

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 28, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lee, Matthews) *POE*
Division of Accounting and Finance (Slemkewicz) *JS*
Division of Economics (Draper, Guffey, McNulty) *SKG*
Office of the General Counsel (Janjic) *ALM*

RE: Docket No. 160128-EI – Petition for approval to include in base rates the revenue requirement for the Hines Chillers Uprate Project, by Duke Energy Florida, LLC.

AGENDA: 08/09/16 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: Waiver of 60 day time limit.(DN 03841-16)

SPECIAL INSTRUCTIONS: None

Case Background

On May 20, 2016, Duke Energy Florida, LLC (DEF) filed a petition for approval to include in base rates the revenue requirement for the Hines Chillers Uprate Project. By Order No. PSC-13-0598-FOF-EI, the Commission approved the Revised and Restated Stipulation and Settlement Agreement (RRSSA).¹ Paragraph 16(a) of the RRSSA includes provisions for DEF to seek recovery of the prudently incurred revenue requirement of power uprates to existing DEF units,

¹Order No. PSC-13-0598-FOF-EI, issued November 12, 2013, in Docket No. 130208-EI, *In re: Petition for limited proceeding to approve revised and restated stipulation and settlement agreement by Duke Energy Florida, Inc. d/b/a Duke Energy.*

which may be placed in-service prior to year-end 2017, through a separate base rate increase at the time each unit is placed in service.

Subsequently, in Order No. PSC-14-0590-FOF-EI, the Commission granted DEF a determination of need for the Hines Chillers Uprate Project.² Intervening parties in that proceeding included the Office of Public Counsel (OPC), Florida Industrial Power Users Group (FIPUG), White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate (PCS Phosphate), Calpine Construction Finance Company, L.P. (Calpine), and NRG Florida, LP (NRG). The Commission weighed parties' arguments, evaluated the need for reliability and cost-effectiveness of various generation alternatives, and found that the Hines Chillers Uprate Project represented an optimal resource to meet DEF's needs prior to 2018.

The Hines Chillers Uprate Project consists of installation of chiller modules for the existing Hines Energy Center power block units, a large chilled water storage tank, an auxiliary power system, pumps and chilled water supply and return piping, and gas turbine air inlet chiller coils. The installation of the chiller system on the existing Hines Energy Center power block units (Hines Units 1 - 4) is designed to cool the gas turbine inlet air, thus increasing the capacity of each power block while maintaining fuel efficiency. Hines Units 1 - 4 have a total installed capacity of approximately 1,900 megawatts (MW). Based on Order No. PSC-14-0590-FOF-EI, the project is expected to increase the summer capacity of those units by approximately 220 MW to meet the summer peak demand, which DEF projected to grow to 9,439 MW by the summer of 2018.

The Commission has jurisdiction pursuant to Section 366.06, Florida Statutes.

²Order No. PSC-14-0590-FOF-EI, issued October 21, 2014, in Docket No. 140111-EI, *In re: Petition for determination of cost effective generation alternative to meet need prior to 2018, by Duke Energy Florida, Inc.*

Discussion of Issues

Issue 1: What is the appropriate amount of revenue requirement for the Hines Chillers Uprate Project?

Recommendation: The appropriate amount of revenue requirement for DEF's proposed phase 1 rate increase associated with the Hines Chillers Uprate Project is \$16,676,114. The phase 2 revenue requirement and rate increase should be addressed when DEF files a separate petition in August 2016. (Lee, Matthews, McNulty, Slemkewicz)

Staff Analysis: DEF is seeking to recover the full, prudently incurred revenue requirement for the Hines Chillers Uprate Project pursuant to Paragraph 16(a) of the RRSSA. The project will be implemented in two phases. DEF is requesting that the Commission approve the phase 1 revenue requirement of \$16,676,114 and phase 2 revenue requirement of \$2,915,328. However, it is only requesting approval for the rate increase associated with the phase 1 revenue requirement in this petition. The rate increase for phase 2 will be requested as part of a separate petition in August 2016.

Cost Estimates and Projected Performance

According to DEF witness Vann Stephenson's (Stephenson) direct testimony filed in this docket, the updated construction cost estimate for the Hines Chillers Uprate Project is approximately \$151 million. This is \$9 million less than the \$160 million estimate provided in Docket No. 140111-EI. In that proceeding, the Commission found the construction cost estimate comparable to a similar project installed at the Duke Energy Carolinas Dan River Combined Cycle project.

In addition, witness Stephenson's direct testimony addressed DEF's effort to execute the project efficiently by selecting an Engineering Procurement Construction (EPC) company by competitive bidding and by planning the construction in two phases to align with already scheduled maintenance outages for the Hines Units. The first phase, with an estimated cost of \$127 million for work on Hines Units 1-3 and the common equipment, is expected to be completed and placed into commercial service in October 2016. The second phase, with an estimated cost of \$24 million for the work for Hines Unit 4, is expected to be completed in January 2017. Based on DEF's response to staff's data request, cost incurred to date is \$101 million, with an estimated \$50 million for the project to be completed as planned.

Staff recognizes that the costs sought for recovery by DEF are still estimates at this time. Regarding the issue of a potential variance from the estimate, DEF stated in its response to staff's data request that there is no such provision for modification of the base rate adjustments under paragraph 16(a) of the RRSSA. Paragraph 16 of the RRSSA provides different treatments for units and uprates to existing units placed in-service and/or acquired/purchased prior to year-end 2017. While specific true-up provisions in a manner similar to cost recovery clauses are prescribed for the 2018 Generation Base Rate Adjustment (GBRA) factor under 16(b) through 16(f), there is not a true-up mechanism under paragraph 16(a) of the RRSSA.

Staff notes that even without such a true-up provision, costs will be reset in DEF's next general base rate case proceeding if actual costs for the Hines Chillers Uprate Project differ from what is approved in this docket.

In response to staff's data request, DEF provided an updated comparison of the current cost estimates with those provided in Docket No. 140111-EI. DEF also identified the variables that contributed to the total cost reduction, with the reduced costs mainly caused by the contingency and not design changes. DEF also provided an update of the projected performance, which is consistent with its projection in Docket No. 140111-EI. Staff recommends DEF has demonstrated that costs of the Hines Chillers Uprate Project are reasonable.

DEF is only requesting approval for the rate increase associated with the phase 1 revenue requirement in this petition. DEF expects to file its petition for the approval for the rate increase associated with phase 2 of the Hines Chiller Uprate Project and the Osprey acquisition revenue requirement in August 2016. The reason for this separate filing is based on the timing of the Osprey project, which is expected to come online in the same time period as phase 2 of the Hines Chiller Uprate Project. While the cost estimate is reasonable, as discussed earlier, staff recommends the phase 2 revenue requirement should be addressed in the upcoming separate docket because revenue requirements and rates are normally considered together.

Revenue Requirement

Based on the estimated cost to complete phase 1 of the Hines Chillers Uprate Project, DEF calculated a revenue requirement of \$16,676,114.³ In accordance with paragraph 16(a) of the RRSSA, DEF utilized the capital structure from its most recent actual earnings surveillance report⁴ and a 10.50 percent return on equity to calculate the revenue requirement. The revenue requirement calculations also include the recovery of O&M expenses, depreciation expense, property insurance, and property tax. Staff has reviewed the revenue requirement calculations and believes they have been appropriately calculated.

Conclusion

The appropriate amount of revenue requirement for DEF's proposed phase 1 rate increase associated with the Hines Chillers Uprate Project is \$16,676,114. The phase 2 revenue requirement and rate increase should be addressed when DEF files a separate petition in August 2016.

³ Exhibit B, P. 1 of 2, of Document No. 03105-16 (DEF's Petition).

⁴ March 2016 Earnings Surveillance Report.

Issue 2: Should the Commission approve DEF's proposed tariffs and associated charges?

Recommendation: Yes. If the Commission approves Issue 1, the proposed tariffs and associated charges should go into effect with the first billing cycle in November 2016. If the Commission order is protested, DEF should be allowed to implement the rates subject to refund pending the results of any subsequent proceeding. (Guffey)

Staff Analysis: As discussed in Issue 1, DEF has proposed to increase its base rates by \$16,676,114. DEF allocated this amount to all its rate classes at a uniform percentage (0.99 percent) as shown in Exhibit C of the petition consistent with the terms of the RRSSA. A residential customer who uses 1,000 kilowatt-hours will see a \$0.50 increase on the monthly bill. The proposed tariffs are shown in Exhibit E of the petition.

In response to staff's first data request, DEF stated that customers will be notified of the rate changes via October bill inserts, DEF website and via email for electronic bill customers.

DEF has requested that the proposed tariffs go into effect with the first billing cycle in November 2016. Staff has reviewed the proposed tariffs, calculation of the revised base rate charges and DEF's responses to data requests and recommends that they be approved. If the Commission order is protested, DEF should be allowed to implement the rates subject to refund pending the results of any subsequent proceeding.

Issue 3: Should this docket be closed?

Recommendation: Yes. If Issues 1 and 2 are approved, the tariff should go into effect with the first billing cycle in November 2016. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Janjic)

Staff Analysis: If Issues 1 and 2 are approved, the tariff should go into effect with the first billing cycle in November 2016. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.