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# DEF’s response to staff’s first set of interrogatories, Nos. 1-7, filed June 18 and June 28, 2021

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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| In re: Storm Protection Plan Cost Recovery Clause | Docket No. 20210010-EI |
| | Dated: June 18, 2021 |

**DUKE ENERGY FLORIDA, LLC'S**
**<u>RESPONSE TO STAFF'S FIRST SET OF INTERROGATORIES (NOS. 1-7)</u>**

Duke Energy Florida, LLC ("DEF") responds to the Staff of the Florida Public Service Commission's ("Staff") First Set of Interrogatories to DEF (Nos. 1-7), specifically question 3, as follows:

<u>INTERROGATORIES</u>

3. Witness Menendez's May 3, 2021 testimony at page 8, lines 1 through 7, notes that during 2021, the Lateral Hardening Overhead Program, Lateral Hardening Underground Program, and Self-Optimizing Grid ("SOG") Program are expected to incur capital costs in 2021 related to the engineering activities on the 2022 work plans. It is not readily apparent to staff that DEF's 2021 incurred costs and the resultant revenue requirements qualify for Storm Protection Plan Cost Recovery Clause treatment based on a review of Exhibit B to DEF's 2020 Settlement. Please clarify whether DEF's 2020 Settlement Agreement provides for Storm Protection Plan Cost Recovery Clause treatment of the 2021 activities and costs discussed by Witness Menendez. Link to 2020 Settlement Exhibit B: http://www.psc.state.fl.us/library/filings/2020/03874-2020/03874-2020.pdf.

**<u>RESPONSE</u>**

As part of 2020 SPP/SPPCRC Agreement, DEF is not seeking recovery of any targeted underground costs or Self Optimizing Grid costs through the SPPCRC in 2021. To the extent such Program/activity-related (minor start-up/engineering related) costs are incurred in 2021, DEF would not request recovery of any revenue requirements associated with these costs incurred in 2021. The costs in question are engineering activities from the 2022 Storm Protection Plan program budgets that will be spent in 2021 to facilitate the start of construction activities in January 2022 and avoid delays. For the impacted programs, DEF has removed these costs and the associated revenue requirements from the SPPCRC 2021 Estimated Actual filing (Form 7E), originally filed on May 3, 2021. DEF will continue to include these costs in the beginning CWIP balances of the SPPCRC 2022 Projection Filing; this is similar to the treatment of the engineering costs incurred in 2020 for the Feeder Hardening program. DEF will also continue include these costs in Exhibit CAM-1, Form 8E description of the fiscal expenditures for the affected projects. Contemporaneously with this response, DEF has revised and re-filed its 2021 Estimated Actual filing, 2022 Projection Filing and the testimonies of DEF Witnesses Menendez and Lloyd, which reflect the corrections discussed in this response.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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| In re: Storm Protection Plan Cost Recovery Clause | Docket No. 20210010-EI |
| | Dated: June 28, 2021 |

**DUKE ENERGY FLORIDA, LLC'S**
**RESPONSE TO STAFF'S FIRST SET OF INTERROGATORIES (NOS. 1-7)**

Duke Energy Florida, LLC ("DEF") responds to the Staff of the Florida Public Service Commission's ("Staff") First Set of Interrogatories to DEF (Nos. 1-7) as follows:

INTERROGATORIES

1. Witness Bauer, at pages 14 and 15 of the May 3, 2021 testimony, discusses use of internal DEF crews and contract. It is staff's understanding that the DEF's retail jurisdictional costs for use of internal crews and contracts are considered recovered through base rates.

a. Please clarify Witness Bauer's use of the term "internal."

**RESPONSE**
Internal crews are full time Duke Energy employees.

b. If the term "internal" indicates costs that are normally recovered through base rates, then please explain how DEF removed such costs from its Storm Protection Plan Cost Recovery Clause revenue requirements, and where this is shown in the filings.

**RESPONSE**
Per Paragraph 3(c) of the 2020 SPP/SPPCRC Agreement, DEF has averaged $34.8 million of Transmission wood pole replacement expenditures annually over the 2017-2019 period. The parties agree this is a reasonable estimate of what is currently included in base rates. For 2021, DEF will include an adjustment in the SPPCRC to remove the revenue requirements associated with $34.8 million of pole replacement costs from recovery in 2021 (i.e., these costs will be recovered through base rates); any amount in excess of $34.8 million will be eligible for recovery through the SPPCRC. For purposes of developing this credit, DEF will reflect this expenditure evenly over the 12-month period where the total year-to-date ("YTD") adjustment amount used to develop the credit cannot exceed the YTD total expenditures in the activity in any month.

Internal labor associated with Capital investments are included in the amount removed from the SPPCRC filings on 2021 Exhibit No. __(CAM-1), Form 7E (pages 15-17 of 49) line 1c, Adjustments for Base Activity.

Per Paragraph 4(d) of the 2020 SPP/SPPCRC Agreement, DEF will be allowed recovery of prudently incurred O&M amounts associated with this activity in the same ratio that capital expenditures are included in the SPPCRC for 2021.

Internal labor associated with O&M are included in the amount removed from the SPPCRC filings on 2021 Exhibit No. _ (CAM-1), Form 5E (page 5 of 49) line 2a, Adjustments (Remove Base O&M for Pole Replacements).

2. It is not readily apparent to staff that DEF applied the revenue tax multiplier of 1.00072 in its calculation of the net total 2022 jurisdictional revenue requirements it seeks to recover from its customers during 2022 through the requested Storm Protection Plan Cost Recovery Clause factors.

a. Please clarify whether DEF included the revenue tax multiplier.

**RESPONSE**

DEF did not include the revenue tax multiplier in its calculation of the net total 2022 jurisdictional revenue requirements for the SPPCRC factors.

b. If DEF included the revenue tax multiplier, please explain how and provide an example.

**RESPONSE**

Please see DEF’s response to 2a, above. Starting with the January 2022 billing cycle, DEF will include the revenue tax multiplier on the same line as the Gross Receipts Tax, on customer bills. The line shall be renamed “Gross Receipts Tax and Regulatory Assessment Fee.”

On Slide number 4 of the presentation, "DEF 2021 Settlement Agreement", developed by the Office of Public Counsel (or OPC), in cooperation with Duke Energy Florida (DEF) and the other signatories, and filed with the Commission on February 16, 2021 in Docket No. 20210016-EI, the treatment of the Regulatory Assessment Fee (RAF) is addressed [¶5] – DEF shall remove the RAF from cost of service (see MFR C-2) and from cost recovery clauses and include with the Gross Receipts tax line on bills. The line shall be renamed “Gross Receipts Tax and Regulatory Assessment Fee.”

c. If DEF has elected to decline collection of the revenue tax multiplier, please explain why.

**RESPONSE**

Please see response provided in 2b, above.

3. Witness Menendez's May 3, 2021 testimony at page 8, lines 1 through 7, notes that during 2021, the Lateral Hardening Overhead Program, Lateral Hardening Underground Program, and Self-Optimizing Grid ("SOG") Program are expected to incur capital costs in 2021 related to the engineering activities on the 2022 work plans. It is not readily apparent to staff that DEF's 2021 incurred costs and the resultant revenue requirements qualify for Storm Protection Plan Cost Recovery Clause treatment based on a review of Exhibit B to DEF's 2020 Settlement. Please clarify whether DEF's 2020 Settlement Agreement provides for Storm Protection Plan Cost Recovery Clause treatment of the 2021 activities and costs discussed by Witness Menendez. Link to 2020 Settlement Exhibit B: http://www.psc.state.fl.us/library/filings/2020/03874-2020/03874-2020.pdf.

**RESPONSE**

The response for question 3 was previously provided on June 18, 2021.

4. Witness Bauer, at page 2 of the May 3, 2021 testimony, asserts that the purpose of the testimony is to explain that the activities and costs are consistent with DEF's Storm Protection Plan ("SPP") approved by the Commission in Docket No. 20200069-EI.

a. How, if at all, does DEF manage the programs Witness Bauer addresses to achieve the long-term goals of the approved SPP?

**RESPONSE**

DEF utilizes an asset management organization to select targets for the storm protection plan utilizing the prioritization methodology outlined in Docket No. 20200069-EI. Following DEF's "Plan, Do, Check, Adjust" principles, DEF reviews jobs during construction for opportunities for future design improvement and cost reduction. DEF conducts reviews after major storm events to evaluate the performance of assets that have been hardened for storm resiliency as compared to assets not yet hardened. The results from the reviews will be incorporated into future Storm Protection Plan efforts.

b. Does DEF's management and oversight of these programs include budget/cost controls and if not why not?

**RESPONSE**

Yes, DEF monitors budgets and variances during the project life cycle through its project management and project controls organizations. This includes tracking variances for actual versus budgeted costs and review of charging upon work order completion including appropriate FERC accounting.

5. Witness Menendez, on page 14 of the May 3, 2021 testimony, asserts "the planned activities are consistent with the Programs described in detail in DEF's Commission-approved SPP, specifically Exhibit No. JWO-2 in Docket No. 20200069-EI, filed on April 10, 2020, subsequently updated on June 24, 2020."

a. Please describe the analysis or review Witness Menendez performed or relied on in the development of this testimony. If the analysis or review was documented, please identify the document.

**RESPONSE**

During the development of DEF's SPPCRC Exhibits CAM-1 and CAM-2, Capital and O&M budget inputs received from the Distribution and Transmission project team subject matter experts were compared to the overall program costs identified in the SPP Programs in JWO-2 and JWO-1. In addition to the costs for the Programs, discussions were had about the types of activities these identified SPP programs would undertake to make sure these were consistent with the activities listed in JWO-2. For example, the Feeder Hardening program identified in JWO-2, includes a component of structure strengthening, that includes upgrading existing poles; discussions were had about the number of poles that would be upgraded.

6. Witness Menendez, on page 17 of the May 3, 2021 testimony, discusses protocols that ". . . ensure that there is no double recovery between base rate revenue and SPPCRC revenue."

a. Does DEF contemplate an audit process to ensure these protocols are appropriately implemented and followed? If not, why not?

**RESPONSE**

DEF has cost reviews for the protocols in-place for SPP work to ensure that there is no double recovery between base rate revenue and SPPCRC revenue. Hand-offs and checks are in place throughout SPP accounting process. For base assets being retired and replaced with new assets as part of an SPP program, the Company will not seek to recover the cost of removal net of salvage associated with the related assets.

For example, an Engineer creates a Work Order, which splits the SPPCRC recoverable costs (SPP Capital Installation and O&M costs) from Base rate work (Cost of Removal) and applies the SPP charging 'flag' on the project. This flag can be queried in financial and accounting systems to separate SPPCRC recoverable costs from Base rate costs. Next, the designated Project Manager reviews and approves the project estimates and a Regulatory Accountant validates that the cost of removal is debited to the Company's accumulated depreciation reserve according to normal regulatory plant accounting procedures. The Regulatory Accountant then runs a financial database query to pick up only those SPPCRC eligible costs and enters them into the monthly SPPCRC spreadsheets to create the monthly SPPCRC deferral entry. The Distribution and Transmission project teams, including Project Controls analysts, each review their respective monthly SPPCRC Capital and O&M totals they receive from the Regulatory Accountant and Financial Planning & Analysis. Discrepancies are addressed and updated, as appropriate, to ensure consistency in reporting across all departments and accuracy of SPPCRC values.

7. Witness Lloyd, at page 2 of the May 3, 2021 testimony, asserts that the purpose of the testimony is to explain that the activities and costs are consistent with DEF's SPP approved by the Commission in Docket No. 20200069-EI.

a. How, if at all, does DEF manage the programs Witness Lloyd addresses to achieve the long-term goals of the approved SPP?

**RESPONSE**

DEF utilizes an asset management organization to select targets for the storm protection plan utilizing the prioritization methodology outlined in Docket No. 20200069-EI. Following DEF's "Plan, Do, Check, Adjust" principals, DEF reviews jobs during construction for opportunities for future design improvement and cost reduction. DEF conducts reviews after major storm events to evaluate the performance of assets that have been hardened for storm resiliency as compared to assets not yet hardened. The results from the reviews will be incorporated into future Storm Protection Plan efforts.

b. Does DEF's management and oversight of these programs include budget/cost controls and if not why not?

**RESPONSE**

Yes, DEF monitors budgets and variances during the project life cycle through its project management and project controls organizations. This includes tracking variances for actual vs budgeted costs and review of charging upon work order completion including appropriate FERC accounting.