FILED 2/16/2021
DOCUMENT NO. 02229-2021
FPSC - COMMISSION CLERK

State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 16, 2021

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Orlando Wooten, Engineering Specialist II, Division of Engineering OW PE LK

RE: Docket No. 20210016-EI - Petition for limited proceeding to approve 2021 settlement agreement, including general base rate increases, by Duke Energy Florida, LLC.

Please file the attached presentation "DEF 2021 Settlement Agreement" in the above mentioned docket file.

OW/jp

Attachment

DEF 2021 Settlement Agreement
(FPSC Docket No. 20210016-EI)

February 16, 2021

Background

- The 2021 Settlement Agreement is effective for the years 2022-2024, with some terms effective before or after this period (as explained in the following slides).
  - The 2017 Second Revised and Restated Settlement Agreement ("2017 Settlement"), approved per Order No. PSC-2017-0451-AS-EU, is effective through 2021.
- Parties to the 2021 Settlement Agreement include the Office of Public Counsel, the Florida Industrial Power Users Group, White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate, and Nucor Steel Florida, Inc.
- Parties spent more than five months engaging in informal discovery and negotiations to resolve issues that are typically raised in a general rate case.
- DEF developed MFRs with test periods 2022 and 2023, which establish the baseline level of costs included in DEF's base rates.
- Approval of the 2021 Settlement Agreement is being requested in its entirety.

Summary* of Key Provisions of the 2021 Settlement Agreement

*Please note that this is a summary and the terms contained in the complete 2021 Settlement Agreement reflect the Parties' full intent.

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General Retail Revenue Requirement Terms

- **Term and MFRs** [¶1 and Exh.1] – Term is 2022-2024. MFRs support the revenue requirement (RR) for test years 2022 and 2023 and include all negotiated adjustments. The 2024 RR is a negotiated amount.
- **ROE** [¶2a] – Authorized ROE midpoint of 9.85% with range of 8.85% to 10.85%, and financial common equity ratio of 53%. (Subject to Treasury rate trigger explained on slide 5.)
- **AFUDC Rate** [¶2a] – The AFUDC rate shall be 6.09% for 2022 and 6.14% for 2023 and 2024, unless changed by the Trigger.
- **Revenue Requirement (RR)** [¶3] – $67.246M in 2022, $48.933M in 2023 and $79.199M in 2024, for a total cumulative increase of $195.378M. MFR A-1 reflects the 2022 and 2023 RR.
- **DOE Award** [¶3] – DEF is authorized to monetize the DOE award of $173M (retail portion) expected to be received in 2022. DEF shall record earnings 2022-24 at its discretion through the use of a regulatory liability or asset as necessary. If the retail portion of the DOE award is less than $173M, DEF shall recover the difference through the Capacity Cost Recovery (CCR) clause. DEF shall recover the full Dry Cask Storage regulatory asset ($96M) and carrying charges through the CCR clause over a twenty-year period beginning in 2025.
- **Storm Protection Plan Cost Recovery Clause (SPPCRC)** [¶4] – DEF has properly removed all costs associated with the SPPCRC as shown on MFRs B-1 and C-2.
- **Regulatory Assessment Fee (RAF)** [¶5] – DEF shall remove the RAF from cost of service (see MFR C-2) and from cost recovery clauses and include with the Gross Receipts tax line on bills. The line shall be renamed “Gross Receipts Tax and Regulatory Assessment Fee.”
- **Credit Card Fees** [¶7] – DEF shall include residential credit card fees in cost of service (see MFR C-2) and terminate the separate charge.
- **Environmental Cost Recovery Clause (ECRC)** [¶8] – Certain ECRC costs shall be transferred to base rates (see Exhibit 2) and included in cost of service.

Primary Base Rate Increases

- **Base Rate Increases** [¶3] – Incremental annual base rate increases of $67.246M in 2022, $48.933M in 2023 and $79.199M in 2024, for a total cumulative increase of $195.378M.
- **Treasury Rate Trigger** [¶2b] – If the 30-yr Treasury Rate increases 50 basis points (bps) or more over a consecutive 6-month period as compared to the rate at time of Commission approval of the 2021 Settlement, the authorized ROE midpoint and range shall increase by 25 bps to a midpoint of 10.10% for earnings surveillance reporting, cost recovery clauses and AFUDC, with a corresponding uniform percentage increase in base rates.
  - Base rate increase is limited to the lower of a) 10.10% less weather-adjusted ROE as reported on earnings surveillance report or b) $24.428 million in 2022 or $26.785 million in 2023 or 2024].
  - Effective until DEF's next rate case.
- **Income Tax Reform** [¶18] – If tax reform is enacted for tax years 2021, 2022 or 2023, DEF will be allowed to increase/decrease customer base rates using a uniform percent increase/decrease. See Slide 8 for further details.
- **Earnings Band Provision** [¶37a] – If ROE falls below 8.85%, or 9.10% if the Trigger described above applies, DEF can increase base rates to achieve the midpoint ROE in the applicable range.

Rate Design and Revenue Allocation

- **Equal Percentage Increase** [¶9] – The revenue requirements will be allocated to customer classes, other than street lighting, on an equal percentage basis (see MFR E-8).
- **Production Cost Allocation Methodology** [¶10] – DEF has filed both the current 12 CP and 1/13 AD methodology and the 12 CP and 25% AD methodology. Cost of Service is based on the 12 CP and 25% AD methodology and DEF will rely on 12CP and 25%AD in future rate cases but will file both methodologies in the next rate case.
- **Interruptible (IS)/Curtailable (CS)/Standby Generation (GSLM-2) credits** [¶11 & Exh.4] – The level and application of these credits will change to $7.72/kw for IS and CS schedules and $6.61 x Capacity + $.10 x kWh monthly for the GSLM-2 schedule. CS customers to receive an “event incentive” of 25¢ x diff. in kWh usage during 30 min. preceding curtailment event and avg. 30 min. actual kWh usage during the curtailment event.
- **Storm Protection Plan Cost Recovery Clause** [¶12 & Exh.3] – Demand customers will be billed on a demand (per kW) basis.
- **Interruptible/Curtailable Rates** [¶13 & Exh.4] – DEF will permanently close the grandfathered IS-1, IST-1, CS-1 and CST-1 rate schedules.
- **Delivery Voltage Credits (DVC)** [¶14 & Exh.4] – A new DVC will be added for customers taking delivery at or above 230 kV. Level of credits to be updated as well.
- **Time of Use (TOU) Rates** [¶15 & Exh.4] – DEF will modify TOU periods and pricing.
  - New super off-peak period: Mar-Nov 12:00 - 6:00 a.m.
  - On-peak: 6:00 - 9:00 p.m. Jan-Dec & 5:00 - 10:00 a.m. Dec-Feb. (excludes weekends and most holidays)
  - Off-peak: All other times

Rate Design and Revenue Allocation (cont.)

The following items are not explicitly stated in the body of the Settlement Agreement but are included in the Tariffs in Exhibit 4. This does not constitute an all-inclusive list of the changes.

- **Residential Seasonal Rates** – RSS-1 tariff to be permanently closed and RS-1 tariff to reflect seasonal energy rates; higher rates from Dec-Feb to ensure customers with seasonal loads sufficiently cover their share of costs.
- **Residential TOU Rate** – RST-1 has been redesigned for the new TOU time periods and re-opened as an optional rate schedule for residential customers.
- **Minimum Bill for Residential (RS-1 & RST-1) and General Service (GS-1 & GST-1)** - Minimum bill of $30 (not the same as customer charges), only for customers with a bill (excluding taxes, other additional charges and the EV charging credit) of less than $30.
- **General Service Non-Demand (GS-1)** – Closed to new customers as of 1/1/22. New service will be directed toward GST or GSD service.
- **Demand Structure for IST-2 and GSDT-1** – Base Demand Charge to be based on max. 30-min. kW over past 12-mos. New Mid-Peak Demand Charge to be based on monthly max. 30-min. kW. On-Peak Demand Charge to continue to be based on monthly max. 30-min. kW for on-peak periods. Clauses to continue to be based on monthly max. 30-min. kW.
- **Service Charge (SC-1) Rates** – SC-1 rates will be reduced due to lower costs resulting from automated metering infrastructure (AMI) deployment.
- **New Economic Development (ED) tariff** - Close ED-1 and EDR-1 tariffs and replace with ED-2 tariff to more effectively attract new load.
- **Equipment Rental Cost** – Rate will decrease from 1.67% monthly to 1.08%.
- **Power Factor** – Calculation will change as follows: "If a customer's power factor at the time of maximum demand in the current billing period is less than 85%, the Company may adjust the Base Demand by multiplying by 85% and dividing by the resulting power factor actually established at the time of maximum demand during the current month."

Electric Vehicle (EV) Program

- **Residential EV Credit Program** [¶17a] - DEF is authorized to add a residential EV credit program for customers not on a whole-home TOU rate, who have an EV charging station at their residence, who participate in the program, and who charge off-peak. The credit will be $10 per month as a proxy for being on a TOU rate. Customers who charge during the hours of 6-9pm and 5-10am on weekdays more than twice in a month will not receive that month's credit.
- **Commercial and Industrial (C&I) Rebate Program** [¶17b] - DEF is authorized to implement a rebate program for C&I customers who install an EV charging station behind the meter and take service on the GST-1 (non-demand TOU) rate schedule. DEF shall defer the recovery of its C&I rebate costs to a regulatory asset to be amortized over five (5) years.
- **DC Fast Charge Stations** [¶17c] - DEF can continue installing Company-owned DC Fast Charge stations. DEF will be allowed to offer a new tariff for a Fast Charge Fee (FCF-1), consistent with fast charge fees across Florida, to be collected from EV drivers using Company-owned DC Fast Charging stations. All associated costs related to the DC Fast Charge EV program have been included in the cost of service.
- **Investments, Costs and Revenues** [Exh.1]– Estimated investments, costs and revenues associated with these new EV programs are shown as company adjustments on MFR B-1 and C-2.
- **2017 Settlement EV Pilot** [¶17] - DEF will continue to maintain, operate and recover the costs of the charging stations that have been installed pursuant to the 2017 EV Pilot.

Federal and/or State Corporate Income Tax Change

- **<u>Tax Reform</u>** [¶18b] – If tax reform is effective for tax year 2021, 2022 or 2023, base rates will be adjusted within 120 days (after a thorough review of the effects on base revenue requirements) via a uniform percent change. If tax reform is effective for 2024, the revenue requirement impact will be deferred until DEF's next rate case or a limited proceeding. The impact from the effective date of tax reform until the date of base rate adjustment will be included in the CCR clause on same basis as in the base rate adj.

- **<u>Excess/Deficient Accumulated Deferred Income Tax (ADIT)</u>** [¶18c] – Protected ADIT recovery or flow-back will comport with tax normalization rules. Unprotected ADIT will be recovered or flowed back over 5 years if less than $200M or 10 years if greater than $200M.

- **<u>Impact on Base Rate Increases</u>** [¶ 18d] - Any base rate increases that have not yet gone into effect shall be adjusted if income tax rates change.

Depreciation, Dismantlement and Storm Reserve Studies

- **Dismantlement Study** [¶19 and Exh.6] – Dismantlement study should be approved without changes. DEF will be permitted to defer the impact to a regulatory asset to be recovered in next base rate proceeding over a period not to exceed 5 years.

- **Storm Reserve Study** [¶20 and Exh.7] – No storm reserve accrual nor increase to the current $132 million reserve (approved in Order No. PSC-2017-0451-AS-EU).

  - **Storm Cost Recovery** [¶32b] - If storm reserve becomes depleted, DEF can begin recovering storm damage costs from a named storm 60 days following the filing of a request with the Commission, subject to true-up, including replenishment of storm reserve up to $132M.

- **Depreciation Study** [¶21 and Exh.8] – Changes to the study filed on December 31, 2020 are shown below. MFR B-1 and C-2 reflect the impacts of the final depreciation study on accumulated depreciation and depreciation expense as a Company Adjustment:
  - Depreciation rates for transmission and distribution property (except acct 373-Lighting) will remain at current rates
  - Combined Cycle plants will have useful lives of 40 years
  - Cost of Removal regulatory asset amortization delayed until 2025

- **Crystal River Coal Units 4&5** [Exh.8] – Retirement changed to 2034 from 2042

Hurricanes Michael and Dorian Storm Cost Recovery Dockets

- **Storm Dockets** [¶23] – Resolves all issues in Dockets 20190110-EI (Hurricane Michael) and 20190222-EI (Hurricane Dorian and Tropical Storm Nestor).

- **Storm Retail Regulatory Asset** [¶23a] – DEF will increase the storm reserve (account 228) and create a regulatory asset for $29M to be amortized over 27 years beginning in January 2022.

- **Tax Savings Regulatory Liability** [¶23b,c] – DEF will record the income tax savings revenue requirement impact of $29M in 2022 to a regulatory liability. This regulatory liability will be netted against the dismantlement regulatory asset in 2025.

- **Storm Cost Mitigation** [¶23d] – The Parties agree to work to develop a policy to further mitigate costs incurred during storm restoration, which would need to be approved by the Commission.

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Other General Terms

- **Economic Development (ED)** [¶24] – The parties agree with the level of ED expense shown on MFR C-2. The Commission's approval of the ED tariffs satisfies Rule 25-6.0426(3)-(6)- Recovery of Economic Development Expenses, F.A.C.
- **Vision Florida** [¶25] - DEF shall be allowed to implement a Vision Florida pilot program consisting of up to $100M capital and $12M O&M from 2021-2025 associated with technologies including, but not limited to, microgrids, floating solar, hydrogen power and solar plus storage.
  - O&M will be deferred to a regulatory asset to be recovered in next rate case over 5-years
  - Depreciation expense, property tax expense and cost of capital on investments will be deferred to a regulatory asset earning AFUDC return, with recovery beginning with DEF's next rate case.
- **Crystal River Nuclear Plant (CR3)** [¶26] – DEF will continue to exclude amounts related to CR3 from earnings surveillance reports (Similar language as in 2017 Settlement)
- **Tariffs** [¶27] - Effective date is January 2022 first billing cycle. Parties request that the Commission authorize Staff to administratively approve January 2023 and 2024 tariff changes.
- **Separation Factors** [¶28] - Separation factors for 2022 will be those reflected in 2022 MFRs, and separation factors for 2023 and 2024 will be those reflected in 2023 MFRs.
- **Fuel Clause Residential Rate Calculation** [¶28] – Two-tier rate spread will be 1.07 cents on a non-seasonal basis.