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DEF's response to Staff's
Second Set of Interrogatories
Nos. 2-9

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost Recovery Clause

Docket No. 20220007-EI

Dated: May 16, 2022

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO
STAFF'S SECOND SET OF INTERROGATORIES (NOS. 2-9)**

Duke Energy Florida, LLC ("DEF"), responds to Staff's Second Set of Interrogatories to DEF (Nos. 2-9), as follows:

INTERROGATORIES

For the following question, please refer to DEF's witness McDaniel's direct testimony filed April 1, 2022, page 4, lines 2-3.

2. DEF's Project 6 – The Cooling Water Intake. Witness McDaniel testified that the project's costs were higher than projected "due to additional labor requirements and increased material costs related to work at the Crystal River Energy Complex." Please describe the work referenced by witness McDaniel that was being completed at the Crystal River Energy Complex.

RESPONSE:

The work being performed included removing biological growth from intake pit walls and installing intake screens. When the cleaning of the intake pit wall began, an area was found to have approximately 3-feet thick of calcified growth, which required additional labor and a crane rental.

For the following question, please refer to DEF's witness McDaniel's direct testimony filed April 1, 2022, page 4, lines 17-19.

3. DEF's Project 17 – MATS – CR 4&5. Please explain the reason for the deferral, and when the testing and repairs for the unit will be completed.

RESPONSE:

The Crystal River Unit 4 outage deferral was unrelated to the MATS project. The MATS scope of work scheduled for 2021 was to be completed during the planned outage that year. DEF deferred that outage to February of 2022 because the components needed for that repair would not be available until early 2022. The repairs were completed during the spring outage and testing was completed when the unit returned to service.

For the following questions, please refer to DEF's Petition for Approval of Environmental Cost Recovery Clause Final True-Up for the Period January 2021 - December 2021 and Approval of New Project for Recovery.

4. Please refer to paragraph 9. For Bartow Combined Cycle Station (BCC) and Hines Energy Complex (HEC), please identify when DEF anticipates the possible reclassification of BCC and HEC to an Area Source will be determined.

RESPONSE:

On May 4, 2022, DEF received a final air permit that reclassifies HEC as an area source. DEF anticipates FDEP will complete the reclassification of BCC in June 2022.

5. Please refer to paragraphs 8-10. Please explain how the compliance testing and reclassification costs were estimated for BCC, HEC, and Citrus County Combined Cycle Station (CCC).

RESPONSE:

DEF estimated the costs for BCC and HEC reclassification by obtaining cost estimates from contract services for permit application preparation as well as obtaining costs from newspapers for the public notice of the revised Title V air permits. Cost estimates for testing at BCC, HEC, and CCC were obtained from contract testing companies.

6. Please refer to paragraph 10. Please explain if DEF will proceed with initial compliance tests for BCC and HEC while seeking reclassification, or if it will begin initial compliance tests only if reclassification of BCC and HEC is not possible.

RESPONSE:

On May 4, 2022, DEF received a final air permit that reclassifies HEC an area source and will not require testing. DEF will not proceed with initial compliance testing for BCC during the reclassification permitting process, unless as stated in paragraph 10 of the Petition DEF is unable to reclassify BCC by September 5, 2022. If the agency reclassifies the BCC compliance testing will not be required. Please see the response to Interrogatory No. 4, noting that DEF anticipates FDEP will complete the reclassification of Bartow in June 2022.

7. Please refer to paragraph 11. Please identify when DEF anticipates that the results from the compliance tests will be available for BCC, HEC, and CCC.

RESPONSE:

Citrus Combined Cycle testing is currently scheduled for May 24 - May 27, 2022. Results are expected to be available by July 26, 2022. On May 4, 2022, DEF received a final air permit that reclassifies HEC an area source and testing will not be required. Testing at BEC is not expected to occur due to the anticipated reclassification of this site as an area source, as stated in the response to Interrogatory No. 4.

8. Please complete Table 1 below listing the estimated residential customer bill impact resulting from the activities requested by DEF, assuming compliance with the formaldehyde standard for CCC and reclassification as an Area Source for BCC and HEC.

Table 1: Estimated Residential Customer Bill Impact

	\$ / 1,000 kWh	\$ / 1,200 kWh
2022		
2023		
2024		
2025		
2026		

RESPONSE:

DEF estimates the Residential Customer Bill Impacts as shown below. For the purpose of this response, DEF assumed the bill impacts were effective in the year the dollars were forecasted. These costs assume that Bartow and Hines facilities will be reclassified as an Area Source, as detailed in the responses to Interrogatories 2-4 through 2-7. For estimating purposes, DEF assumed the high-level cost estimates stated in the Petition (\$103,500 in O & M) spend in 2022, which is the sum of \$90,000 for CCC initial compliance testing and

\$13,500 for reclassifying BCC and HEC, and \$60,000 annually in O & M compliance testing in 2023 and forward) and applied the same sales forecast, WACC and jurisdiction factors for 2023 – 2026 period as it did in the 2022 period. The bill impacts exclude gross receipts tax and the regulatory assessment fee. Actual bill impacts will be based on actual contractor costs.

Table 1: Estimated Residential Customer Bill Impact

	\$ / 1,000 kWh	\$ / 1,200 kWh
2022	\$0.0028	\$0.0033
2023	\$0.0016	\$0.0019
2024	\$0.0016	\$0.0019
2025	\$0.0016	\$0.0019
2026	\$0.0016	\$0.0019

For the following questions, please refer to DEF's witness Dean's Exhibits GPD-1 and GPD-2.

9. Please explain if these exhibits include an adjustment to reflect a change in the Florida state tax rate from 4.458% to 3.535%.
 - a. Did the change in tax rate impact the 2020 and 2021 tax years for ECRC purposes?
 - b. If the answer to (a) is "yes," please describe how you addressed the reduction in tax rate for 2020 and 2021.
 - c. If the answer to (a) is "no," please provide a full explanation of your answer.

RESPONSE:

- a. Yes, the State Tax Rate used for 2021 calculations was 3.535%.
- b. Please see the attached documents bearing bates numbers 20220007-DEF-000001 and 20220007-DEF-000002, for the calculation detail.
- c. n/a

		2021	2020
Federal	(1)	21.000%	21.000%
State	(2) see screen shot below	3.535%	4.458%
Fed Deduction of SIT Rate	(3) = (- line 1) * (line 2)	-0.742%	-0.936%
Combined Statutory Tax Rate	(4) = sum lines 1-3	23.793%	24.522%

This percentage goes to cell M11 & C39 on 'Form 42 9A' of the ECRC 2021 True-Up (Page 27 of 27), as shown on the next tab.



Florida Corporate Income Tax

2021 Tax Rate Reduction

The Florida corporate income/franchise tax rate is reduced from 4.458% to 3.535% for taxable years beginning on or after January 1, 2021, but before January 1, 2022. The tax rate returns to 5.5% for taxable years beginning on or after January 1, 2022.

The Florida Department of Revenue will post additional TIPs on any future tax rate changes.

Taxable Year Beginning	Prior to 1/1/2019	1/1/2019 - 12/31/2020	1/1/2021 - 12/31/2021	On or after 1/1/2022
Tax Rate	5.5%	4.458%	3.535%	5.5%

Taxpayers that have a 52 - 53 week taxable year beginning on or about January 1 and ending on or about December 31 have the same tax rates as a calendar year-end taxpayer.

2022 Estimated Tax Payments – Prior Year Exception

Interest and penalty are not imposed on estimated payments that meet:

- the standard requirement of 90% of the tax due in the current year, after credits; or
- 100% of the tax due in the prior year at the current year's tax rate.

Since the 2022 corporate income tax rate returns to 5.5%, the prior year exception for tax years that begin within the 2022 calendar year is based on the tax due on the prior year's income using a 5.5% tax rate. As a result, taxpayers should recompute the prior year tax due for purposes of determining the installment required to meet the prior year exception.

References: Sections 220.1105 and 220.34, Florida Statutes

DUKE ENERGY FLORIDA
Environmental Cost Recovery Clause
Calculation of Actual / Estimated Amount
January 2021 - December 2021

Capital Structure and Cost Rates

Form 42.9A

Docket No. 20210007-EL
Duke Energy Florida
Witness: G. P. Dean
Exh. No. ____ (GPD-3)
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1.3122094 Inc Tax Multiplier (= 1/(1-23.793%))
23.793% Effective Tax Rate

	(1)	(2)	(3)	(4)	(5)	(6)
	Jurisdictional Rate Base Adjusted Retail (\$000s)	Cap Ratio	Cost Rate	Weighted Cost	Revenue Requirement Rate	Monthly Revenue Requirement Rate
1 Common Equity	\$ 6,688,612	43.79%	10.50%	4.60%	6.04%	0.5033%
2 Long Term Debt	5,674,817	37.16%	4.31%	1.60%	1.60%	0.1333%
3 Short Term Debt	260,772	1.71%	0.16%	0.00%	0.00%	0.0000%
4 Cust Dep Active	178,995	1.17%	2.65%	0.03%	0.03%	0.0025%
5 Cust Dep Inactive	1,625	0.01%			0.00%	0.0000%
6 Invest Tax Cr	165,584	1.08%	7.66%	0.08%	0.10%	0.0083%
7 Deferred Inc Tax	2,302,312	15.07%			0.00%	0.0000%
8 Total	\$ 15,272,718	100.00%		6.31%	7.77%	0.6475%

	ITC split between Debt and Equity**:	Ratio	Cost Rate	Ratio	Ratio	Deferred Inc Tax	Weighted ITC	After Gross-up
9 Common Equity	6,688,612	54%	10.5%	5.68%	74.2%	0.08%	0.059%	0.078%
10 Preferred Equity	-	0%				0.08%	0.000%	0.000%
11 Long Term Debt	5,674,817	46%	4.31%	1.98%	25.8%	0.08%	0.021%	0.021%
12	12,363,429	100%		7.66%			0.080%	0.099%

Breakdown of Revenue Requirement Rate of Return between Debt and Equity:

13	Total Equity Component (Lines 1 and 9)	6.118%
14	Total Debt Component (Lines 2, 3, 4, and 11)	1.651%
15	Total Revenue Requirement Rate of Return	7.769%

Notes:

Effective Tax Rate: 23.793%

Column:

- (1) Per Order No. PSC-2020-0165-PAA-EU, issued May 20, 2020, approving amended joint motion modifying WACC methodology
- (2) Column (1) / Total Column (1)
- (3) Per Order No. PSC-2020-0165-PAA-EU, issued May 20, 2020, approving amended joint motion modifying WACC methodology
- (4) Column (2) x Column (3)
- (5) For equity components: Column (4) / (1-effective income tax rate/100)
- * For debt components: Column (4)
- ** Line 6 is the pre-tax ITC components from Lines 9 and 11
- (6) Column (5) / 12