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DEF’s Response to Staff’s First Set of Interrogatories Nos. 1–10

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Energy conservation cost recovery clause.	DOCKET NO. 20220002-EG DATED: JUNE 29, 2022

DUKE ENERGY FLORIDA, LLC'S

RESPONSE TO STAFF'S FIRST SET OF INTERROGATORIES (NOS. 1-10)

Duke Energy Florida, LLC ("DEF") responds to the Staff of the Florida Public Service Commission's ("Staff") First Set of Interrogatories (Nos. 1-10), as follows:

INTERROGATORIES

Please refer to Schedule CT-2, Page 3 of 4, in Exhibit KR-1T, from DEF's May 2, 2022 filing in Docket No. 20220002-EG (2021 True-up filing), to answer the following questions.

1. On September 14, 2021, the Florida Department of Revenue announced in Tax Information Publication No: 21C01-02 that the state's corporate income tax rate has been reduced to 3.535 percent for tax years beginning on or after January 1, 2021. Would there be an impact on the clause due to the tax reduction? If so, please identify by Schedule and Line entry where DEF recognized the adjustment(s) to the changes in State of Florida corporate income taxes that occurred in 2021.

Response:
The 3.535% is part of the 23.793% combined Statutory Tax Rate shown on Exhibit No.1 (KR-1T), Schedule CT-6 in the Notes. The 23.793% is calculated as the sum of the Federal Statutory Income Tax Rate of 21.000% and 2021 Florida Corporate Income Tax Rate of 3.535% net of the Federal Deduction of SIT as calculated below.

Federal Income Tax Rate	21.000% a
FL Corporate Income Tax Rate	3.535% b
Federal Deduction of SIT Rate	-0.742% c = (-a*b)
Combined Statutory Tax Rate	23.793% a+c

The reduction in the state income tax results in lower revenue requirements for the equity components of the capital structure. The combined Statutory Tax Rate of 23.793% is recognized in the Common Equity Revenue Requirement Rate 6.04% (Exhibit No.1 (KR-1T), row 1, column (5), and in the Common Equity portion of ITC 0.078%, row 9, column "After Gross-up."

2. Please explain how the expense for Payroll and Benefits is allocated to all conservation programs.

Response:
Expenses for Payroll and Benefits include base labor, overtime, payroll taxes and benefits.

3. Please explain why the expense for Advertising is allocated to some, but not all, conservation programs.

Response:
Expenses for Advertising are driven and allocated to programs based on the need to increase participation for a particular program. Advertising for some programs include utilizing mass media channels such as billboards, TV, radio, newspaper, and online search engines. Other programs utilize marketing campaigns with bill inserts, direct mail, email, and outbound calling which are low costs or at times no costs to the program and designed to target specific customers.

4. For the Residential Incentive program (Line 2), please answer the following:

   a. Please explain the principle drivers for the variance of ($105,827) in the expense for Advertising for the January-December 2021 period.

   Response:
   The principal driver of the variance in Advertising expense was the shift to more digital marketing due to COVID-19 concerns. In 2021, DEF adjusted its marketing plans to drive more online advertising and pulled back on other types of marketing, such as direct mail, which resulted in lower costs.

   b. Please explain the principle drivers for the variance of ($420,069) in the expense for Incentives for the January-December 2021 period.

   Response:
   The principal driver of the variance in Incentives for 2021 was the continued impacts of COVID-19 on program participation. Many customers deferred in-home projects such as windows and insulation measures due to safety concerns.

5. For the Interruptible Service program (Line 7), please answer the following:

   a. Please explain the principle drivers for the variance of ($25,582) in the expense for Depreciation, Amortization and Return for the January-December 2021 period.

   Response:
   Capital additions were considerably less than estimated for 2021. Only 21 recloser upgrades were completed compared to the originally estimated 50.

b. Please explain the principle drivers for the variance of ($4,762,755) in the expense for Incentives for the January-December 2021 period.

<u>Response</u>:
Billing and estimation errors due to the Company's implementation of a new customer connect system resulted in discrepancies in November and December of 2021 in the amount of $1,020,318. The remaining variance of $3,723,409 during 2021 was due to a reduction in peak load during 2021.

6. For the Curtailable Service program (Line 8), please explain the principle drivers for the variance of ($577,883) in the expense for Incentives for the January-December 2021 period.

<u>Response</u>:
Billing and estimation errors due to the Company's implementation of a new customer connect system resulted in discrepancies in November and December of 2021 in the amount of $270,785. The remaining variance of $310,052 during 2021 was due to a reduction in peak load during 2021.

7. For the Load Management (Residential and Commercial) program (Line 9), please answer the following:

a. Please explain the principle drivers for the variance of ($1,829,851) in the expense for Depreciation, Amortization and Return for the January-December 2021 period.

<u>Response</u>:
The variance is due to COVID-19 pandemic related global supply chain shortages that continue to impact projected inventory purchases.

b. Please explain the principle drivers for the variance of $563,332 in the expense for Outside Services for the January-December 2021 period.

<u>Response</u>:
2021 completed maintenance appointments exceeded projections. Projections were based on the previous year's completions which were exceeded.

c. Please explain the principle drivers for the variance of $660,132 in the expense for Incentives for the January-December 2021 period.

<u>Response</u>:
2021 incentives are driven by electric usage which exceeded projections.

8. For the Standby Generation program (Line 11), please explain the principle drivers for the variance of ($603,582) in the expense for Incentives for the January-December 2021 period.

Response:
Billing and estimation errors due to the Company's implementation of a new customer connect system resulted in discrepancies in November and December of 2021 in the amount of $603,470. The remaining variance of $11,611 was realized during 2021 due to a reduction in peak load during 2021.

9. For the Qualifying Facility program (Line 12), please answer the following:

   a. Please explain the principle drivers for the variance of ($136,897) in the expense for Payroll & Benefits for the January-December 2021 period.

   Response:
   The Business Unit that manages the Qualify Facility program unexpectedly lost two employees during 2021 due to the COVID-19 pandemic and corresponding changes in the remote work approach. Workforce market challenges impacted the ability to immediately backfill these vacancies creating an under-budget variance.

   b. Please explain the principle drivers for the variance of ($145,634) in the expense for Outside Services for the January-December 2021 period.

   Response:
   The work and costs required by outside legal counsel to make filings, on behalf of DEF customers, for all judgements associated with a Qualify Facility PPA dispute and arbitration was less than forecasted.

10. For the Neighborhood Energy Saver program (Line 13), please answer the following:

   a. Please explain the principle drivers for the variance of ($363,396) in the expense for Outside Services for the January-December 2021 period.

   Response:
   The variance in the expense for Outside Services for the 2021 period reflects the continued impacts of COVID-19 on program operations. Impacts from the pandemic impaired the ability of the program to expense for Outside services for the 2021 calendar period.

   b. Please explain the principle drivers for the variance of ($1,652,671) in the expense for Incentives for the January-December 2021 period.

   Response:
   The variance in the expense for Outside Services for the 2021 period reflects the continued impacts of COVID-19. Impacts from the pandemic impaired the ability of the program to expense for Incentives for the 2021 calendar period.

c. In 2021, a total of 537 participants enrolled in this program, down from 950 in calendar year 2020. Please explain why the number of participants in this program fell in 2021, compared to 2020.

Response:
The Neighborhood Energy Saver program participation fell in 2021 due to continued impacts of COVID-19. Impacts from the pandemic impaired the ability to implement normal field operations and the program was unable to deploy teams into homes to install measures. The program did not resume until May 17, 2021.