AUSLEY MCMULLEN
ATTORNEYS AND COUNSELORS AT LAW
123 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

July 25, 2018

VIA: ELECTRONIC FILING

Ms. Carlotta S. Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Tampa Electric Company; Docket No. 20180045-EI

Dear Ms. Stauffer:

Attached for filing in the above docket is Tampa Electric Company's Prehearing Statement.

Thank you for your assistance in connection with this matter.

Sincerely,

J. Jeffry Wahlen

JJW/pp
Attachment

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 Tampa Electric Company.	))))	DOCKET NO. 20180045-EI FILED: July 25, 2018

TAMPA ELECTRIC COMPANY'S
PREHEARING STATEMENT

A. APPEARANCES:

JAMES D. BEASLEY
J. JEFFRY WAHLEN
Ausley McMullen
Post Office Box 391
Tallahassee, Florida 32302

On behalf of Tampa Electric Company

B. WITNESSES:

Witness	Subject Matter	Issues Numbers
Direct		
Alan D. Felsenthal	Accounting for income taxes for public utilities; description of changes caused by the Tax Cuts and Jobs Act of 2017 (TCJA) and their impact on regulated utilities; explain the ratemaking requirement in the TCJA for "protected excess deferred taxes" and description of work performed to test Tampa Electric's calculation of the impact of the TCJA on the company's 2018 income tax expense	1b, 1c, 1d, 1e, 2, 3
Valerie Strickland	Accounting for the impacts of TCJA and sponsorship of Tampa Electric's calculation of forecasted income tax expense for 2018 based on its 2018 Forecasted Earnings Surveillance Report, as adjusted to reflect the impact of the TCJA	1b, 1c, 1d, 1e, 2, 3

Jeffrey S. Chronister	Revenue requirement reduction to reflect the effects of TCJA; calculation of revenue requirement reduction required by the 2017 Agreement; presentation of information about how recent federal income tax law changes will impact Tampa Electric's financial condition going forward	1a, 1h, 4, 5, 6, 7, 8, 9, 10, 13
William R. Ashburn	Rate and tariff changes necessary to implement tax reform in accordance with the 2017 Agreement	11, 12
Rebuttal		
Valerie Strickland	Respond to recommendations of witness Ralph Smith and address private letter ruling	1f, 1g

C. EXHIBITS:

Witness	Proffered By	Exhibit #	Description
Direct			
Alan D. Felsenthal	Tampa Electric Company	ADF-1, filed May 31, 2018	Depreciation Timing Difference Examples; ARAM illustration
Valerie Strickland	Tampa Electric Company	VS-1, filed May 31, 2018 and revised VS-1 Document No. 2 filed June 7, 2018	Estimated and Revised Excess ADIT; 2018 Tax Expense under the TCJA; MFR C-22
Jeffrey S. Chronister	Tampa Electric Company	JSC-1, filed May 31, 2018	2017 Agreement; Amended Implementation Stipulation; 2018 Forecasted Earnings Surveillance Report as Filed and Updated to Reflect the TCJA; Calculation of Annual Revenue Requirement Reduction Required by the 2017 Agreement and Adjustment thereto for the First SoBRA Budget Difference and Tax Reform Adjustment

William R. Ashburn	Tampa Electric Company	WRA-1, filed May 31, 2018	Base Revenue by Rate Schedules; Roll-up Base Revenue by Rate Class; Typical Bills Reflecting Tax Reform Base Rate Decrease; Redlined and Clean Tariffs Reflecting Tax Reform Base Rate Decrease

D. STATEMENT OF BASIC POSITION

Tampa Electric's Statement of Basic Position:

The company has calculated the annual revenue requirement impact of the Tax Cuts and Jobs Act of 2017 ("TCJA") in accordance with the 2017 Agreement, and that amount is approximately $102.7 million. The Commission should approve the company's proposal to reduce base rates by this amount as specified in its 2017 Amended and Restated Stipulation and Settlement Agreement ("2017 Agreement") effective concurrent with the first billing cycle in January 2019. This amount should also be used in Docket No. 20170271-EI to net against the storm costs as provided in paragraph 3 and to calculate the true-up contemplated in paragraph 5(c) of the Amended Implementation Stipulation.

The company has properly calculated the amount of "excess" accumulated deferred income taxes ("excess ADIT") as of December 31, 2017, has properly classified them as "protected" and "unprotected" and has reflected the excess amounts in the calculation of forecasted 2018 tax expense in accordance with the requirement of the Internal Revenue Code and the 2017 Agreement. If the portion of unprotected excess accumulated deferred income taxes associated with cost of removal/net negative salvage is later determined by the IRS to be "protected," through the issuance of a private letter ruling ("PLR") or otherwise, the company should further adjust base rates to reflect the 2018 revenue requirement impact either (a) in conjunction with a future solar base rate adjustment or (b) by filing a petition for a limited scope proceeding to adjust base rates within 60 days of the determination, whichever will result in a rate change earlier; and shall refund the associated 2018 revenue requirement difference from January 1, 2018 to the effective date of the further rate change.

E. STATEMENT OF ISSUES AND POSITIONS

ISSUE 1: Has TECO complied with the applicable provisions of its 2017 Amended and Restated Stipulation and Settlement Agreement and Amended Implementation Stipulation regarding the TCJA?

TECO: Yes, as detailed below:

a) Was TECO's "forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective" used?

Yes. The company properly used the 2018 Forecasted Earnings Surveillance Report as filed on March 16, 2018 to compute the annual revenue requirement impact associated with the TCJA in accordance with the 2017 Agreement. (Chronister)

b) Were "protected excess deferred taxes" for 2018 using a 21% corporate tax rate appropriately calculated and credited?

Yes. The amount of protected excess ADIT as of December 31, 2017 was $347.8 million. Protected excess ADIT amounts were properly reflected in the calculation of 2018 income tax expense using the average rate assumption method in accordance with the Internal Revenue Code and the 2017 Agreement. (Strickland and Felsenthal)

c) Were "unprotected excess deferred taxes" for 2018 using a 21% corporate tax rate appropriately calculated and credited?

Yes. Book-tax differences not covered by protected normalization rules were properly considered to be unprotected. The amount of unprotected excess ADIT as of December 31, 2017 was $133.0 million. Excess unprotected ADIT were properly reflected in the calculation of 2018 income tax expense over a ten-year flowback period in accordance with the 2017 Agreement. (Strickland and Felsenthal)

d) Were Accumulated Deferred Income Taxes (ADIT) appropriately calculated?

Yes. Tampa Electric identified the book-tax differences that would be impacted by the TCJA, then calculated income tax expense to re-measure ADIT balances at the new applicable corporate rate of 21 percent. In accordance with the 2017 Agreement, these excess ADIT were deferred to a regulatory asset or liability which will be included in FPSC-adjusted capital structure and flowed back to customers consistent with the Internal Revenue Code and the 2017 Agreement. (Strickland and Felsenthal)

e) Are TECO's classification of the excess ADIT between "protected" and "unprotected" appropriate?

Yes. Tampa Electric engaged PowerPlan to assist in identifying and remeasuring excess deferred taxes, and PriceWaterhouseCoopers has tested and verified the company's calculation of the impact of the TCJA. (Strickland and Felsenthal)

f) Should TECO seek a private letter ruling from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as "unprotected"?

Tampa Electric does not object to seeking a PLR from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as unprotected. (Strickland)

g) If TECO seeks a private letter ruling and the IRS rules therein (or in another private letter ruling) that the excess ADIT relating to cost of removal/negative net salvage is to be treated as "protected," what process should be followed for the reclassification?

If Tampa Electric receives a private letter ruling ("PLR") from the IRS ruling that the excess ADIT relating to cost of removal/negative net salvage is to be treated as protected, then a reclassification should be made in the company's books and records and flow-back amounts should be trued up based on the ruling. In addition, the company should further adjust base rates to reflect the 2018 revenue requirement impact either (a) in conjunction with a future solar base rate adjustment or (b) by filing a petition for a limited scope proceeding (or stipulated among all parties in lieu thereof) to adjust base rates within 60 days of the determination in the PLR, whichever will result in a rate change earlier; and shall refund the associated 2018 revenue requirement, difference from January 1, 2018 to the effective date of the further rate change through the conservation cost recovery clause. (Strickland)

h) Were appropriate adjustments made to the First SoBRA project for the impact of the TCJA for the tax year 2018?

Yes. In accordance with the 2017 Agreement, for 2018 the company adjusted its cost recovery request for the First SoBRA in Docket No. 20170260-EI to reflect lower revenue requirements as a result of the TCJA. (Chronister)

ISSUE 2: What is the forecasted tax expense for TECO for the tax year 2018, under the TCJA, at a 21% corporate tax rate?

TECO: The forecasted tax expense under the TCJA, for the tax year 2018 at a corporate tax rate of 21 percent for Tampa Electric is $85.9 million, a reduction in forecasted tax expense of $82.1 million when compared to tax expense without tax reform. (Strickland and Felsenthal)

ISSUE 3: What is the forecasted tax expense for TECO for the tax year 2018, without tax reform, at a 35% corporate tax rate?

TECO: The forecasted tax expense without tax reform for the tax year 2018 at a corporate tax rate of 35 percent for Tampa Electric is approximately $168.1 million. (Strickland and Felsenthal)

ISSUE 4: What is the forecasted NOI for the tax year 2018, adjusted for the TCJA at a 21% corporate tax rate?

TECO: The forecasted FPSC-adjusted 13-month average NOI adjusted for the effects of the TCJA at a 21 percent tax rate is $438.3 million. (Chronister)

ISSUE 5: What is the forecasted NOI for the tax year 2018 on a pre-TCJA basis at a 35% corporate tax rate?

TECO: The forecasted FPSC-adjusted 13-month average NOI at a 35 percent tax rate is $360.1 million. (Chronister)

ISSUE 6: What is the average forecasted capital structure for the tax year 2018, under the TCJA at a 21% corporate tax rate?

TECO: The average midpoint forecasted capital structure for the tax year 2018, under the TCJA at a 21 percent corporate tax rate on an FPSC-adjusted basis is as follows:

	Adjusted Retail ($000)	Adjusted Retail (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	$ 1,756,256	30.26	4.93	1.49
Short Term Debt	252,677	4.35	2.94	0.13
Customer Deposits	84,020	1.45	2.41	0.03
Common Equity	2,487,153	42.86	10.25	4.39
Deferred Income Taxes	1,188,342	20.48	-	-
Tax Credits-Weighted Cost	34,558	0.60	7.77	0.05
Total	$ 5,803,005	100.00		6.09

(Chronister)

ISSUE 7: What is the forecasted capital structure for the tax year 2018 at a 35% corporate tax rate?

TECO: The average midpoint forecasted capital structure for the tax year 2018, under the TCJA at a 35 percent corporate tax rate on an FPSC-adjusted basis is as follows:

	Adjusted Retail ($000)		Adjusted Retail (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	$	1,756,483	30.23	4.93	1.49
Short Term Debt		240,239	4.13	2.96	0.12
Customer Deposits		84,031	1.45	2.41	0.03
Common Equity		2,471,935	42.54	10.25	4.36
Deferred Income Taxes		1,223,272	21.05	-	-
Tax Credits-Weighted Cost		34,562	0.59	7.77	0.05
Total	$	5,810,522	100.00		6.05

(Chronister)

ISSUE 8: What is the forecasted revenue requirement for TECO for the tax year 2018 using a 21% corporate tax rate?

TECO: The forecasted 13-month average NOI for TECO for the tax year 2018 at a 21 percent tax rate is \$438.3 million, and the application of the 0.74655 tax gross-up factor results in a revenue requirement of \$587.1 million. (Chronister)

ISSUE 9: What is the forecasted revenue requirement for TECO for the tax year 2018 using a 35% corporate tax rate?

TECO: The forecasted 13-month average NOI for TECO for the tax year 2018 at a 35% corporate tax rate is \$360.1 million, and the application of the 0.74655 tax gross-up factor results in a revenue requirement of \$482.3 million. (Chronister)

ISSUE 10: What is the amount of annual revenue requirement decrease/increase due to the enactment of the TCJA for the tax year 2018?

TECO: The revenue requirement decrease due to the enactment of the TCJA for the tax year 2018 is \$102.7 million. The 2018 revenue requirement decrease is the difference between the forecasted NOI pre- and post-TCJA with the 0.74655 tax gross-up factor applied, and then adjusted to reflect actual instead of budgeted First SoBRA revenue requirements included in the NOI and the First SoBRA tax reform revenue requirements reduction already performed in Docket No. 20170260-EI. . (Chronister)

ISSUE 11: What is the annual percentage decrease for the base rate charges for the RS, GS, GSD and IS rate classes resulting from the TCJA?

TECO: Consistent with the 2017 Agreement, the annual percentage decrease in the base rate charge for RS, GS, GSD, and IS rate classes resulting from the TCJA is 9.0 percent. (Ashburn)

ISSUE 12: What are the appropriate base rate charges for rate classes resulting from implementing the TCJA and when should the new base rate charges become effective?

TECO: The appropriate base rate charges are shown in Witness Ashburn's Exhibit No. ___ (WRA-1), Document No. 5, and should become effective concurrent with the first billing cycle of January 2019. (Ashburn)

ISSUE 13: What is the amount of 2018 TCJA revenue requirement decrease that should be used in the storm docket to offset storm costs?

TECO: The $102.7 million revenue requirement impact specified in Issue 10, above, should be used in Docket No. 20170271-EI to net against the storm costs as provided in paragraph 3 and to calculate the true-up contemplated in paragraph 5(c) of the Amended Implementation Stipulation. (Chronister)

ISSUE 14: Should this docket be closed?

TECO: The docket should remain open to consider feedback from the IRS through the PLR to ensure that the treatment of excess ADIT relating to cost of removal/negative net salvage as unprotected is appropriate.

F. STIPULATED ISSUES

Tampa Electric is not aware of any stipulated issues as of this date.

G. PENDING MOTIONS

Tampa Electric is not aware of any pending motions as of this date.

H. PENDING CONFIDENTIALITY CLAIMS OR REQUESTS

Tampa Electric has no pending confidentiality claims or requests at this time.

I. OBJECTIONS TO WITNESS QUALIFICATIONS AS AN EXPERT

Tampa Electric has no objections to any witness' qualifications as an expert in this proceeding.

J. REQUEST FOR SEQUESTRATION OF WITNESSES

Tampa Electric has not requested a sequestration of witnesses.

K. COMPLIANCE WITH ORDER NO. PSC-2018-0208-PCO-EI

Tampa Electric has complied with all requirements of the Order Establishing Procedure entered in this docket.

DATED this 25th day of July 2018.

Respectfully submitted,

JAMES D. BEASLEY
J. JEFFRY WAHLEN
Ausley McMullen
Post Office Box 391
Tallahassee, Florida 32302
(850) 224-9115

ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Prehearing Statement, filed on behalf of Tampa Electric Company, has been furnished by electronic mail on this 25th day of July 2018 to the following:

Suzanne Brownless Senior Attorney Office of the General Counsel Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850 sbrownle@psc.state.fl.us	Jon C. Moyle, Jr. Karen A. Putnal Moyle Law Firm 118 North Gadsden Street Tallahassee, FL 32301 jmoyle@moylelaw.com kputnal@moylelaw.com
J. R. Kelly/Virginia Ponder/Charles Rehwinkel Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, Room 812 Tallahassee, FL 32399-1400 kelly.jr@leg.state.fl.us ponder.virginia@leg.state.fl.us rehwinkel.charles@leg.state.fl.us	Robert Scheffel Wright John T. LaVia, III Gardner, Bist, Bowden, Bush, Dee, LaVia & Wright, P.A. 1300 Thomaswood Drive Tallahassee, FL 32308 Schef@gbwlegal.com Jlavia@gbwlegal.com
	ATTORNEY