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March 13, 2020

**VIA ELECTRONIC DELIVERY**

Adam J. Teitzman, Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: *Joint Comments on February 6, 2020 Staff Workshop Held to Address Modifications to Order No. PSC-2012-0425-PAA-EU Regarding Weighted Average Cost of Capital Methodology*; Docket Nos. 20200001-EI, 20200002-EG, and 20200007-EI

Dear Mr. Teitzman:

Enclosed to be filed in the above-referenced Dockets on behalf of Duke Energy Florida, LLC, Florida Power & Light Company, Gulf Power Company, Tampa Electric Company, and Florida Public Utilities Company are the Joint Comments on February 6, 2020 Staff Workshop Held to Address Modifications to Order No. PSC-2012-0425-PAA-EU Regarding Weighted Average Cost of Capital Methodology.

Thank you for your assistance in this matter. Please feel free to call me at (727) 820-4692 should you have any questions concerning this filing.

Respectfully,

*/s/ Dianne M. Triplett*

Dianne M. Triplett

DMT/cmck  
Enclosure

cc: Parties of Record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

DOCKET NO. 20200001-EI

In re: Energy conservation cost recovery clause.

DOCKET NO. 20200002-EG

In re: Environmental cost recovery clause.

DOCKET NO. 20200007-EI

Filed: March 13, 2020

**JOINT COMMENTS ON FEBRUARY 6, 2020 STAFF WORKSHOP HELD TO ADDRESS MODIFICATIONS TO ORDER NO. PSC-2012-0425-PAA-EU REGARDING WEIGHTED AVERAGE COST OF CAPITAL METHODOLOGY**

Duke Energy Florida, LLC (“DEF”), Florida Power & Light Company (“FPL”), Gulf Power Company (“Gulf”), Tampa Electric Company (“Tampa Electric”), and Florida Public Utilities Company (“FPUC”) (collectively, “the IOUs”), pursuant to Rule 28-106.204, Florida Administrative Code, hereby file joint comments to the workshop held by the Florida Public Service Commission (“FPSC” or “Commission”) Staff on February 6, 2020 regarding the Unopposed Joint Motion filed by the IOUs, which addressed the methodology for calculating the weighted average cost of capital (“WACC”) applicable to clause-recoverable investments.

The Unopposed Joint Motion requested modifications to Order No. PSC-2012-0425-PAA-EU (the “Order”) in which the Commission approved a stipulation and settlement agreement entered into by the IOUs, the Office of Public Counsel (“OPC”), and the Florida Industrial Power Users Group (“FIPUG”) to specify the methodology for calculating the weighted average cost of capital (“WACC”) applicable to clause-recoverable investments.

At the February 6<sup>th</sup> workshop, the Commission Staff suggested the implementation of a methodology similar to that presented in the Unopposed Joint Motion filed by the IOUs on August

21, 2019 to comply with the Internal Revenue Code (“IRC”) Treasury Regulation Section §1.167(1)-1(h)(6) which requires public utilities to apply Normalization by utilizing a consistency adjustment and proration formula to compute the depreciation-related Accumulated Deferred Federal Income Tax (“ADFIT”) balance to be included for ratemaking purposes when a forecasted test period is utilized to set rates unless the Limitation Provision is met or exceeded. In response to Staff’s suggestion, the IOUs state:

1. The IOUs collectively agree with Staff’s position as outlined in their presentation on February 6, 2020. The IOUs’ interpretation of Staff’s position is described below:

a) For the Projection Filing, in all cases, the IOUs will project their entire WACC using their current approved mid-point ROE for the clause projection year and apply the Proration Formula prescribed by Treasury Regulation Section §1.167(1)-1(h)(6)(i) to the depreciation-related ADFIT included in capital structure. For example, the IOUs will project the mid-point return on equity (“ROE”) 13-month average WACC for 2021 and apply a proration adjustment to the depreciation-related ADFIT. The resulting WACC calculation will be used to calculate a monthly return on all projected clause investments in the 2021 Projection filing, which will be made in August/September of 2020.

b) For the Actual/Estimated True-up Filing, in all cases, the IOUs will use the mid-point ROE WACC calculation from the current year Forecasted Earnings Surveillance Report (“FESR”) for the Actual/Estimated true-up year and will carry forward the proration adjustment included in the Projection Filing. However, if the depreciation-related ADFIT balance in the Projection Filing was over-estimated, the Proration Formula adjustment will be reduced to reflect the difference between the originally projected and prorated depreciation-related ADFIT balance and the re-projected depreciation-related ADFIT balance. For example, the IOUs will utilize the

mid-point ROE 13-month average WACC from the 2021 FESR and carry forward the same proration adjustment reflected in the 2021 Projection Filing or adjust it downward if it had been over-projected. The resulting WACC calculation will be used to calculate a monthly return on all projected clause investments in the 2021 Actual/Estimated Filing, which will be made in August/September of 2021.

c) For the Final True-up Filing, in all cases, the IOUs will use the mid-point ROE WACC calculation from the December ESR for the true-up year and carry forward the proration adjustment included in the Projection Filing. However, similar to the Actual/Estimated Filing, if the depreciation-related ADFIT balance in the Projection Filing was over-estimated, the Proration Formula adjustment will be reduced to reflect the difference between the originally projected and prorated depreciation-related ADFIT balance and the actual depreciation-related ADFIT balance. For example, in the Final True-Up filing to be made in the Spring of 2022, the IOUs will utilize the mid-point ROE 13-month average WACC from the 2021 December ESR and carry forward the same proration adjustment reflected in the 2021 Projection Filing or adjust it downward if it had been over-projected. The resulting WACC calculation will be used to calculate a monthly return on all projected clause investments in the 2021 Final True-Up Filing, which will be made in early 2022.

2. Since the methodology described above does not require a consistency adjustment and will reflect the application of the Proration Formula each year, the IOUs do not believe it is necessary to provide a separate calculation demonstrating the Limitation Provision has been met or exceeded.

3. In addition to accepting Staff's proposal as outlined above, the IOUs propose that the Final True-Up Filing date for all clauses be no earlier than April 1st of each year in order to

allow the IOUs enough time to incorporate the WACC from the December ESR, which is completed and filed with the Commission on February 15th each year.

4. The IOUs also propose to begin the process outlined herein with the 2021 Projection Filings. Therefore, the IOUs would apply the new methodology starting with the 2021 clause filing cycle, which would begin with the 2021 Projection Filings to be filed in 2020, and then carried through to the 2021 Actual/Estimated Filings to be filed in 2021 and 2021 Final True-Up Filings to be filed in 2022. For the 2019 and 2020 true-up filings, the methodology outlined in Order No. PSC-2012-0425-PAA-EU shall continue to apply. This will allow the WACC used in the clauses to be consistent with budgets that have already been prepared for 2020 by the IOUs, and it will allow the new methodology to begin with the next clause cycle, which is the 2021 Projection Filings.

5. In its Order No. PSC-12-0425-PAA-EU, the Commission concluded that “[e]videntiary debates regarding the appropriate capital structure and the return on equity shall be the subject of proceedings other than the clause proceedings.” The Commission’s conclusion was correct then and is equally applicable now. The IOUs request that the Commission confirm that updating the WACC calculation methodology to comply with IRS regulations does not open the door to evidentiary debates that should be the subject of proceedings other than clause proceedings.

Respectfully submitted this 13<sup>th</sup> day of March 2020.

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**CERTIFICATE OF SERVICE – Dkt. Nos. 20200001-EI, 20200002-EG, 20200007-EI**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 13<sup>th</sup> day of March, 2020.

/s/ Dianne M. Triplett

Attorney

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