

February 1, 2024

The Honorable Mike La Rosa
Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

**Re: Tampa Electric Company - Test Year Notification
Pursuant to Rule 25-7.140, Florida Administrative Code**

Dear Chairman La Rosa:

Tampa Electric Company (“Tampa Electric” or the “company”) is committed to being a trusted energy partner for our customers now and in the future. We are focused on carefully and prudently managing our operating expenses and capital spending to ensure that we are meeting the growing and changing energy needs in our service territory. Along the way, the company works diligently and thoughtfully to continuously improve the safety, reliability, and resilience of our electric system, improve efficiency in all areas of our operations - especially the generating efficiency of our existing power plants – and ensure that we can continue serving customers at all times regardless of weather conditions.

Good News for 2024

Tampa Electric is pleased that our customers can expect lower electricity rates this year. Lower projected fuel prices in 2024, the progress we made in 2023 recovering high fuel costs from 2022, and the approval to spread 2022 storm damage costs over a longer period have all combined to generate good news for our customers. In January, our typical residential customer bill decreased by 11 percent, and commercial and industrial customer rates decreased by 10 to 18 percent depending on their usage. Our 2024 residential bill is the second lowest among Florida’s investor-owned electric utilities.

Successes Since 2021

We are also proud of the work we have done to transform our system and serve the additional 40,000 customers who have joined our system since 2021, bringing us to a total of 840,000. We have delivered on the promises in our 2021 rate case settlement agreement (“2021 Agreement”):

- *Safety is still our No. 1 priority, and our results show it.*

Tampa Electric’s reportable OSHA incidents declined from 24 in 2019 to a low of 17 in 2023. Our OSHA incident rate declined from 1.02 in 2019 to a low of 0.70 in 2023.

- *We added 600 MW of solar generating capacity.*

Tampa Electric's solar projects can now produce 1,252 MW of electricity, enough to power more than 200,000 homes. We are Florida's top – and the Southeast's second highest – producer of solar energy per customer. About nine percent of the energy we generated in 2023 came from the sun, and we expect our solar generation to be approximately 12 percent in 2024. These solar projects have saved our customers more than \$200 million in fuel costs since 2017 and help moderate fuel price volatility.

- *We completed the Big Bend Modernization Project.*

The company retired Big Bend Unit 2 and Unit 3, refurbished the Big Bend Unit 1 steam turbine and generator, and replaced the Unit 1 boiler and coal processing equipment with two new, highly efficient General Electric 7HA.02 combustion turbines and associated heat recovery steam generators. These changes have improved our system reliability and operating flexibility, reduced fuel costs, increased the combined winter generating capacity of Units 1 and 2 from approximately 800 MW to 1,120 MW, and reduced their combined heat rates from over 10,500 Btu/kWh to about 6,500 Btu/kWh – a 40 percent efficiency gain. The efficiency of our combined generating system has improved by 20 percent since 2017. These changes, along with other improvements and the addition of solar generation, have significantly reduced customers' fuel costs, along with reducing annual emissions by about 38 percent since 2017.

- *Our Automated Metering Infrastructure (“AMI”) project is complete and ready to support more resilience and reliability as we continue to modernize our electric grid.*

The company completed its work to install over 800,000 smart meters and a new distribution communication system in December 2021, which allows us to identify outages more quickly. Together with the enhanced vegetation management and grid hardening included in our Florida Public Service Commission (“Commission”) - approved Storm Protection Plan, AMI and distribution operating technology improvements have improved system reliability.

- *Our thoughtful investments and attention to reliability impacts on customers are demonstrated in the improvements we have made over the past few years.*

Tampa Electric has increased the reliability of our service by 32 percent. Specifically, since 2017, Tampa Electric has reduced the frequency of power outages by 21 percent and shortened the duration of those outages by 22 percent. Our “flickers” were 30 percent less frequent. We provide 99.98 percent service reliability for our customers.

- *We replaced all streetlights and area lights with smart LED technology.*

This innovative technology offers increased visibility at night and minimizes glare as well as being highly energy efficient. Because this technology lasts longer than traditional streetlights, maintenance and costs are reduced. Keeping our communities well-lit helps keep our roadways safe and promotes public safety.

- *Our Customer Service remains strong.*

Our J.D. Power ranking for residential customer overall satisfaction has improved from the fourth quartile in 2017 to near the top of the second quartile in 2023. Of the six drivers of customer satisfaction, we scored better than the industry average for every driver. Additionally, we are ranked in the first quartile for Communications, in the second quartile for four drivers, including Power Quality and Reliability, Billing and Payment, Corporate Citizenship, and Customer Care, and in the third quartile for Price. Our overall business satisfaction declined slightly in 2023 but remained above the industry average.

Moving Forward

Our work to transform our company is not complete. From 2024 to 2030, we expect ten percent customer growth, so investing to serve new customers will continue to be a priority. Moving forward, Tampa Electric will invest to become even more reliable, resilient, efficient, and customer-focused, while remaining committed to safety, managing our costs, and providing the kind of positive customer experience our customers expect. We will provide the reliable service our customers need by strengthening our system and enhancing our response to power outages. The company plans to:

1. Modify existing power plants (Polk Fuel Diversity Project and gas path improvements) to improve performance and efficiency, increase fuel diversity, reduce fuel costs, increase generating fleet flexibility, and enhance system reliability.
2. Add 490 MW of incremental solar generation to promote fuel diversity, protect customers from fuel price volatility, and lower fuel costs on customers' bills.
3. Install a small reciprocating electric generator project that will help the company avoid costly transmission system upgrades, increase system resilience, and support national security as part of our South Tampa Resilience Project.
4. Construct approximately 115 MW of energy storage capacity as the most cost-effective means to maintain winter reserve margins during cold weather events. This energy storage will allow us to serve customers with lower-cost energy during winter peaks, thereby reducing our reliance on fuels purchased from sources beyond Florida.
5. Enhance our smart grid capabilities by improving our grid communication system and related technologies so our system will automatically respond to outages before crews arrive, allow troubleshooters to diagnose and repair problems more quickly, and reduce restoration times and costs. Our aspiration is to reduce SAIDI to 30 minutes by 2030.
6. Storm-proof and improve security at critical company facilities by moving our energy control center and corporate offices to more storm-resistant locations that are farther inland and away from potential storm surge and flooding. The Bearss Operations Center and corporate headquarters will improve our access and ability to operate at all times, especially after an extreme weather event, so we can continue to serve our customers when they need us the most.

7. Expand our digital solutions and self-service solutions with personalized energy-use insights and energy-saving tools to help customers stay organized and make informed decisions that save energy and money. We are streamlining our operations to simplify customer interactions and to reduce call volumes and wait times, both of which were elevated in 2023 because of increased customer bill concerns due to higher-than-usual fuel cost recovery, storm restoration charges and a particularly hot summer. We are enhancing our interactive bills which allows customers to assess their energy usage on a daily, monthly, and annual basis and provides actionable energy-saving recommendations. An enhanced outage map will be more informative, easier to use, and include customers' specific outage history. Customers will be able to decide how and when to receive communications from the company, with more customizable account and billing notifications.

8. We will also be investing in additional innovative outdoor lighting technology, such as smart network controls, that will let us know when a streetlight goes out, and solar-powered lights that will remain in service during and after extreme weather events.

Actions Taken to Avoid Increasing Rates

Like our customers, Tampa Electric has faced higher prices for the goods and services we purchase to serve customers as well as higher interest rates and an associated higher cost of capital. The company has taken these specific actions and implemented the following measures for the specific purpose of avoiding a rate increase:

- The company has operated under a general base rate freeze since the end of 2021, agreeing not to seek rate relief during the term of the 2021 Agreement.
- The company has remained focused on cost control and financial efficiencies. Investments in projects to improve operational efficiency, efforts to streamline processes, and a commitment to cost discipline contributed to Tampa Electric's cost control accomplishments. In 2013, Tampa Electric's operations and maintenance (O&M) expense was \$341 million. Ten years later, in 2023, our O&M expense was \$358 million. This is a cumulative annual growth rate of only one half of one percent. Despite the inflationary and market pressures we face, we expect the 2025 O&M expense to be less than the Commission's O&M benchmark that accounts for customer growth and inflation.
- Although they are not base rate items, we exceeded our 2023 expectations for Asset Optimization Mechanism ("AOM") gains and renewable energy credit ("REC") sales. Our customers will be credited with a large share of the \$10 million in AOM gains through the fuel adjustment clause and 100 percent of wholesale REC sale proceeds (\$3.4 million) through the environmental clause - which will help lower customers' bills.
- As the company has invested in solar power, we have generated more and more electricity with no fuel costs. Since 2017, our solar projects have saved customers over \$200 million in fuel costs.
- Solar generation also provides Production Tax Credits ("PTC"), which lower federal income tax expense. In 2025, we forecast tax expense reduction of over \$35 million. This will lower the revenue requirement by approximately \$50 million.

- Investments in projects to improve the efficiency (heat rate) of our generation fleet have resulted in greatly improved efficiency in our units. From 2017 to 2023, system heat rate has decreased 20 percent from 8,488 to 6,755 Btu/kWh. In addition to the \$200M in fuel savings from our solar plants over this period, significant fuel savings also were created from system fleet improvements, which reduced customer bills.

Our Need for Rate Relief

Although we are proud to serve one of the fastest growing areas in Florida and America, adding customers to our system requires us to invest in modern facilities to provide service. As the company has invested in infrastructure that provides value to customers and fulfills our obligation to provide reliable, resilient utility service, revenue growth has not kept pace with the growth of our rate base assets. Increases in inflation put upward pressure on the cost of assets being placed in service and operating expenses. Increases in interest rates and the overall cost of capital are also increasing our costs to provide service. Tampa Electric is finalizing its 2025 test year revenue requirement calculations but anticipates requesting a net incremental base rate revenue increase of approximately \$290 million to \$320 million, with subsequent year, asset specific base rate adjustments of about \$100 million and \$70 million in 2026 and 2027, respectively, to recover the costs of specific assets the company plans to place in service to serve customers during those years. Even with the proposed rate increase in 2025, Tampa Electric residential bills will remain lower than 2023 bills. The company will not request interim rates or that its petition for rate relief be processed using the proposed agency action process authorized in Section 366.06(4), Florida Statutes. Although their impact on the company's revenue requirement has been moderated by revenue growth and other factors that reduced costs, the major factors necessitating the need for rate relief in 2025 include:

- *Inflation*

The consumer price index rose 8.0 percent over the previous year in 2022 and 4.1 percent in 2023 for a cumulative increase of 12.1 percent. Although inflation is expected to be lower in the future, the effect of higher prices from 2022 and 2023 is here to stay. Inflation raises both the price of equipment and services in capital projects and the company's O&M expenses. Increased O&M expense is expected to account for approximately \$40 million of the company's projected 2025 test year revenue requirement increase.

- *Cost of Capital*

In 2021, the Federal Reserve rate was 0.08 percent at year end. By the end of 2023, the rate had increased to 5.33 percent. This was reflected in an average short term debt interest rate for the company of 0.58 percent in 2021, rising to 5.70 percent in 2023. These changes in the capital markets have influenced long- and short-term borrowing costs and the cost of common equity. The company anticipates requesting a return on equity midpoint for 2025 of approximately 11.5 percent. With these changes, the increase in the company's cost of capital is expected to account for approximately \$130 million of the company's projected 2025 test year revenue requirement increase.

- *Capital Investments*

Tampa Electric invests capital to serve new customers; improve reliability, resilience, and efficiency; and ensure that our existing plant investments remain in sound working condition. From January 1, 2022, to

December 31, 2024, (*i.e.*, the term of the 2021 Agreement), the company expects to invest approximately \$3.7 billion for these purposes. Over the period 2025 through 2027, the company expects to invest an average of \$1.6 billion annually on these initiatives. Rate base growth accounts for approximately \$120 million of our anticipated 2025 revenue requirement increase.

- *Depreciation Expense and Dismantlement Costs*

As our investments grow to serve new customers and improve reliability and resilience, so does the level of our depreciation expense. Consistent with the 2021 Agreement, the company filed an updated depreciation and dismantlement study on December 27, 2023 (Docket No. 20230139-EI) which reflects a need to change certain depreciation rates. In 2025, depreciation expense accounts for \$130 million of the company's requested 2025 revenue increase due to proposed changes to depreciation rates and rate base growth.

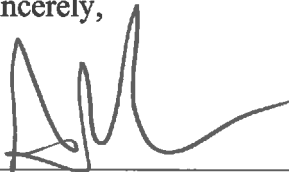
Proposal to use 2025 Forecasted Test Year and Justification

For these reasons, Tampa Electric intends to seek general rate relief pursuant to the provisions of Section 366.06(3), Florida Statutes, as soon as the new rate schedules, the petition relating thereto, and the minimum filing requirements can be completed and filed. The company plans to file on April 2, 2024, and proposes to use a projected test year ending December 31, 2025, with a historic base year ending December 31, 2023. Given the expected impacts of future customer demand, inflation, and changes in the capital markets, the company's proposed 2025 test year will reasonably reflect the economic and operating conditions expected during the first 12 months that the company's proposed new rates will be in effect and will be more representative than a historic test year.

Conclusion

Tampa Electric understands that there is never a good time to request a rate increase and higher electric rates will impact our customers. However, the general base rate relief to be addressed in the company's upcoming petition will be critically important to enable Tampa Electric to maintain its financial integrity and support the growth of West Central Florida while continuing to meet the expectations of our customers for safe, reliable, and resilient electric service.

Sincerely,



Archie Collins
President and Chief Executive Officer

The Honorable Mike La Rosa

February 1, 2024

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cc: All via Electronic Mail

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Honorable Andrew Giles Fay, Commissioner

Honorable Art Graham, Commissioner

Honorable Mike La Rosa, Commissioner (Chair)

Honorable Gabriella Passidomo, Commissioner

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