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| State of FloridapscSEAL | Public Service CommissionCapital Circle Office Center ● 2540 Shumard Oak BoulevardTallahassee, Florida 32399-0850-M-E-M-O-R-A-N-D-U-M- |
| DATE: | January 23, 2020 |
| TO: | Office of Commission Clerk (Teitzman) |
| FROM: | Division of Accounting and Finance (Sewards, M. Andrews, D. Buys, Mouring)Division of Economics (Hampson)Office of the General Counsel (Schrader, Lherisson) |
| RE: | Docket No. 20190222-EI – Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Dorian and Tropical Storm Nestor, by Duke Energy Florida, LLC. |
| AGENDA: | 02/04/2020 – Regular Agenda – Interested Persons May Participate |
| COMMISSIONERS ASSIGNED: | All Commissioners |
| PREHEARING OFFICER: | Fay |
| CRITICAL DATES: | 03/01/2020 (Requested Implementation Date) |
| SPECIAL INSTRUCTIONS: | None |

 Case Background

On December 19, 2019, Duke Energy Florida, LLC (DEF or Company) filed a petition for a limited proceeding seeking authority to recover a total of $171.3 million for the incremental restoration costs related to Hurricane Dorian and Tropical Storm Nestor. This amount includes $2.1 million for interest and the regulatory assessment fee gross-up. In its petition, DEF requests approval of an interim storm restoration recovery charge to commence with the first billing cycle of March 2020.

DEF filed its petition pursuant to the provisions of the Second Revised and Restated 2017 Settlement Agreement (2017 Settlement) approved by the Commission in Order No. PSC-2017-0451-AS-EU.[[1]](#footnote-1) Pursuant to the 2017 Settlement, DEF can recover storm costs, without a cap on the level of charges on customer bills, on an interim basis beginning 60 days following the filing of a petition for recovery. DEF proposes to implement an interim charge for a 12-month period effective March 2020. The interim charge results in an increase of $5.34 per 1,000 kilowatt hour (kWh) on a residential bill.

On December 31, 2019, White Springs Agricultural Chemicals, Inc. filed a petition to intervene.[[2]](#footnote-2) On January 7, 2020, the Office of Public Counsel filed a petition to intervene.[[3]](#footnote-3)

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, 366.06, and 366.076, Florida Statutes.

Discussion of Issues

Issue 1:

 Should the Commission authorize DEF to implement an interim storm restoration recovery charge?

Recommendation:

 Yes, the Commission should authorize DEF to implement an interim storm restoration recovery charge. Once the total actual storm costs are known, DEF should be required to file documentation of the total storm costs for Commission review and true-up of any excess or shortfall. (Sewards)

Staff Analysis:

 As stated in the Case Background, DEF filed a petition for a limited proceeding seeking authority to recover a total of $171.3 million for the incremental restoration costs related to Hurricane Dorian and Tropical Storm Nestor. The $171.3 million includes $2.1 million for interest and regulatory assessment fee gross-up. The petition was filed pursuant to the provisions of the 2017 Settlement approved by the Commission in Order No. PSC-2017-0451-AS-EU. Pursuant to Paragraph 38 of the 2017 Settlement, DEF can begin recovery of storm costs, without a cap, 60 days following the filing of a petition for recovery. DEF has requested an interim storm restoration recovery charge to implement for a 12-month period, effective the first billing cycle of March 2020 and continuing through February 2021.

In its petition, DEF asserts that it incurred total retail recoverable costs of approximately $171.3 million as a result of Hurricane Dorian and Tropical Storm Nestor. DEF further asserts that this amount was calculated in accordance with the Incremental Cost and Capitalization Approach (ICCA) methodology prescribed in Rule 25-6.0143, Florida Administrative Code.

The approval of an interim storm restoration recovery charge is preliminary in nature and is subject to refund pending further review once the total actual storm restoration costs are known. After the actual costs are reviewed for prudence and reasonableness, and are compared to the actual amount recovered through the interim storm restoration recovery charge, a determination will be made whether any over/under recovery has occurred. The disposition of any over/under recovery, and associated interest, would be considered by the Commission at a later date.

Based on a review of the information provided by DEF in its petition, staff recommends that the Commission authorize DEF to implement an interim storm restoration recovery charge, subject to refund. Once the total actual storm costs are known, DEF should be required to file documentation of the storm costs for Commission review and true-up of any excess or shortfall. Staff emphasizes that this recommendation is only for interim recovery charges and is not a confirmation or endorsement of the prudence of DEF’s forecasted costs and plans. This recommendation only allows DEF to begin recovery on an interim basis in accordance with the 2017 Settlement. This interim recovery is subject to refund following a hearing or formal proceeding where the veracity and prudence of DEF’s actual restoration costs can be fully vetted.

Issue 2:

 Should the Commission approve DEF’s proposed Hurricane Dorian and Tropical Storm Nestor interim storm cost recovery surcharges and associated tariffs?

Recommendation:

 Yes. The Commission should approve DEF’s proposed Hurricane Dorian and Tropical Storm Nestor interim storm cost recovery surcharges and associated tariffs, as effective with the first billing cycle of March 2020, subject to a final true-up. (Hampson)

Staff Analysis:

 DEF is seeking approval of interim storm cost recovery surcharges associated with Hurricane Dorian and Tropical Storm Nestor as shown in proposed Tariff Sheet Nos. 6.105 and 6.106 (Attachment A to this recommendation). The surcharges will be applicable to all rate classes. Tariff Sheet No 6.105 shows the proposed interim storm cost recovery surcharges and Tariff Sheet No. 6.106 defines the storm cost recovery surcharge.

DEF explains that it has allocated the storm cost recovery amount to the rate classes consistent with the rate design approved in the 2017 Settlement. The calculation is shown in Appendix A on page 6 of DEF’s petition. For residential customers, the surcharge is 0.534 cents per kilowatt-hour (kWh), which equates to $5.34 on a 1,000 kWh residential bill. The storm cost recovery surcharge will be included in the non-fuel energy charge on customer bills.

Conclusion: Staff recommends that the Commission should approve DEF’s proposed Hurricane Dorian and Tropical Storm Nestor interim storm cost recovery surcharges and associated tariffs, effective with the first billing cycle of March 2020, subject to a final true-up.

Issue 3:

 What is the appropriate security to guarantee the amount collected subject to refund through the interim storm restoration recovery charge?

Recommendation:

 The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (D. Buys)

Staff Analysis:

 Staff recommends that all funds collected subject to refund be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed DEF’s financial statements to determine if the Company can support a corporate undertaking to guarantee the funds collected for recovery of incremental storm restoration costs related to Hurricane Dorian and Tropical Storm Nestor. DEF’s 2016, 2017, and 2018 financial statements were used to determine the financial condition of the Company. DEF’s financial performance demonstrates adequate levels of ownership equity, profitability, and interest coverage, but marginal liquidity due to negative working capital. However, the Company participates in Duke Energy Corporation’s (DEF’s parent company) money pool and has access to additional funds if needed.

DEF requested a 12-month collection period from March 2020 to February 2021 for Interim Storm Cost Recovery Charges of $171.2 million related to Hurricane Dorian and Tropical Storm Nestor. By Order No. PSC-2019-0268-PCO-EI, the Commission approved DEF’s request for Interim Storm Cost Recovery Charges of $223.5 million for recovery of costs incurred due to Hurricane Michael to be collected during a 12-month period from July 2019 to June 2020.[[4]](#footnote-4) In that Order, the Commission approved DEF’s Second Implementation Stipulation whereby DEF agreed to use the annual tax reform benefits resulting from the Tax Cuts and Jobs Act of 2017 as a direct offset to avoid implementing a separate cost recovery of storm damage costs that customers would have otherwise been obligated to pay.[[5]](#footnote-5) With the addition of the Interim Storm Cost Recovery Surcharges for Hurricane Dorian and Tropical Storm Nestor in the instant docket, the cumulative interim amount subject to refund would be $394.8 million through February 2021. However, the interim amount held subject to refund for Hurricane Michael is being offset by income tax savings and not billed to the ratepayers.

Staff believes DEF has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a corporate undertaking of $171.2 million is acceptable. This brief financial analysis is only appropriate for deciding if the Company can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

Issue 4:

 Should this docket be closed?

Recommendation:

 No, this docket should remain open pending final reconciliation of actual recoverable Hurricane Dorian and Tropical Storm Nestor storm costs with the amount collected pursuant to the interim storm restoration recovery charge. The disposition of any over or under recovery, and associated interest, should be considered by the Commission at a later date. (Schrader, Lherisson)

Staff Analysis:

 No, this docket should remain open pending final reconciliation of actual recoverable Hurricane Dorian and Tropical Storm Nestor storm costs with the amount collected pursuant to the interim storm restoration recovery charge. The disposition of any over or under recovery, and associated interest, should be considered by the Commission at a later date.







1. Order No. PSC-2017-0451-AS-EU, issued November 20, 2017, in Docket No. 20170183-EI, *In re: Application for limited proceeding to approve 2017 second revised and restated settlement agreement, including certain rate adjustments, by Duke Energy Florida, LLC.* [↑](#footnote-ref-1)
2. Document No. 00028-2020 [↑](#footnote-ref-2)
3. Document No. 00099-2020 [↑](#footnote-ref-3)
4. Order No. PSC-2019-0268-PCO-EI, issued July 1, 2019, in Docket No. 20190110-EI, *In re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Michael and approval of second implementation stipulation, by Duke Energy Florida, LLC.* [↑](#footnote-ref-4)
5. *Id.* [↑](#footnote-ref-5)