69

DEF's Response to OPC's Second Set of Interrogatories Nos. 54, 57-59, 62-65

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Storm Protection Plan pursuant to Rule 25-6.030, F.A.C., Duke Energy Florida, LLC.	DOCKET NO. 20220050-EI Dated: May 16, 2022

DUKE ENERGY FLORIDA, LLC'S RESPONSE TO
CITIZENS' SECOND SET OF INTERROGATORIES (NOS. 54-65)

Duke Energy Florida, LLC ("DEF") responds to the Citizens of the State of Florida, through the Office of Public Counsel's ("Citizens" or "OPC") Second Set of Interrogatories to DEF (Nos. 54-65) as follows:

INTERROGATORIES

Refer to the 2023-2032 Feeder Hardening tab in the Q1 Rule 25-6030 - Rev Req & 3 yr. Rate Impacts_BLM-1 Support File -POD 1 Excel workbook as an example of the 7.61% WACC used to compute the return for all individual program costs.

54. Did the Company include accumulated deferred income taxes ("ADIT") and accumulated deferred investment tax credit ("ITC") in the calculation of the 7.61% WACC.

Response:
Yes, DEF included accumulated deferred income taxes ("ADIT") and accumulated deferred investment tax credit ("ITC") in the calculation of the 7.61% WACC.

[redacted]

[redacted]

57. Does the Company agree that ADIT should be reflected as a reduction to the rate base or as a zero-cost source of capital in the cost of capital used for the rate of return? If not, then provide all reasons why the Company believes it should retain the carrying charge savings from these tax benefits instead of reflecting them in the SPPCRC revenue requirement.

Response:
Yes. The Company includes ADIT as a zero-cost source of capital used for the rate of return, as shown in DEF Exhibit CAM-3, Page 102 of 102, line 7, in Docket 20220010-EI. This schedule supports the 7.61% WACC.

Refer to the individual 2023-2032 revenue requirement tabs for each of the individual SPP programs in the Q1 Rule 25-6030 - Rev Req & 3 yr. Rate Impacts_BLM-1 Support File -POD 1 Excel workbook.

58. Explain why there are no projections for Construction Work In Progress (CWIP) reflected in the determination of plant in service Investments used to compute depreciation expense.

Response:
Consistent with the revenue requirement calculation in DEF's 2020 SPP, DEF's CWIP balance is incorporated into the "Investment" line for each SPP program. DEF has accounted for CWIP within the depreciation expense calculation. Within the current year, a portion of each program is assumed to be placed in-service. Therefore, the amount of investment not yet placed in-service is representative of the CWIP balance.

59. Explain why there are no reductions assumed in the calculation of depreciation expense associated with retirements for plant that was previously recovered in base rates.

Response:
Consistent with the model that was developed by DEF for its April 10, 2020, SPP filing, DEF did not include any assumptions for reductions assumed in the calculation of depreciation expense associated with retirements for plant that was previously recovered in base rates. In DEF's annual SPPCRC filings, DEF includes credits associated with the depreciation expense for base rate assets retired as part of an SPP program. When the value of the base assets is removed from EPIS during a subsequent rate case, the depreciation expense credit included in the SPPCRC filings associated with these assets should simultaneously cease. DEF does not make assumptions for timing and outcomes of rate cases that would be necessary to accurately reflect a reasonable amount of credit within the SPP Revenue Requirement model. DEF believes that this is the appropriate approach since the credits are included in the SPPCRC filings which are used to set customer rates and are subject to true-up.

Refer to the 2023-2032 Feeder Hardening tab in the Q1 Rule 25-6030 - Rev Req & 3 yr. Rate Impacts_BLM-1 Support File -POD 1 Excel workbook as an example of the computation of property tax for all individual program costs.

[redacted]

62. Explain how the 2023-2022 rates for property taxes was determined associated with the computation of property taxes and provide the source(s).

Response:
Beginning with Property Tax Year 2022, property tax expense was estimated using the following steps. Steps 1 through 3 established a base effective tax rate to estimate tax expense. Steps 4 through 14 is the same process used for 2022 and 2023 (0.89346%)

Process Steps

1. Determine the gross taxes paid for 2021 (actual taxes paid plus tax savings).
   a. Actual 2021 property taxes paid are based on FERC balances ending 12/31/2020.
2. Calculate the effective tax rate (ETR) on cost for 2021 using the 12/31/2020 Property Plant and Equipment (PP&E) ending balance provided in Duke system balance sheet reports.

$$\frac{\text{2021 Gross Tax Paid}}{\text{Actual PP\&E 12/31/2020 Ending Balance}} = \text{Effective Tax Rate}$$

$$\frac{172{,}166{,}659}{20{,}880{,}711{,}009} = .82452\%$$

3. Calculate the change in PP&E Ending Balance between 12/31/2020 and 12/31/2021.

   a. Change = 8.176%
4. Determine the estimated PP&E Cost by applying the PP&E percentage increase to the ending balance.
   a. **Tax Year 2022**: 20,880,711,009 x 1.08176 = $22,587,945,495
   b. **Tax Year 2023**: 22,587,945,495 x 1.07989 = $24,392,584,561
5. Calculate the estimated tax by applying the .82452% Cost ETR to the estimated PP&E balance.
   a. **Tax Year 2022:** $22,587,945,495 x .82452% = 186,243,232
   b. **Tax Year 2023:** $24,392,584,561 x .82452% = 201,122,930
6. Apply a percent adder for the following items to the Cost ETR to determine the new estimated ETR.
   a. Tax Year 2022:
      a. Income and Cost Approach Analysis of 3%
         1. If the weighted delta between Cost and Income is negative, EY used a flat 3% increase.
      b. Tax rate increase of 2%
      c. .82452 * (1.03) * (1.02) = .86625%
   b. Tax Year 2023:
      a. Income and Cost Approach Analysis of 10.01994%
      b. Tax rate increase of 2%
      c. .82452 * (1.1001994) * (1.02) = .92528%
7. Apply the new estimated ETR to the PP&E ending balance to determine the updated Gross property tax estimate
   a. **Tax Year 2022:** 22,587,945,495 * .86625% = 195,667,140
   b. **Tax Year 2023:** 24,392,584,561 * .92528% = 225,700,826
8. Determine the ratio of all taxes paid to Florida

2021 FL Tax Paid	144,405,768
Total DEF Tax Paid	144,891,596
% of Florida	**99.665%**

9. Apply Florida ratio to Estimate Gross Tax to determine the estimated Florida gross taxes

Estimated DEF Gross Tax (All States)	225,700,826
% of FL	99.665%
FL Estimated Gross Tax	**224,944,041**

10. Apply the estimated carry forward tax savings to determine the Estimated Net Tax Before New Tax Savings and Fees

FL Estimated Gross Tax	224,944,041
Estimated Carryforward Savings	(7,736,855)
Estimated Net Tax	**217,207,186**

11. Apply Florida ratio to estimate Florida PP&E Cost

Total PP&E Cost	24,392,584,561

% of FL	99.665%
FL PP&E Cost	**24,310,795,067**

12. Calculate Estimated Florida Tax Rate on Cost

$$\frac{\text{Estimated Net Tax}}{\text{FL PP\&E Cost}} = \text{Estimated FL Tax Rate on Cost}$$

$$\frac{217{,}207{,}186}{24{,}310{,}795{,}067} = 0.89346\%$$

For 2024-2032, please see DEF's response to Question 63.

63. Explain why the property tax rates used to compute property tax expense for 2023 is 0.089% and the rate is 0.076% for all other years 2024-2032.

Response:
The Personal Property Tax rate that DEF used to compute property tax expense for 2023 is 0.089%. This figure was based on the projection of DEF's Personal Property Tax rate for 2023. DEF used this property tax rate in its May 2, 2022, SPPCRC filing for the 2023 Revenue Requirement Projections. For consistency between DEF's SPPCRC filing and its 2023 SPP filing, the property tax expense used for 2023 was 0.089% in both filings. However, historically, the actual Personal Property Tax rate has been lower than the forecasted Personal Property Tax rate used in the SPPCRC projection filings. Given this, DEF has used what it believes to be a reasonable estimated property tax rate for years 2024-2032, mid-range between the low of 2021 Actual and the 2022 Projected amount, which is also in-line with the actual amounts for 2020 and 2021. Please see the support files provided in DEF's response to OPC POD 34.

64. Confirm that the Company's current year property tax is actually computed based primarily on the net book value, or other valuation methodology, based on plant in service as of the last day of the previous year.

Response:
Actual 2021 property taxes paid are based on FERC balances ending 12/31/2020 and valuation method using a combination of the Income and Cost Approaches.

65. Explain all reasons why the Company's calculation of property tax expense is based on the average net investment of the current year as opposed to the ending balance of net investment of the previous year.

Response:

In the annual SPPCRC filings, DEF calculates the property tax amount using the Plant In-Service amount of the current month, multiplied by the property tax rate. The Company's calculation of property tax expense used in the SPP 2023 model for revenue requirement forecasting is based on the average net investment of the current year as opposed to the ending balance of net investment of the previous year to better reflect the value of assets that were placed in-service mid-year.