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February 19, 2024

<u>VIA: ELECTRONIC TRANSMISSION</u>

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

Re: Docket 20230090; Petition to Implement 2024 Generation Base Rate Adjustment Provisions in 2021 Agreement by Tampa Electric Company

Dear Mr. Teitzman:

Attached for filing in the above-styled matter is Tampa Electric Company's Inflation Reduction Act Implementation Proposal.

Thank you for your assistance in connection with this matter.

Sincerely,

J. Jeffry Wahlen

JJW/ne
Attachment

cc: Walt Trierweiler
Charles Rehwinkel
Mary Wessling
Jon Moyle
Robert Scheffel Wright
Thomas A. Jernigan
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Stephanie U. Eaton
Barry A. Naum

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to Implement 2024 Generation) Base Rate Adjustment Provisions in 2021) Agreement, by Tampa Electric Company))	DOCKET NO.: 20230090-EI FILED: February 19, 2024

INFLATION REDUCTION ACT IMPLEMENTATION PROPOSAL

Pursuant to Sections 120.57 and 366.076, Florida Statutes, and Rule 28-106.301, Florida Administrative Code ("F.A.C."), Tampa Electric Company ("Petitioner," "Tampa Electric," or "the company"), files this Proposal to address the impact of the Inflation Reduction Act of 2022 on its August 26, 2022, and August 16, 2023, Petitions ("Original Petitions"), which were filed to implement the 2023 and 2024 Generation Base Rate Adjustment ("GBRA") provisions in Paragraph 4 of the 2021 Stipulation and Settlement Agreement ("2021 Agreement") approved by the Florida Public Service Commission ("FPSC" or "Commission") in Order No. PSC-2021-0423-S-EI, dated November 10, 2021.

Reasons for and Summary of Proposal

The company's Original Petitions requested implementation of the 2023 and 2024 GBRAs as updated to reflect the impact of the ROE Trigger in the 2021 Agreement. The GBRA amounts in the 2021 Agreement were calculated based on the federal income tax laws and regulations in effect at the time the 2021 Agreement was executed and approved. The calculations assumed that the company would claim the investment tax credits ("ITCs") available under the tax laws in effect at the time. Since then, the Inflation Reduction Act of 2022 ("IRA") was enacted, which increased the amount of the ITCs and extended the availability of a production tax credit ("PTC") to the company's second wave of solar assets ("Solar Wave Two") included in its 2022 base rate increase and its 2023 and 2024 GBRAs.[1]

The 2021 Agreement requires "normalization" of any new tax credits. Normalization of the PTCs available for the Solar Wave Two assets going into service in 2022, 2023, and 2024 over a ten year period yields approximately the same revenue requirement as the revenue requirement reflected in the company's 2022 base rates and GBRAs. Accordingly, as explained further below, the company proposes to make no changes to its current base rates or the 2023 and 2024 GBRAs as approved by the Commission, and to leave the unamortized balance of the PTCs associated with the Solar Wave Two assets on the balance sheet for disposition as an income tax expense reduction in the company's next general base rate proceeding.

Federal Tax Changes

1. The IRA was signed into law on August 16, 2022. Among other things, it increased the ITC applicable to certain renewable energy projects from 26 percent to 30 percent of the cost of the asset and extended the PTC in section 45 of the Internal Revenue Code to electricity generated by solar energy facilities. The PTC is a tax credit that reduces income tax expense, the amount of which is based on the amount of energy produced by qualifying assets. The PTC is available for solar energy facilities placed into service on or after January 1, 2022, and thereafter. The higher ITC percentage (30%) and PTC in the IRA applies to qualified facilities, including solar generating assets, for which construction began before January 1, 2025.

[1] Solar Wave Two consists of the three tranches of projects described in the direct testimony of David Sweat in Docket No. 20210034-EI, i.e., the company's 2021 Rate Case. Tranche One consisted of four projects (Magnolia, Mountain View, Jamison, and Big Bend II) totaling 226.5 MW and were scheduled to go in-service by December 1, 2022. (Magnolia went into service in 2021 and was not eligible for PTC.) Tranche Two consisted of four projects (Laurel Oaks, Riverside, Palm River, and Big Bend III) totaling 224 MW and went into service in 2022. Tranche Three consists of three projects (Alafia, Wheeler, and Dover) totaling 149.5 MW and will be in service by the end of 2023.

2. The IRA did not change the statutory federal corporate income tax rate but did create a 15 percent alternative minimum tax effective in 2023 that is not applicable to Tampa Electric because the worldwide adjusted financial statement income of Emera, Inc. is not expected to average over $1 billion USD for 2021, 2022, and 2023.

3. In its Original Petitions, the company noted that the IRA had become law and indicated that it would update its petition to address the implications of the IRA on the 2023 and 2024 GBRA as specified in the 2021 Agreement. The Commission approved implementation of the 2023 and 2024 GBRAs by Order Nos. PSC-2022-0434-TRF-EI, issued December 21, 2022 and PSC-2023-0348-TRF-EI, issued November 17, 2023. In its 2024 GBRA order, the Commission directed Tampa Electric to file a proposal to address the impact of the IRA on its GBRAs by April 1, 2024.

2021 Agreement Tax Change Provisions

4. The 2021 Agreement addresses Tax Changes in two places. The first is Paragraph 4(c), which specifies that a GBRA must be updated when federal or state corporate income tax rates change. That provision has no application here, because the IRA did not change the statutory federal corporate income tax rate in a way that impacts Tampa Electric. The second is Paragraph 11, which specifies the manner in which general base rates and GBRAs must be updated to reflect the impact of Tax Changes.

A. General Base Rates

5. Paragraph 11 of the 2021 Agreement contains the general provisions prescribing the actions to be taken if Tax Changes, including new tax credits, are enacted during the term of the agreement. Subparagraph 11 (c) states that if Tax Changes are enacted and become effective during the Term of the 2021 Agreement, the following provisions apply to the company's general base rates:

> (i) The company will calculate the impact of Tax Changes on its retail jurisdictional net operating income thereby neutralizing the FPSC adjusted net operating income of the Tax Changes up or down to a net zero. The company will use its forecasted earnings surveillance report for the calendar year that includes the period in which Tax Changes are effective to calculate the impact of Tax Changes.
>
> (ii) The impacts of Tax Changes, including, without limitation, rate changes and changes to the availability of existing and <u>new tax credits and other similar tax benefits on a normalized basis</u>, on base revenue requirements as calculated in subparagraph 11(c)(i) – up or down - will be reflected in the company's general base rates and charges through a prospective adjustment to those rates and charges to be effective within the later of: (a) 180 days from the date when Tax Changes become law or (b) the effective date of Tax Changes. This prospective adjustment to base rates and charges shall be accomplished through an equal percentage change – up or down - to customer, demand, and energy base rate charges as applicable for all retail customer classes.
>
> (iii) Any effects of Tax Changes on retail revenue requirements from the effective date through the date of the base rate adjustment shall be flowed back to or collected from customers through the ECCR on the same basis as used in any base rate adjustment. (emphasis added)

6. The IRA did not include a statutory federal income tax rate change applicable to Tampa Electric. Some of the projects in the first tranche of Solar Wave Two that were expected to go into service before December 31, 2021, and were included in the calculation of the company's 2022 general base rate increase effective January 1, 2022, did not go into service until early 2022, so they became eligible for the PTC. The company evaluated whether it is in the best interest of its customers to elect the 30 percent ITC or the PTC for these solar generating assets and concluded that electing the PTC is best for customers. Consequently, even though the company's 2022 base rate increase was calculated by applying the traditional ITC for solar assets, the company elected to take the PTC for these assets in its consolidated federal income tax return for 2022 and proposes to address the revenue requirement difference between the ITC and PTC for the Tranche One projects as described below.

B. GBRAs

7. Subparagraph 11(c)(iv) of the 2021 Agreement addresses the impact of Tax Changes on a GBRA that has not gone into effect and states:

> The company will adjust any GBRA that has not gone in effect up or down to reflect the new corporate income tax rate and the normalization of any new tax credits applicable to Future Solar projects on the revenue requirement for the GBRA. The effect of Tax Changes on a GBRA that has gone into effect will be addressed as part of the calculation in subparagraph 11(c)(i), above. *** (emphasis added)

8. The company's 2023 GBRA covered the Tranche Two solar generating facilities that were placed in service in 2022. The 2023 GBRA revenue requirement included in the 2021 Agreement was calculated using the 26 percent ITC applicable at the time the 2021 Agreement was executed and approved.

9. The company's 2024 GBRA covered the Tranche Three solar generating facilities that are scheduled to be placed in service in 2023. The 2024 GBRA revenue requirement included in the 2021 Agreement was calculated using the 26 percent ITC applicable at the time the 2021 Agreement was executed and approved.

10. By virtue of the IRA, the solar generating facilities in the 2023 and 2024 GBRAs are eligible for the ITC at a 30 percent rate or the PTC. Subparagraph 11(c)(iv) of the 2021 Agreement specifies that the effect of any new tax credits will be reflected in the revenue requirement of a GBRA on a normalized basis, i.e., not flowed through.

11. The company evaluated whether it is in the best interest of its customers to elect the 30 percent ITC or the PTC for the Tranche Two and Three solar generating assets in its 2023 and 2024 GBRAs and believes that electing the PTC is best for customers. A comparison of the cumulative present value revenue requirement ("CPVRR") of using the ITC at 30 percent ITC versus electing the PTC on a normalized basis for the 2023 and 2024 GBRA solar assets shows

that electing the PTC provides an incremental benefit to customers over the life of the solar generating facilities in the 2023 and 2024 GBRAs.

C. Evaluation of Solar Wave Two Tax Credits

12. As noted above, the annual revenue requirement for all three tranches of solar facilities in the Company's Solar Wave Two were calculated using a 26% ITC; however, the company has elected or will elect to take the PTC for all of the Solar Wave Two assets (except Magnolia, which went in service in 2021 and is not eligible for PTC) , because doing so is in the best interests of its customers.

13. The company has compared the total revenue requirement impact of the ITC for Solar Wave Two assets embedded in its 2022 base rate increase and its 2023 and 2024 GBRAs with the revenue requirement impact of taking the PTC for those assets and normalizing the credits over a ten year period.[2] This comparison is reflected on Exhibit One and shows that the embedded annual revenue requirement benefit of the ITCs for Solar Wave Two totals approximately $8.6 million and the annual revenue requirement benefit of normalized PTC for Solar Wave Two is approximately $8.9 million.[3]

14. Exhibit One also shows that the sum of the PTC estimated to be received for Solar Wave Two assets in 2022, 2023, and 2024 will be approximately $54 million and that the company will recognize $8.6 million of ITC credits associated with Solar Wave Two in those same years,

[2] The company acknowledges that the Internal Revenue Code does not require Normalization of PTCs in the same manner as it does for investment tax credits; however, the 2021 Agreement specifically contemplates the "normalization" of any new tax credits. Although the 2021 Agreement does not specify the normalization period for the new PTCs, the company proposes to use a 10 year period which is consistent with the 10 year availability period for PTCs and allows the benefits of the PTC to be shared on an intergenerational basis as opposed to benefitting customers in only one year. The Consumer Parties have not objected to this 10 year normalization period for purposes of this Proposal.

[3] The company proposes to reflect this amount of investment tax credit amortization in its financial statements for 2022, 2023, and 2024 on grounds that the company's accounting for the Solar Wave Two assets under generally accepted accounting principles should follow the approach reflected in revenue requirement calculations inherent in the 2021 Agreement.

leaving a forecasted total of $45.4 million of deferred PTC on the company's balance sheet as of December 31, 2024. Using a tax gross up factor of 1.34315, this amount of deferred PTC represents a deferred revenue requirement benefit (reduction) of approximately $61 million.

The Company's Proposal

15. The annual revenue requirement benefit of the ITC embedded in the revenue requirement approved in the 2021 Agreement for the Solar Wave Two assets is within approximately $400,000 of the annual revenue requirement benefit of the PTC for those assets on a ten-year normalized basis; therefore, the company proposes no IRA-related changes to its 2022 base rates or 2023 and 2024 GBRAs as approved and currently in effect. The company also proposes that the disposition of the forecasted deferred PTC balance as of December 31, 2024 of $45.4 million (approximately $61 million revenue requirement benefit) be resolved by the Commission in the company's next general base rate proceeding.

16. If the Commission approves this Proposal, the company will propose an amortization period for the PTC deferred balance, reflect the amortization of the deferred PTC using its proposed period as a reduction to income tax expense in the calculation of test year net operating income, and will explain its proposed amortization period in the direct testimony it files with its MFRs and petition in its next general base rate proceeding. The company anticipates and acknowledges that the appropriate amortization period for the deferred PTC balance will be an issue to be decided by the Commission and that the parties in the company's next base rate case will be free to propose and advocate for amortization periods different than the period proposed by the company.

Ultimate Facts Alleged

17. The ultimate facts that entitle Tampa Electric to the relief requested herein are the facts set forth in paragraphs one through 16 above and the following:

A. The company's proposal will promote regulatory economy and efficiency by minimizing the regulatory activity needed to update the company's base rates and 2023 and 2024 GBRAs for the impact of the Inflation Reduction Act. It will also minimize the potential customer confusion associated with a small mid-year base rate or GBRA change.

B. The term of the 2021 Agreement ends on December 31, 2024.

C. Absent limited exceptions, none of which the company expects to apply, the 2021 Agreement specifies that the company may not petition for new base rates and charges to be effective before the first billing cycle in January 2025.

D. The base rates and charges approved in the 2021 Agreement and currently in effect are fair, just, and reasonable per the agreement and will remain fair, just, and reasonable if the company's proposal specified above is approved by the Commission.

Other

18. Tampa Electric is not aware of any disputed issues of material fact associated with this proposal. The company has discussed the matters set forth in this document with the Office of Public Counsel and is authorized to represent that OPC does not object to the proposals and action requested herein.

20. Tampa Electric is entitled to the relief requested pursuant to Chapters 366 and 120, Florida Statutes, and Order No. PSC-2021-0423-S-EI.

WHEREFORE, Tampa Electric respectfully requests that the Commission enter an Order Approving the Proposal specified above and granting other such relief as may be reasonable and proper.

DATED this 19th day of February, 2024.

Respectfully submitted,

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ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Proposal, filed on behalf of Tampa Electric Company, has been served by electronic mail on this 19th day of February 2024 to the following:

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ATTORNEY

Tampa Electric
Solar Wave 2

Original Estimated ITC To Be Received Each Year	**2022**	**2023**	**2024**	
Tranche 1	45.8			
Tranche 2		60.2		
Tranche 3			44.2	

Estimated PTC To Be Received Each Year	**2022**	**2023**	**2024**	Total
Tranche 1	8.0	8.0	8.0	
Tranche 2		11.0	11.0	
Tranche 3			8.0	**54.0**

Normalization of Estimated ITC	2022	2023	2024	**Total 2022-2024**
Tranche 1 normalization	1.3	1.3	1.3	3.9
Tranche 2 normalization		1.7	1.7	3.4
Tranche 3 normalization			1.3	1.3
	1.3	3.0	4.3	8.6

10-Year Amortization of Estimated PTC To Be Received Each Year	2022	2023	2024	**Total 2022-2024**
Tranche 1 PTC received in 2022	0.8	0.8	0.8	2.4
Tranche 1 PTC received in 2023		0.8	0.8	
Tranche 1 PTC received in 2024			0.8	
Tranche 2 PTC received in 2023		1.1	1.1	2.2
Tranche 2 PTC received in 2024			1.1	
Tranche 3 PTC received in 2024			0.8	0.8
	0.8	2.7	5.4	8.9

Sum of PTC to be received 2022-2024	54.0
Sum of ITC normalization 2022-2024	8.6
Deferred PTCs	45.40
Tax gross up	1.34315
Deferred Revenue Requirement Reduction	61.0

Note: All PTC earned amounts are estimates because the actual amounts will be based on actual MWH generated.

EXHIBIT ONE

Tampa Electric
Solar Wave 2

Original Estimated ITC To Be Received Each Year	2022	2023	2024
Tranche 1	45.8		
Tranche 2		60.2	
Tranche 3			44.2

Normalization of Estimated ITC				Total 2022-2024
Tranche 1 normalization	1.3	1.3	1.3	3.9
Tranche 2 normalization		1.7	1.7	3.4
Tranche 3 normalization			1.3	1.3
	1.3	3.0	4.3	8.6

Sum of PTC to be received 2022-2024	57.1
Sum of ITC normalization 2022-2024	8.6
Deferred PTCs	48.50
Tax gross up	1.34315
Deferred Revenue Requirement Reduction	65.1

Note: All PTC earned amounts are estimates because the actual amounts will be based on actual MWH generated.

Estimated PTC To Be Received Each Year	2022	2023	2024	
Tranche 1	7.8	8.5	10.2	
Tranche 2	0.5	10.6	10.7	
Tranche 3	-	0.4	8.4	Total
				57.1

10-Year Amortization of Estimated PTC To Be Received Each Year				Total 2022-2024
Tranche 1 PTC received in 2022	0.8	0.8	0.8	2.3
Tranche 1 PTC received in 2023		0.9	0.9	1.7
Tranche 1 PTC received in 2024			1.0	1.0
Tranche 2 PTC received in 2022	0.1	0.1	0.1	0.2
Tranche 2 PTC received in 2023		1.1	1.1	2.2
Tranche 2 PTC received in 2024			1.1	1.1
				-
Tranche 3 PTC received in 2023		0.0	0.0	0.1
Tranche 3 PTC received in 2024			0.8	0.8
	0.8	2.8	5.8	9.4

Credits:

Rounded in Millions

Exhibit B

Assets	PTC Earned 2022	PTC Earned 2023	PTC Earned 2024	PTC Earned Cumulative Total as of 01/01/2025	ITC amortization per Rate Case/ 2023 and 2024 GBRA 2022	ITC amortization per Rate Case/ 2023 and 2024 GBRA 2023	ITC amortization per Rate Case/ 2023 and 2024 GBRA 2024	ITC amortization per Rate Case/ 2023 and 2024 GBRA Cumulative Total as of 01/01/2025	Variance PTC vs. ITC 2022	Variance PTC vs. ITC 2023	Variance PTC vs. ITC 2024	Variance PTC vs. ITC Cumulative Total as of 01/01/2025
SW2 Tr1	7.80	8.50	10.20	26.50	1.30	1.30	1.30	3.90	6.50	7.20	8.90	22.60
SW2 Tr2	0.50	10.60	10.70	21.80	-	1.70	1.70	3.40	0.50	8.90	9.00	18.40
SW2 Tr3	-	0.40	8.40	8.80	-	-	1.30	1.30	-	0.40	7.10	7.50
Total	8.30	19.50	29.30	57.10	1.30	3.00	4.30	8.60	7.00	16.50	25.00	48.50

Revenue Requirement Equivalent:

Assets	PTC Earned 2022	PTC Earned 2023	PTC Earned 2024	PTC Earned Cumulative Total as of 01/01/2025	ITC amortization per Rate Case/ 2023 and 2024 GBRA 2022	ITC amortization per Rate Case/ 2023 and 2024 GBRA 2023	ITC amortization per Rate Case/ 2023 and 2024 GBRA 2024	ITC amortization per Rate Case/ 2023 and 2024 GBRA Cumulative Total as of 01/01/2025	Variance PTC vs. ITC 2022	Variance PTC vs. ITC 2023	Variance PTC vs. ITC 2024	Variance PTC vs. ITC Cumulative Total as of 01/01/2025
SW2 Tr1	10.48	11.42	13.70	35.59	1.75	1.75	1.75	5.24	8.73	9.67	11.95	30.36
SW2 Tr2	0.67	14.24	14.37	29.28	-	2.28	2.28	4.57	0.67	11.95	12.09	24.71
SW2 Tr3	-	0.54	11.28	11.82	-	-	1.75	1.75	-	0.54	9.54	10.07
Total	11.15	26.19	39.35	76.69	1.75	4.03	5.78	11.55	9.40	22.16	33.58	65.14