

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: November 21, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Gatlin, D. Buys, Norris) *ALM*
Division of Economics (Draper, Hampson, Hudson, Kelley) *EJD*
Office of the General Counsel (Brownless, Watrous) *JSC*

RE: Docket No. 20230116-EI – Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Idalia, by Duke Energy Florida, LLC.

Docket No. 20230020-EI – Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Elsa, Eta, Isaias, Ian, Nicole, and Tropical Storm Fred, by Duke Energy Florida, LLC.

AGENDA: 12/05/23 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham and Passidomo

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On January 23, 2023, Duke Energy Florida, LLC (DEF or Company) filed a petition for a limited proceeding seeking authority to recover \$442.1 million for the incremental storm restoration costs related to Hurricanes Elsa, Eta, Ian, Isaias, and Nicole and Tropical Storm Fred (the “Storms”), as well as replenish its storm reserve.¹ This amount includes approximately \$4.5 million in interest. DEF filed its petition pursuant to the provisions of the 2021 Settlement

¹Docket No. 20230020-EI, *In re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Elsa, Eta, Isaias, Ian, Nicole, and Tropical Storm Fred, by Duke Energy Florida, LLC.*

Docket Nos. 20230116-EI, 20230020-EI

Date: November 21, 2023

Agreement (2021 Settlement) approved by Order No. PSC-2021-0202-AS-EI. By Order No. PSC-2023-0111-PCO-EI, issued March 23, 2023, in Docket No. 20230020-EI, the Commission granted DEF's request to recover these costs through an interim storm restoration recovery surcharge. The interim surcharges, made subject to true-up, was made effective with the first billing cycle of April 2023 and ending the earlier of full recovery or with the last billing cycle of March 2024, whichever occurs first.

On September 29, 2023, DEF filed its petition for approval of actual costs related to the Storms, in the amount of \$431.4 million, an approximate reduction of \$10.7 million. DEF also requested to continue the storm restoration charge through the end of March 2024, as initially approved in Order No. PSC-2023-0111-PCO-EI. The disposition of any over- or under- recovery will be handled through the capacity cost recovery clause at a future date. Docket No. 20230020-EI has been set for hearing on May 21-22, 2023, by Order No. PSC-2023-0333-PCO-EI, issued November 2, 2023.

On October 16, 2023, the Company filed a petition for a limited proceeding in Docket No. 20230116-EI seeking authority to implement an interim storm restoration recovery surcharge to recover approximately \$166.1 million in incremental storm restoration costs, replenishment of the storm reserve, and interest related to Hurricane Idalia, to begin with the first billing cycle of January 2024 through December 31, 2024, subject to final true-up. The Company requested approval to include and spread the recovery of the remaining interim incremental storm restoration costs for the Storms in the surcharge for Hurricane Idalia, thus amending the currently approved surcharge. The \$166.1 million includes \$73.9 million related to the uncollected restoration costs from the Storms and \$91.9 million related to Hurricane Idalia. DEF's request would also modify the 12-month recovery period of incremental restoration costs to be collected for the storms.

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 amended interim storm restoration recovery charge?

Recommendation: Yes. The Commission should authorize DEF to implement an amended interim storm restoration recovery charge, subject to refund, and a modified recovery period. 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 or under recovery, and associated interest, will be considered by the Commission at a later date. (Gatlin)

Staff Analysis: As stated in the Case Background, DEF filed a petition requesting an amended interim storm surcharge in Docket No. 20230116-EI to reflect an estimated total of \$166.1 million in incremental storm restoration costs from the Storms and Hurricane Idalia, including interest, and replenishment of the storm reserve, beginning with the first billing cycle of January 2024 through December 2024, subject to true-up. DEF's request would also modify the 12-month recovery period of the remaining incremental restoration costs previously approved for the Storms, as approved in Docket No. 20230020-EI.

The interim petition for Docket No. 20230116-EI was filed pursuant to the provisions of the 2021 Settlement approved by Commission Order No. PSC-2021-0202-AS-EI.² Pursuant to Paragraph 30c of the 2021 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 amended interim storm recovery charge of \$5.09 per 1,000 kilowatt-hours (kWh) on a residential customer bill over a 12-month recovery period beginning with the first billing cycle of January 2024.

The Company requested to combine the estimated recovery amount of \$91.9 million from Hurricane Idalia with the remaining uncollected amount of \$73.9 million from the Storms, for a total recovery amount of approximately \$166.1 million. DEF also requested a modified recovery period to spread cost recovery for the remaining uncollected incremental storms costs over an additional nine months to reduce the impact of the increase due to the recovery of Hurricane Idalia storm costs. The Company stated that this will result in a rate reduction and will assist in rate stability.

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. Staff recommends amending the interim storm surcharge to reflect the known and measurable changes by the Company and modifying the recovery period to spread the cost recovery over a longer period.

²Order No. PSC-2021-0202-AS-EI, issued June 4, 2021, in Docket No. 20210016-EI, *In re: Petition for limited proceeding to approve 2021 settlement agreement, including general base rate increases, by Duke Energy Florida, LLC.*

Issue 2: What is the appropriate security to guarantee the amount collected subject to refund through the amended interim storm restoration recovery charge?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (Ferrer)

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, equity ownership, profitability, and interest coverage to guarantee any potential refund. DEF requested a 12-month collection period from January 2024 to December 2024 for Interim Storm Cost Recovery Charges of \$166.1 million related to Hurricanes Idalia, Elsa, Eta, Ian, Isaias, Nicole, and Tropical Storm Fred. Staff reviewed DEF's three most recent Annual Reports filed with the Commission (2022, 2021, and 2020) to determine if the Company can support a corporate undertaking to guarantee the funds collected for recovery of incremental storm restoration costs related to all the weather events. DEF's financial information indicates the Company's liquidity is deficient, that is, current assets are less than current liabilities. However, the Company participates in Duke Energy Corporation's (DEF's parent company) money pool and has access to additional funds if needed. In addition, DEF's equity ownership, profitability, and interest coverage are sufficient to support a potential refund of \$166.1 million. DEF's net income is 4.65 times the requested amount held subject to refund and it is improbable DEF will be required to refund the entire requested amount.

Accordingly, 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 \$166.1 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 3: Should the Commission approve DEF's proposed amended interim storm restoration recovery charge tariff as shown in Attachment A to the recommendation?

Recommendation: Yes. The Commission should approve DEF's proposal to revise the interim storm restoration surcharges. Furthermore, the Commission should give staff administrative authority to approve DEF's revised tariff sheet No. 6.105, which would provide the Commission-approved storm surcharges and other cost recovery factors. The tariff should become effective the first billing cycle of January 2024. The interim storm restoration surcharges should be subject to final true-up once the final total actual storm-related costs are known and filed. (Hampson)

Staff Analysis: DEF has proposed to decrease the currently effective interim storm restoration surcharges as approved in Docket No. 20230020-EI, based on the Company's recalculation of storm costs to include Hurricane Idalia and modify its recovery period through December 31, 2024, as discussed in Issue 1. In paragraph 18 of the petition, DEF states that the estimated storm recovery amount was allocated to the rate classes consistent with the rate design method approved in the 2021 Settlement.³ Staff has reviewed the allocation to rate classes and believes that the allocations provided in Appendix A, pages 5 and 6 to the petition are consistent with those approved in DEF's 2021 Settlement. Furthermore, staff has reviewed the derivation of the surcharges provided in Appendix A to the petition. Staff agrees that the surcharges have been calculated correctly, using projected kilowatt hour (kWh) sales for January through December 2024. The proposed interim storm restoration recovery factors should remain in effect until a final true-up is approved by the Commission.

The proposed interim storm restoration surcharges are shown on page 6 of Appendix A to the petition. For residential customers, the proposed surcharge would be 0.509 cents per kWh, which equates to a total surcharge of \$5.09 for a 1,000 kWh monthly bill. The current surcharge is 1.314 cents per kWh, which equates to a total surcharge of \$13.14 for a 1,000 kWh monthly bill. The storm cost recovery surcharge would be included in the non-fuel energy charge on customer bills.

Staff recommends that the Commission should approve DEF's proposal to revise the interim storm restoration surcharges. Furthermore, the Commission should give staff administrative authority to approve DEF's revised tariff sheet No. 6.105, which would provide the Commission-approved storm surcharges and other cost recovery factors. The tariff should become effective the first billing cycle of January 2024. The interim storm restoration surcharges should be subject to final true-up once the final total actual storm-related costs are known and filed

³Order No. PSC-2021-0202-AS-EI.

Issue 4: Should these dockets be closed?

Recommendation: No. Docket No. 20230020-EI should remain open to conduct the administrative hearing scheduled for that docket. Docket No. 20230116-EI should remain open pending final reconciliation of actual recoverable storm costs with the amount collected pursuant to the interim storm restoration recovery charge and the calculation of a refund or additional charge if warranted. (Brownless)

Staff Analysis: No. Docket No. 20230020 should remain open to conduct the administrative hearing scheduled for that docket. Docket No. 20230116-EI should remain open pending final reconciliation of actual recoverable storm costs with the amount collected pursuant to the interim storm restoration recovery charge and the calculation of a refund or additional charge if warranted.