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FPUC's Response to OPC's Second Set  
of Interrogatories Nos. 7-12

**(Nos. 7-8 have attachments)**

**INTERROGATORIES**

7. Please refer to the FE Cost Rate Cal tab in the Estimated Storm Protection Cost Recovery Rate Impact - revised 4\_5\_2022\_FPUC-SPP (0773-0792)(15065474.1) Excel workbook.
  - a. Provide the underlying source data, e.g. data used to calculate the capitalization, capitalization ratios, and cost of each component.

**Response:** The original submission reflected the Company's cost rates based on its September 2021 Earnings Surveillance Report. It has been updated to reflect the Capital Structure as of its December 2021 Earnings Surveillance Report. The revenue expansion factor is also updated to reflect the 2022 state Income tax rate. The underlying supporting data for the original and updated balances is included in Attachment A. See Attachment B for the revised revenue requirement schedule that has been updated to include the revised cost of capital rate.

*Curtis Young*

- b. Explain why the Company did not include accumulated deferred income taxes ("ADIT") or accumulated deferred investment tax credit ("ITC") in the calculation of the cost of capital.

**Response:** ADIT and ITC, as liabilities, are a source of interest-free financing. The ADIT balance solely relates to the federal tax rate change associated with the Tax Cut and Jobs Act of 2017. In Tax Docket 20180048, it was '...agreed that the grossed-up, "protected" Excess Accumulated Deferred Income tax (EADIT) balance is a deferred regulatory tax liability'<sup>1</sup>. However, instead of reducing the Company's rate base, it is being reported as a zero-cost capital source. Therefore, the weighted cost rates for ADIT and ITC have been appropriately stated at zero.

*Curtis Young*

Interrogatory No. 7(c-e)

7. (cont.)

- c. Provide the underlying source data necessary to calculate the capitalization, capitalization ratios, and cost of each component with the ADIT and ITC included in the calculation.

**Response:** See response to 7b above.

*Curtis Young*

- d. Confirm that the SPP programs and projects will result in deferred tax expense due to temporary differences and that the deferred tax expense will accumulate in ADIT.

**Response:** See response to 7b above.

*Curtis Young*

- e. Confirm that the Company agrees 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 denied, 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:** The Company agrees and have included ADIT at a zero-cost source of capital in the cost of capital for the rate of return.

*Curtis Young*

DOCKET NS.: 20220049-EI

Interrogatory No. 8 (a and b)

8. Please refer to the Cons Dep Rate tab in the Estimated Storm Protection Cost Recovery Rate Impact - revised 4\_5\_2022\_FPUC-SPP (0773-0792)(15065474.1) Excel workbook.
  - a. Provide the source(s) of the depreciation rates shown on this schedule.

**Response: The depreciation rates shown are from the most recent depreciation study. See Sch. 2 in Attachment C for rates stated in PSC Order PSC-2020-0347-AS-EI, of Dockets 20190155, 20190156, and 20190174.**

*Curtis Young*

- b. Provide the estimated service lives for the plant additions by plant account and provide a copy of the source(s) of those service lives.

**Response: The Company is utilizing the average service life (ASL) stated in the last depreciation study. See Sch. 1 in Attachment C for ASL reflected in PSC Order PSC-2020-0347-AS-EI, of Dockets 20190155, 20190156, and 20190174.**

*Curtis Young*

9. Please refer to the Estimated Rev Req – bs tab and the FPUC Surcharge 2022 – 2023 tab in the Estimated Storm Protection Cost Recovery Rate Impact - revised 4\_5\_2022\_FPUC-SPP (0773-0792)(15065474.1) Excel workbook.
  - a. Please also refer to the Estimated Rev Req – bs tab. Explain how the Company has beginning qualified net investment for 2022 of \$1,750,000. Has the Company incurred and/or does the Company plan to incur SPP costs before its SPP is approved and then seek retroactive recovery through the SPPCRC assuming a return on this investment and the related expenses (depreciation and property taxes) for the full year 2022?

**Response: The Company's estimates erroneously included a 75mVA Transformer project that was placed online December 2021. To date, the company has only incurred engineering and planning costs. Attachment B is revised to exclude the cost of the transformer in the Revenue Requirement calculation.**

*Curtis Young*

- b. Please also refer to the FPUC Surcharge 2022 – 2023 tab. Explain how the Company has or will have an under-recovery true-up from prior period for 2022 of its claimed surcharge revenue requirement.

**Response: The Company is planning to file recovery for estimated engineering and planning costs incurred in 2022. Since there has been no costs recoveries incurred, that amount is included as an under-recovery true-up for recovery during 2023.**

*Curtis Young*

Interrogatory No. 10

10. Please provide the amount of O&M expense incurred in 2021 for each of the Company's proposed SPP programs. Indicate how much of the O&M expense incurred in 2021 for each of the Company's proposed SPP programs was recovered in base rates or in a Storm Hardening Plan surcharge in 2021.

**Response:** FPUC does not have a Storm Hardening Plan surcharge in place and several of the SPP programs, as shown below, were not in place in 2021.

	<u>2021 O&amp;M Expense</u>
Distribution Overhead Feeder Hardening	N/A
Distribution Overhead Lateral Hardening	N/A
Distribution Overhead Lateral Undergrounding	N/A
Distribution Pole Inspection & Replacement	\$84,340
Transmission Inspection & Hardening	\$0
T&D Vegetation Management	\$1,179,697
Future Transmission and Distribution Enhancements	N/A
Transmission/Substation Resiliency	N/A
SPP Program Management	N/A

*Mark Cutshaw*

DOCKET NS.: 20220049-EI

Interrogatory No. 11

11. Please describe the present status of the Company's Storm Hardening Plan programs and projects, including recovery of the revenue requirement for each such program and project in a Storm Hardening Plan surcharge. In addition, describe the Company's proposed treatment of such revenue requirements if the same programs and projects are approved for the Company's SPP and its SPPCRC.

**Response: FPU does not have a Storm Hardening Plan surcharge in place to cover any of the SPP programs and projects.**

*Mark Cutshaw*

Interrogatory No. 12 (a-b)

12. Please refer to the upgrade of an existing 69kv transmission line and a new substation project for a paper mill on Amelia Island included in the Company's transmission and substation resiliency program. In his direct testimony at 12, Mr. Cutshaw states that this "enhanced interconnection will provide additional resiliency and redundancy to FPUC customers on Amelia Island."
- a. Explain why the fact that the paper mill has cogeneration capacity is relevant to the SPP program and this proposed project, if it is.

**Response:** The mill currently has substantial generation capabilities and is connected to the existing 69 KV transmission grid on Amelia Island. The interconnection allows the mill to purchase power and sell back "as available" power to the FPU grid. Should the existing 138 KV transmission line be impacted due to a severe weather event, the enhanced interconnection with the mill generating resources would allow additional continuous power to provide service to a significant part of Amelia Island. The existing 69 KV line that connects the mill back to the grid has not been hardened and could be unavailable after a severe storm event which would render the generation capabilities useless when needed the most.

*Mark Cutshaw*

- b. Explain how this project will provide additional resiliency and redundancy to FPUC customers on Amelia Island.

**Response:** If the existing 138 KV transmission line to Amelia Island is impacted due to a severe weather event, the potential exist for the resource to be out of service for days or weeks. With additional on-island generation, including a hardened 69 KV line and enhanced interconnection, the ability to provide reliable and resilient energy to the FPU customers on the island would be available.

*Mark Cutshaw*



Interrogatory No. 12 (c-e)

- c. Explain how this project will provide service to FPUC customers on Amelia Island other than the paper mill.

**Response:** The generation capabilities exist at the mill to provide sufficient energy for the Island in emergency conditions. However, without the 69 KV hardening and enhanced interconnection, those generation capabilities would not be readily available. Please also refer to Item 12 (a) and (b).

*Mark Cutshaw*

- d. Confirm that this project will provide additional resiliency and redundancy to FPUC customers on Amelia Island regardless of whether it is included in the SPP.

**Response:** This project is needed to provide additional resiliency and redundancy to customers on Amelia Island regardless of what regulatory method is used to get the project in service. If this project is not included in the SPP, the existing 69 KV line and interconnection will not provide reliable access to the generation capabilities at the mill and will not provide additional resiliency and redundancy to Amelia Island.

*Mark Cutshaw*

- e. Indicate whether there is an existing substation that allows FPUC to serve the paper mill.

**Response:** There is an existing FPU owned substation located 1.75 miles from the mill. This substation and 69 KV line does allow service to and “as available” energy from the mill. However, the extended ability to purchase significant amounts of energy from the mill from use by FPU customers over several days or weeks does not exist. The 69 KV line has been in service for many years and lacks the conductor capacity and storm hardened structures to reliably perform as expected should a severe storm event occur. The electrical interconnection to the mill is simply a manually operated switch which does not provide the type of interconnection necessary to interconnect with the firm generation capabilities that would be required for this type of service.

*Mark Cutshaw*

Interrogatory No. 12 (f)

- f. Describe all equipment specifically installed by FPUC to service the paper mill and how all such equipment will be affected by a new substation. In addition, describe the Company's policy requiring the customer to pay for equipment specifically installed to service that customer.

**Response:** As mentioned above, the substation is located 1.75 miles from the mill. The substation also provides service to a several other industrial customers as well as most of the residential and commercial customers on the north end of Amelia Island. The circuit breaker providing protection to the 69 KV line that serves the mill is located in this substation. The 69 KV line, which must be upgraded and hardened, extends from the substation to the mill and terminates on a steel switching structure at which point all other facilities are owned and operated by the mill.

The substation equipment, which will allow removal of the steel switching structure, would be needed to allow the extended purchase and protection of energy to be purchased from the mill for use by FPU and their customers. The ability to sale to energy to the mill already exist. While this does not provide any long term benefits to the mill, the customers on Amelia Island will enjoy the benefits from the purchase of electricity from the mill during emergency conditions. From that perspective, the customers receiving the benefit will be paying for the installation of the equipment.

*Mark Cutshaw*

Interrogatory No. 12(g)

- g. Indicate if the Company would upgrade the existing 69kv transmission line and construct a new substation in the absence of the SPP and SPPCRC cost recovery. Indicate whether this project or any component of it was or is included in the Company's construction forecast. If so, then describe. If not, then explain why it was not.

**Response:** The need and justification of the 69 KV line upgrade and substation construction can be demonstrated. However, this project was projected to begin in 2024 which is outside the scope of the current construction budget timeframe and therefore is not included at this time. The SPP requires the utility to look at a 10 year time period over which utilities plan to strengthen electric infrastructure to withstand extreme weather conditions by promoting the overhead hardening of electrical transmission and distribution facilities. From this it appears that the SPP is the best regulatory avenue to get this approved, completed and in service.

*Mark Cutshaw*