 settlement agreement. Specifically, DEF requested that its authorized ROE be increased by 25 basis points to a range of 9.10% to 11.10%, with a midpoint of 10.10% due to a rise in the 30-year U.S. Treasury Bond yield rate.

DEF indicated the trigger would increase its revenue requirement by about \$24.4 million. The utility requested approval to postpone the rate change until the first billing cycle of January 2023 rather than Oct. 12, 2022, to minimize customer impacts and potential confusion created by multiple rate changes in a short time frame.

TE filed its petition with the PSC on July 1. The utility requested that its current authorized ROE be increased by 25 basis points to a range of 9.25% to 11.25% with a midpoint of 10.20% effective July 1, 2022, and its base rates be increased to total an additional \$10 million if collected for 12 consecutive months. TE is seeking the new rates to become effective Sept. 1, 2022.

Florida's other investor-owned electric utility, Florida Power & Light Co., also has a triggering mechanism approved in a 2021 settlement agreement related to changes in government bond yields but has not petitioned the commission for action as of the time of publication.

All three electric utilities are authorized returns on equity that exceed national averages as tracked by Regulatory Research Associates. The average ROE authorized electric utilities was 9.39% in rate cases decided in the first half of 2022, largely in line with the 9.38% average for full year 2021. There were 19 electric ROE authorizations in the first half of 2022 versus 55 in full year 2021. For more information on trends in ROEs and other rate case parameters, refer to RRA's latest Major Rate Case Decisions Quarterly Update.

Extraordinary inflation is leading to extraordinary interest rate hikes in 2022 from the U.S. Federal Reserve. Headwinds in terms of high inflation and growing fears of an impending recession may weigh on utilities, regulators and rate case outcomes in 2022. For more, refer to US electric ROE determinations remain near all-time low as recession fears loom.

The respective dockets are DEF (Docket 20220143-EI) and TE (Docket 20220122-EI).

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