44

Tampa Electric's Response to Staff's First Data Request Nos. 1-2

Tampa Electric Company's Response
to Staff's First Data Request dated August 9, 2021

Filed: August 16, 2021

Introduction

Tampa Electric Company ("Tampa Electric" or the "company") has been operating under two FPSC-approved settlement agreements since 2013. On September 8, 2013, Tampa Electric and all of the Consumer Parties in its 2013 rate case filed a unanimous Stipulation and Settlement Agreement ("2013 Stipulation") that resolved all the issues in that case. The Commission approved the 2013 Stipulation and memorialized its decision in Order No. PSC-2013-0443-FOF-EI, issued September 30, 2013, in Docket No. 20130040-EI.

Tampa Electric and the parties to the 2013 Stipulation amended and extended that stipulation by entering into the 2017 Amended and Restated Stipulation and Settlement Agreement ("2017 Agreement"), which was approved by the FPSC in November 2017. The Commission approved the 2017 Agreement by Order No. PSC-2017-0456-S-EI, issued on November 27, 2017 in Docket Nos. 20170210-EI and 20160160-EI. It was a unanimous agreement, i.e., included all of the Consumer Parties to the 2013 Stipulation.

The 2021 Stipulation and Settlement Agreement ("2021 Agreement") is patterned closely after the 2017 Agreement, which was patterned after the 2013 Stipulation. It was a unanimous agreement that resolved all of the issues in the rate case. The 2021 Agreement is unanimous and resolves all of the issues in the Rate Case and Depreciation Study Dockets. Substantive differences between the 2021 Agreement and the 2013 Stipulation and 2017 Agreement include:

a. a midpoint return on equity of 9.95 percent, down from 10.25 percent in the 2013 Stipulation and 2017 Agreement; all three agreements have a Trigger that increases the company's midpoint ROE and earnings range by 25 basis points if an interest rate threshold is reached; the 2021 Agreement includes a $10 million increase if the Trigger occurs;

b. a lower and slightly asymmetrical earnings range from 9 percent to 11 percent, down from 9.25 to 11.25 percent in the 2013 Stipulation and 2017 Agreement;

c. a fixed equity ratio of 54 percent for all regulatory purposes instead of a 54 percent actual equity ratio and a 54 percent cap in the 2017 Agreement;

d. a Clean Energy Transition Mechanism ("CETM") that removes the revenue requirement associated with the cost recovery of the: (a) undepreciated net book values as of December 31, 2021 of the AMR assets to be retired; (b) undepreciated net book value as of December 31, 2021 of the portions of Big Bend Units One, Two, and Three to be retired; and (c) reserve deficiency associated with the dismantlement of Big Bend Units One, Two, and Three from the: (i) revenue requirement used to develop 2022 base rates and charges and (ii) the 2022 ECRC clause factor determination. The CETM will recover these costs on a levelized basis over 15 years via a separate line item on customer bills;

e. two generation base rate adjustments ("GBRAs") to recover the cost of its investment in, and operation of, Phase Two of its Big Bend Modernization Project and Tranches Two and Three of its Future Solar projects instead of the Polk GBRA in paragraph 6 of the 2013 Stipulation and SoBRA provisions in paragraph 6 of the 2017 Agreement;

f. a transition toward a 4 coincident peak (4 CP) cost-of-service methodology, compared to the 12 CP and 1/13 cost-of-service methodology established in 1985;

g. refinement of the continued application of the MDS methodology, first embraced in the 2013 Stipulation (see p. 6 thereof, at Section 3(b)(1)); and

h. a symmetrical tax change provision that addresses tax rate decreases and increases, not just decreases as provided in paragraph 9 of the 2017 Agreement.

These differences are described in more detail below. With one possible exception in the CETM described below, the provisions in 2021 Agreement fall within the scope of the issues normally resolved in rate cases and depreciation study dockets, i.e., are within the "four corners" of these dockets. While this response was prepared to provide a high-level summary of the 2021 Agreement - and a comparison to prior agreements - it must be noted that the 2021 Agreement stands on its own and "speaks for itself" and that nothing in this answer is supplemental to, or a modification of, the 2021 Agreement.

TAMPA ELECTRIC COMPANY
DOCKET NO. 20210034-EI
STAFF'S FIRST DATA REQUEST
REQUEST NO. 1
BATES PAGES: 3 - 5
FILED: AUGUST 16, 2021

1. How is TECO's Proposed 2021 Stipulation and Settlement Agreement filed on August 6, 2021, similar to the Company's 2013 and 2017 Settlement Agreements that were approved by the Commission?

A. From the broadest perspective, the 2021 Agreement is similar to the 2013 Stipulation and the 2017 Agreement in the sense that it is a successful, uncontested settlement that sets the parameters that will govern the company's base rates, and two clause mechanisms, potentially for multiple years, in step increases, moving the company to cleaner generation resources, thereby freeing the participants, and the Commission, to re-deploy their time and efforts on other endeavors. The Commission found the 2013 Stipulation and 2017 Agreement to be in the public interest. The Parties specifically agree that the 2021 Agreement is in the public interest.

Paragraph 1 of 2021 Agreement (Term) is patterned after and similar to paragraph 1 in the 2013 Stipulation and 2017 Agreement, except the term of the 2021 Agreement is three years.

Paragraph 2 of the 2021 Agreement (Return on Equity and Equity Ratio) is patterned after paragraph 2 in the 2013 Stipulation and paragraph 2 of the 2017 Agreement, except that the midpoint return on equity is 9.95 percent with a slightly asymmetrical range from 9 percent to 11 percent equity ratio for all regulatory purposes. Both prior agreements contained a Trigger provision that would increase the company's midpoint return on equity by 25 basis points under certain circumstances; however, the Trigger provision in the 2021 Agreement includes a $10 million annual revenue increase if the Trigger occurs. This dollar value is a negotiated amount, not a calculated amount.

Paragraph 3 of the 2021 Agreement (2022 Revenue Increase) is similar to paragraph 3 of the 2013 Stipulation, in that it memorializes an annual revenue increase for the test year, but provides more detail about the calculation of the amount than was contained in the 2013 Stipulation. Specifically, paragraph 3(c) of the 2021 Agreement specifies the six adjustments to the 2022 test year revenue requirement agreed-to by the Parties, an explanation of each adjustment, and directions regarding the applicability of each adjustment for earnings surveillance reporting ("ESR") purposes. It also references Exhibits A through H that support the 2022 Revenue Increase and the adjustments made to test year rate base and net operating income. It also confirms the company's proposed level of solid fuel inventory (60-day maximum burn) and economic development expenses. See paragraph 3(d).

Paragraph 4 of the 2021 Agreement (Generation Base Rate Adjustments) establishes two generation base rate adjustments ("GBRAs") and is similar to paragraph 6 in the 2013 Stipulation, except that it shows the calculation of the GBRA amounts in Exhibit I. The company proposed GBRAs in the prepared direct testimony of Jeffrey S. Chronister.

Paragraph 5 of the 2021 Agreement (Clean Energy Transition Mechanism) is new and is discussed in the company's response to Request No. 2, below, but resolves the issue of cost recovery for assets to be retired and dismantlement reserve deficiencies outlined in the prepared direct testimony of Davicel Avellan.

Paragraph 6 of the 2021 Agreement specifies the cost of service and rate design provisions applicable during the Term of the 2021 Agreement and is similar to paragraph 3 in the 2013 Stipulation. In this case, the 4 CP cost-of-service methodology and the full MDS were adopted subject to mitigation[1]. Subparagraphs 6(h), (i), and (j) in the 2021 Agreement are patterned after subparagraphs 3(d), (e), and (f) in the 2017 Agreement.

Paragraph 7 of the 2021 Agreement (Other Cost Recovery) is patterned after and very similar to paragraph 4 in the 2017 Agreement and 2013 Stipulation.

Paragraph 8 of the 2021 Agreement (Storm Damage) is essentially the same as paragraph 5 in the 2017 Agreement and paragraph 5 of the 2013 Stipulation, except for the new subparagraph (e), in which the company agrees to continue following the Future Process Improvements specified in the Tampa Electric Storm Cost Settlement Agreement filed with the FPSC on April 9, 2019 and approved by Order No. PSC-2019-0234-AS-EI, issued June 14, 2019 in Docket No. 201702711-EI. The company's storm damage proposal was outlined in the prepared direct testimony of Edsel Carlson.

*Paragraph 9 of the 2021 Agreeme*nt (Depreciation) is similar to paragraph 8 in the 2017 Agreement and 2013 Stipulation, with minor wording changes. It specifies the company's new depreciation rates in Exhibit G, which were negotiated using the company's December 30, 2020 depreciation study filing and the direct testimony of Tampa Electric witnesses Avellan, Kopp, and Beitel as beginning points.

[1] The term "subject to mitigation" means that while the 4 CP and full MDS were the cost-of-service methodologies used in this case, the parties agreed to rate class revenue allocations to mitigate the impact of the methodology changes. The agreed-to revenue allocations were used with billing determinants to develop the agreed-to rates, which will be reflected in the company's updated tariffs to be filed on or before August 20, 2021.

Paragraph 10 of the 2021 Agreement (Earnings) is patterned after and similar to paragraph 7 of the 2017 Agreement and 2013 Stipulation with minor wording changes.

Paragraph 11 of the 2021 Agreement (Tax Changes) is similar to paragraph 9 of the 2017 Agreement except that it is symmetrical and more specifically addresses the contingencies associated with possible future tax changes. It is based on Document No. 11 in the pre-filed exhibit of Jeffrey S. Chronister (JSC-1), which contained the company's tax reform proposal.

Paragraph 12 of the 2021 Agreement (Asset Optimization Mechanism) is similar to paragraph 10 in the 2017 Agreement, except for a name change and addition of language on treatment of natural gas transportation capacity releases and retirement/release of railcars. The company's asset optimization mechanism as originally proposed is outlined in the testimony of witness John Heisey.

Paragraph 13 of the 2021 Agreement (Other) is similar to paragraph 11 of the 2017 Agreement, except that subparagraphs (f) on evidence, (g) on Storm Protection Plan costs, and (h) on the expansion of two conservation programs are new.

Paragraph 14 of the 2021 Agreement (New Tariffs) is similar to paragraph 10 of the 2013 Stipulation and paragraph 12 of the 2017 Agreement, except the 2021 version is longer and more detailed.

Paragraph 15 of the 2021 Agreement (Application) is similar to paragraph 13 of the 2017 Agreement with minor wording changes.

Paragraph 16 of the 2021 Agreement (Commission Approval) is similar to paragraph 12 of the 2013 Stipulation and paragraph 14 of the 2017 Agreement with minor wording changes.

Paragraph 17 of the 2021 Agreement (Disputes) is similar to paragraph 13 of the 2013 Stipulation and paragraph 15 of the 2017 Agreement.

Paragraph 18 of the 2021 Agreement (Execution) is similar to paragraph 14 of the 2013 Stipulation and paragraph 16 of the 2017 Agreement.

2. How does TECO's Proposed 2021 Stipulation and Settlement Agreement filed on August 6, 2021, differ from the Company's 2013 and 2017 Settlement Agreements that were approved by the Commission?

A. Substantive differences in the 2021 Agreement relative to the 2017 Agreement and 2013 Stipulation include:

Paragraph 1 of 2021 Agreement (Term) specifies a Term of three years, which is shorter than a term of four years in 2013 Stipulation and 2017 Agreement.

Paragraph 2 of the 2021 Agreement (Return on Equity and Equity ratio) reflects a midpoint return on equity of 9.95 percent, down from 10.25 percent in the 2013 Stipulation and 2017 Agreement.

Paragraph 2 of the 2021 Agreement (Return on Equity and Equity ratio) reflects a lower and slightly asymmetrical earnings range from 9 percent to 11 percent, down from 9.25 to 11.25 percent in the 2013 Stipulation and 2017 Agreement.

Paragraph 2 of the 2021 Agreement (Return on Equity and Equity ratio) reflects a fixed equity ratio of 54 percent for all regulatory purposes (similar to 2013 Stipulation) instead of an actual equity ratio with a 54 percent cap in the 2017 Agreement.

The Trigger provision in *Paragraph 2 of the 2021 Agreement* (Return on Equity and Equity Ratio) includes a $10 million annual revenue increase if the Trigger occurs. The Trigger provisions in the 2013 Stipulation and 2017 Agreement did not include a revenue increase, only a mid-point ROE increase.

Paragraph 3 of the 2021 Agreement (2022 Revenue Increase) specifies the calculation of the 2022 Revenue increase; the 2013 Stipulation did not include the details behind the revenue increases authorized therein. The SoBRA increases authorized in the 2017 Agreement were in amounts determined in the SoBRA proceedings.

Paragraph 4 of the 2021 Agreement (GBRAs) is new relative to the 2017 Agreement but is similar to paragraph 6 in the 2013 Stipulation, i.e., Polk GBRA. Paragraph 4 of the 2021 Agreement authorizes generation base rate adjustments ("GBRAs") effective with the first billing cycles in January of

2023 and 2024 to recover the cost of the company's investment in, and operation of, Phase Two of its Big Bend Modernization Project and Tranches Two and Three of its Future Solar projects, and shows how the GBRA amounts were calculated in Exhibit I.

Paragraph 5 of the 2021 Agreement is all new, survives beyond the Term and describes a Clean Energy Transition Mechanism ("CETM") that survives the Term and removes the revenue requirement associated with the cost recovery of the: (a) undepreciated net book value as of December 31, 2021 of the AMR assets to be retired; (b) undepreciated net book value as of December 31, 2021 of the portions of Big Bend Units One, Two, and Three to be retired; and (c) reserve deficiency associated with the dismantlement of Big Bend Units One, Two, and Three from the: (i) revenue requirement used to develop 2022 base rates and charges and (ii) the 2022 ECRC clause factor determination. The CETM will recover these costs on a levelized basis over 15 years via a separate line item on customer bills. The calculation of the CETM is shown in Exhibit J.

The specific CETM mechanism itself was not included in the company's direct testimony, but it falls squarely within the four corners of the Rate Case, because it is simply a different method of addressing the company's proposal that was part of the filing for recovering the remaining net book value of assets to be retired. The CETM might technically be viewed as venturing beyond the four corners of the company's depreciation study and rate case in one small respect, i.e., by transferring cost recovery of the environmental assets associated with the early retirement of Big Bend Units One, Two, and Three from the environmental cost recovery clause ("ECRC") to the CETM[2]. However, in the discovery process it was revealed to the Consumer Parties and understood thereafter that the recovery of the ECRC portion of the retired assets related to the Big Bend Units was "part and parcel" of the overall asset retirement and recovery issue and that the prudence of the recovery of those assets was inseparable from the base rate portion. Thus, it made sense to treat the recovery of the entire asset retirement in a holistic manner, and the Parties agreed in paragraph 5 of the 2021 Agreement that recovery for the costs associated with these ECRC items should be included in the CETM for reasons of regulatory efficiency and transparency.

Paragraph 6 of the 2021 Agreement differs from the 2013 Stipulation in that it reflects a transition away from the 12 CP and 1/13 cost-of-service

[2] The company indicated in footnote 1 to the company's depreciation petition filed on December 30, 2020, that it would request recovery of the portion of the capital recovery schedules associated with units of property being recovered through the ECRC when it makes its projection filing for the ECRC in 2021.

methodology established in 1985 and reflected in the 2013 Stipulation to the full implementation of 4 CP, albeit, in conjunction with the updating of the MDS analysis, subject to mitigation. The 2017 Agreement reflected pragmatic adjustments to the cost-of-service methodology agreed-to by the Parties at the time, producing an effective beginning of a transition away from 12 CP and 1/13 AD. Subparagraph 6(e) is also new, in that it specifies how, once approved, the changes in the 2021 Agreement will be reflected in 2022 cost recovery clause proceedings.

Paragraph 11 of the 2021 Agreement (Tax Changes) is different than paragraph 9 of the 2017 Agreement in that the 2021 Tax Change provision is symmetrical – it operates as tax rates go up and down - and more specifically addresses the contingencies associated with possible future tax changes. The 2013 Stipulation did not have a tax reform or change provision.