BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of:

DOCKET NO. 20180045-EI

CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FOR TAMPA ELECTRIC COMPANY.
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VOLUME 1
PAGES 1 through 138

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN ART GRAHAM
COMMISSIONER JULIE I. BROWN
COMMISSIONER GARY F. CLARK

DATE: Monday, August 20, 2018

TIME: Commenced: 1:00 p.m.
Concluded: 1:30 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DANA W. REEVES
Court Reporter

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APPEARANCES:

JAMES D. BEASLEY and J. JEFFRY WAHLEN, ESQUIRES, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302, appearing on behalf of Tampa Electric Company.

J.R. KELLY, PUBLIC COUNSEL; CHARLES REHWINKEL, DEPUTY PUBLIC COUNSEL; and VIRGINIA PONDER, ESQUIRE, Office of Public Counsel, c/o the Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

JON C. MOYLE, JR., ESQUIRE, Moyle Law Firm, P.A., 118 North Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Industrial Power Users Group.

SUZANNE BROWNLESS and RACHEL DZIECHCIARZ, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission Staff.

KEITH HETRICK, GENERAL COUNSEL; MARY ANNE HELTON, DEPUTY GENERAL COUNSEL; Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Advisor to the Florida Public Service Commission.

I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID	ADMITTED
1 - Comprehensive Exhibit List		128
2 through 14 - (as identified on the Comprehensive Exhibit List		129

P R O C E E D I N G S

CHAIRMAN GRAHAM: Good afternoon. I'm glad to see you guys are here and safe and not wet. That means you guys were here on time.

Okay. We will call this meeting to order. Docket No. 20180045-EI. If I can get staff to read the notice, please.

MS. BROWNLESS: Yes, sir. By noticed issued on July 23rd, 2018, this time and place has been set for final hearing in Docket No. 20180045-EI. The purpose of this hearing is to receive testimony and exhibits regarding the tax impacts on Tampa Electric Company resulting from the passage of the Tax Cuts and Jobs Act of 2017 and any other matters that may be pending at this time.

CHAIRMAN GRAHAM: Okay. Let's take appearances.

MR. MOYLE: Good afternoon. Jon Moyle on behalf of the Florida Industrial Power Users Group.

MR. WAHLEN: Good afternoon. I'm Jeff Wahlen, appearing with James D. Beasley of the Ausley McMullen Law Firm on behalf of the Tampa Electric Company.

MS. PONDER: Good afternoon. Virginia Ponder, Charles Rehwinkel and J.R. Kelly for the Office of

Public Counsel.

MS. BROWNLESS: Good afternoon. Suzanne Brownless on behalf of the staff of the PSC and I'm also entering a notice of appearance for Rachel Dziechciarz, also with the PSC staff.

MS. HELTON: Mary Anne Helton. I'm here as your advisor. I'm also entering an appearance for your general counsel, Keith Hetrick.

CHAIRMAN GRAHAM: Okay. Preliminary matters.

MS. BROWNLESS: Yes, sir. All witnesses have been excused and the parties wish to make opening statements. Additionally, there are proposed stipulations on all issues. All parties have agreed to the proposed stipulation language for Issues 1 through 10 and 12 through 14. For Issue 11, OPC, FIPUG and FRF have taken no position.

CHAIRMAN GRAHAM: Okay. Opening statements. It says you guys are limited to five minutes.

MR. WAHLEN: Thank you very much. Good afternoon, Commissioners. I'm Jeff Wahlen appearing on behalf of Tampa Electric Company. Carlos Aldazabal, who is the Vice President of Regulatory Affairs, is here with me. I want to begin with thank you and ask the Commission to approve the stipulations in Sections 10 of the prehearing order.

Those who were around 32 years ago for the last version of tax reform could tell you that the posture we're in today is pretty remarkable. The 1986 tax reform proceedings were very contentious and presented difficult issues for the Commission to decide. Today's stipulations can resolve the entire case.

The big difference this time is the 2017 agreement, which was approved about a year ago. Even though significant federal income tax reform was just a possibility and its contours and timing were uncertain, the parties to the 2017 were thinking ahead and agreed in advance how to handle tax reform based on the information that was available about how it might occur, and then it did. And when it did, the company calculated its tax savings pursuant to the agreement. The parties and the staff checked those calculations and here we are. What could have been a very contentious proceeding has been largely a math exercise. And, as a result, in January of 2019, if the stipulations are approved, Tampa Electric customers will enjoy a base rate reduction of about nine percent that will reduce the company's base revenues more than 100 million dollars a year.

And although the company's proud to be in this posture, I must emphasize that we would not be here without the 2017 agreement. I don't think anyone anticipated that tax reform would occur so soon or that bonus tax depreciation would no longer be available to public utilities. Mr. Chronister's testimony, which is being stipulated into the record, highlights the earnings pressure caused by the loss of bonus depreciation and how that pressure will increase as time passes. But for the 2017 agreement, the company would probably be looking for beyond the impacts of tax reform in 2018 and advocating for a much smaller rate reduction than the one you have before you for approval today.

That being said, the consumer parties agreed to positions in the 2017 agreement that they would not ordinarily support so we could reach a deal and all parties could support it. Sometimes there are unanticipated circumstances and today Tampa Electric finds itself in a very similar situation.

We understand a deal is a deal and Tampa Electric honored the deal on tax reform. The 2017 agreement is part of the company's efforts to transform its generating fleet by building renewable solar energy and as a whole provides great benefits for consumers, perhaps none greater than the rate reduction presented to you here today for approval.

Tampa Electric would like to thank the consumer parties and the staff for their cooperation getting us to this point and I'll close by adding my thanks and ask the Commission to approve the proposed stipulations. Thank you.

CHAIRMAN GRAHAM: Thank you.

MS. PONDER: Good afternoon. Virginia Ponder with the Office of Public Counsel. The Public Counsel requests the Commission accept and approve all stipulations in this docket --

CHAIRMAN GRAHAM: Ms. Ponder, could I get you to pull that mic down a little bit?

MS. PONDER: Absolutely. Thank you. First and foremost, it is in the best interest of the customers since 100 percent of the tax savings will be promptly returned to the customers on a prospective basis beginning January 1, 2019, in the form of 102-million-dollar base-rate reduction. As an offset to the hurricane cost recovery estimate of 102 million dollars provided by Tampa Electric, there will be a return of 100 percent of the 2018 tax savings benefits to customer in 2018. In addition, the final number for hurricane cost recovery will be trued-up sometime in 2019 with any over-recovery returned to customers with interest.

The stipulations before you are fully consistent with the both the 2017 settlement agreement and the 2018 implementation agreement.

For these reasons, the stipulations are in the public interest. We thank the parties for working to reach this resolution. Tampa Electric was fully cooperative and transparent with the customer parties and with our expert witness in satisfying OPC that the tax savings are correctly calculated. Finally, we thank the Commission for facilitating this timely customer benefit and we urge your approval on all the stipulations. Thank you.

CHAIRMAN GRAHAM: Thank you. Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman. On behalf of FIPUG, the Florida Industrial Power Users Group, FIPUG would like to make some brief comments. We've appeared before you a number of times to address the topic of tax reform and we have suggested a number of things that are quite important when considering the tax reform.

Transparency is important, as is timeliness. The title of this proceeding is the Tax Cuts and Jobs Act of 2017. We're getting ready to enter the fourth quarter of 2018. TECO, to their credit, has acted timely. The deal before you today provides certainty when the federal government reduced the corporate tax rate from 35 to 21 percent. That was a big deal. It means a lot of money that should flow back to the ratepayers and we want to commend TECO for doing that. Gulf Power, I think, was the first Florida utility to act and has already flowed back significant monies. Duke has acted, and while the timing of that is like TECO's, a little bit down the road, we know with certainty how much money is going to flow back and when it's going to flow back and we have said to you before, don't mush this up with a bunch of other things. The ratepayer deserves to get these tax dollars back and that's what's happening today so we're thankful for that.

TECO needs to be commended for the openness that they showed to us. There were a lot of questions. They made their experts available. They were very open. They didn't require us to serve discovery for stuff. It was a very informal free-flowing sharing of information to satisfy the consumer parties that the calculations were being done. There were some complicated tax issues that everyone was able to talk about and sort through. So I think that was a productive process.

And, again, for FIPUG members and other TECO customers, at the start of next year after the holiday season they're going to see a base-rate reduction and base-rate reductions are important. Gulf had a base-rate reduction and Duke will have a base-rate reduction. So as you all go about your duties, we think it's important to act timely on federal tax matters and would encourage you all to do so, not only in this context, but in other contexts.

So those are the comments that FIPUG would have. There is no witnesses today because no one's objected to their testimony being entered. FIPUG doesn't object to their testimony.

Just to be clear, when we say the testimony is stipulated into the record, that doesn't mean that we agree with the testimony and those positions. Someone's going to say, oh, you stipulated to what this person said. We're just saying, we don't have any questions for the person and we've not making any comment on whether the facts are true or not. So I just wanted to make that point clear for the record.

So happy to answer any questions you have, but we support the resolution of this and we urge you to act favorably on it.

CHAIRMAN GRAHAM: Okay. Staff, let's address any prefiled testimony.

MS. BROWNLESS: Yes.

CHAIRMAN GRAHAM: Microphone.

MS. BROWNLESS: I'm sorry. We ask that the prefiled testimony of all witnesses identified in Section 6, Page 4 of the prehearing order be inserted into the record as though read.

CHAIRMAN GRAHAM: We will enter it. All those prefiled direct testimonies into the record as though read.

(Prefiled testimony inserted into the record as though read.)

TAMPA ELECTRIC COMPANY
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

WILLIAM R. ASHBURN

Q. Please state your name, address, occupation and employer.

A. My name is William R. Ashburn. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "the company") as Director, Pricing and Financial Analysis in the Regulatory Affairs Department.

Q. Please describe your duties and responsibilities in that position.

A. I direct departmental activities in non-clause related pricing, financial regulatory matters, and general regulatory issues management. I direct the coordination and filing of all Tampa Electric, Peoples Gas and TECO Energy filings with federal and state regulatory agencies. I direct the design and analysis of a wide variety of pricing issues including the pricing of: electric bulk power supply contracts and tariffs, electric transmission tariffs and the development of special contracts for retail electric service. I direct the preparation of cost of service studies, jurisdictional separation studies and other cost support analyses.

Q. Please provide a brief outline of your educational background and business experience.

A. I graduated from Creighton University with a Bachelor of Science degree in Business Administration. Upon graduation, I joined Ebasco Business Consulting Company where my consulting assignments included the areas of cost allocation, computer software development, electric system inventory and mapping, cost of service filings and property record development. I joined Tampa Electric in 1983 as a Senior Cost Consultant in the Rates and Customer Accounting Department. At Tampa Electric I have held a series of positions with responsibility for cost of service studies, rate filings, rate design, implementation of new conservation and marketing programs, customer surveys and various state and federal regulatory filings. In March 2001, I was promoted to my current position of Director, Pricing and Financial Analysis in Tampa Electric’s Regulatory Affairs Department. I am a member of the Rate and Regulatory Affairs Committee of the Edison Electric Institute (“EEI”).

Q. Have you previously testified before the Florida Public Service Commission ("Commission")?

A. Yes, I have testified or filed testimony before this Commission in several dockets. Most recently, I testified for Tampa Electric in Docket No. 20170260-EI regarding the design of the base rate adjustment for the First SoBRA to go into effect in September 2018 as a result of the 2017 Amended and Restated Stipulation and Settlement Agreement ("2017 Agreement"). I also testified in Docket No. 20170210-EI as a member of a panel of witnesses during the November 6, 2017 hearing on the 2017 Agreement. I testified on behalf of Tampa Electric in Docket No. 20130040-EI regarding the company's Petition for an Increase in Base Rates and Miscellaneous Service Charges and in Docket No. 20080317-EI which was Tampa Electric's previous base rate proceeding. I testified in Docket No. 20020898-EI regarding a self-service wheeling experiment and in Docket No. 20000061-EI regarding the company's Commercial/Industrial Service Rider. In Docket Nos. 20000824-EI, 20001148-EI, 20010577-EI and 20020898-EI, I testified at different times for Tampa Electric and as a joint witness representing Tampa Electric, Florida Power & Light Company ("FP&L") and Progress Energy Florida, Inc. ("PEF") regarding rate and cost support matters related to the GridFlorida proposals.

In addition, I represented Tampa Electric numerous times at workshops and in other proceedings regarding rate, cost of service and related matters. I have also provided testimony and represented Tampa Electric before the Federal Energy Regulatory Commission ("FERC") in rate and cost of service matters.

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is to support the customer rate changes and tariffs necessary to implement the one-time base rate reduction for tax reform prescribed in the Company's 2017 Agreement and as agreed to in the Amended Implementation Stipulation. I use the one-time annual revenue requirement reduction contained in the prepared direct testimony of Tampa Electric witness Jeffrey S. Chronister, apply the cost of service and rate design principles specified in the 2017 Agreement, and present the resulting customer rates and tariffs to be approved and implemented for the first billing cycle in January 2019.

Q. Did you prepare an exhibit in support of your direct testimony?

A. Yes. Exhibit No. ___ (WRA-1) was prepared under my direction and supervision. My Exhibit consists of the following five documents:

Document No. 1	Base Revenue by Rate Schedule
Document No. 2	Rollup Base Revenue by Rate Class
Document No. 3	Typical Bills Reflecting Tax Reform Base Rate Decrease
Document No. 4	Redline Tariffs Reflecting Tax Reform Base Rate Decrease
Document No. 5	Clean Tariffs Reflecting Tax Reform Base Rate Decrease

Q. What is the 2017 Agreement?

A. On September 27, 2017, Tampa Electric, the Office of Public Counsel ("OPC" or "Citizens"), the Florida Industrial Power Users Group ("FIPUG"), the Florida Retail Federation ("FRF"), the Federal Executive Agencies ("FEA"), and the WCF Hospital Utility Alliance ("HUA") (collectively, the "Consumer Parties") entered into the 2017 Amended and Restated Stipulation and Settlement Agreement ("2017 Agreement"). The Commission approved the 2017 Agreement by Order No. PSC-2017-0456-S-EI, issued on November 27, 2017 in Docket Nos. 20170210-EI and 20160160-EI. It amends and restates the company's previous rate case settlement, entered into in Docket No. 20130040-EI. Paragraph 9 of the 2017 Agreement addresses the procedures and principles to be followed should Congress change the rate of taxation of corporate income during the term of the 2017 Agreement.

Q. What is the Amended Implementation Stipulation?

A. The Amended Implementation Stipulation is described more fully in the prepared direct testimony of Mr. Chronister, but generally it is a document that memorializes the agreement of Tampa Electric and the Consumer Parties regarding how the storm cost recovery and tax reform provisions in the 2017 Agreement are to be implemented. It was approved by the Commission on March 1, 2018. See Order No. PSC-2018-125-PCO-EI, issued on March 7, 2018 in Docket Nos. 20170271-EI and 20180013-PU.

Q. What do the 2017 Agreement and Amended Implementation Stipulation say about customer rate changes as a result of federal income tax reform?

A. As they relate to this docket and the subject matter of my direct testimony, the two documents provide that the company should make a one-time reduction to certain prescribed base rates to reflect the impact of tax reform to be implemented concurrent with the first billing cycle in January 2019. Paragraph 9 of the 2017 Agreement provides that the one-time rate reduction should be accomplished through “a uniform percentage decrease to customer, demand and energy base rate charges for all retail customer classes.”

Q. Have you calculated the customer rate decrease to be effective with the first billing cycle of January 2019 as contemplated in the 2017 Agreement and the Amended Implementation Stipulation?

A. Yes. A schedule showing the required customer rate decreases and the new customer rates to be effective with the first billing cycle of 2019, by rate schedule, is included in my Exhibit as Document No. 1. I have also included a rollup schedule showing the required customer rate decreases by customer class as Document No. 2 of my Exhibit. A schedule showing the impact on typical bills is included as Document No. 3 of my Exhibit. Redline tariff sheets that reflect these new rates are included in Document No. 4 of my Exhibit, and clean tariff sheets that reflect these new rates are included in my Exhibit as Document No. 5.

Q. Please describe how you calculated the required one-time base rate decreases reflected in Document No. 1 of your Exhibit.

A. As required by the 2017 Agreement, I utilized the billing determinants for 2019. I began with the recently approved base rates including the adjustment for the company's First Solar Base Rate Adjustment ("SoBRA"), effective September 1, 2018. Then I reduced the base rates (i.e., customer, demand and energy rates) by a uniform percentage to reduce revenues by the revenue requirements amount provided by witness Chronister.

Q. Do your calculations take into account any Solar Base Rate Adjustments proposed by the company?

A. Yes, as I previously stated, the rate impacts shown in the exhibits to my testimony already include the company's First SoBRA. They do not reflect Tampa Electric's expected base rate increase for the Second SoBRA, which is expected to take effect in January 2019. The company is preparing its Second SoBRA petition and testimony and expects to file the documents in June 2018.

Both the rate changes resulting from the Second SoBRA (an increase to base rates) and from this proposed adjustment to account for tax reform (a decrease to base rates) will be implemented at the same time with the first billing cycle of January 2019. For purposes of preparing the tariff sheets and typical bill comparisons for this filing, I used the base rates including the company's First SoBRA that are to be put into effect with the first billing cycle of September 2018, which were approved by the Commission by their May 8, 2018 vote in Docket No. 20170260-EI, as my starting point since these are the rates that will be in effect at the time of the tax reform rate change. At this time, I request Commission approval of the base rate changes for tax reform which are listed in my Exhibit.

When the company's Second SoBRA and this tax reform adjustment have been approved, Tampa Electric requests that the Commission give the FPSC Staff administrative authority to approve the final rates reflecting both base rate changes--the Second SoBRA and the reduction for tax reform— together since they are to take effect at the same time, with the first billing cycle of January 2019.

Q. How does Tampa Electric propose to notify customers of the rate decrease for tax reform approved in this docket?

A. The rate change reflecting the permanent tax reduction impact to rates would be made at the same time that the rate changes occur for cost recovery clauses. Customers will be notified of all rate changes effective in January 2019 at the same time (at least 30 days prior to the change) and in the same manner as they are notified of the annual cost recovery clause rate changes.

Q. Please summarize your direct testimony.

A. My direct testimony supports the customer rate changes and tariffs necessary to implement the one-time base rate reduction for tax reform prescribed in the company’s 2017 Agreement and as agreed to in the Amended Implementation Stipulation. I use the one-time annual revenue requirement reduction contained in the prepared direct testimony of Tampa Electric witness Jeffrey S. Chronister, apply the cost of service and rate design principles specified in the 2017 Agreement, and present the resulting customer rates and tariffs to be approved and implemented for the first billing cycle in January 2019. I also explain the interrelationship of the proposed base rate reductions reflecting tax reform to be implemented in January 2018 and the proposed base rate increases proposed for the second tranche of SoBRA which are also to be implemented in January

2018, and the need for a unified tariff reflecting those changes into one new set of base rates to be implemented at that same time with a request that the Commission Staff be granted administrative authority to approve those rates after both dockets have received a final order.

Q. Does this conclude your direct testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JEFFREY S. CHRONISTER

Q. Please state your name, address, occupation, and employer.

A. My name is Jeffrey S Chronister. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "the company") as Controller, Tampa Electric.

Q. Please describe your duties and responsibilities in that position?

A. I am responsible for maintaining the financial books and records of the company and for the determination and implementation of accounting policies and practices for Tampa Electric. I am also responsible for budgeting activities within the company.

Q. Please provide a brief outline of your educational background and business experience.

A. I graduated from Stetson University in 1982 with a

Bachelor of Business Administration degree in Accounting. Upon graduation I joined Coopers & Lybrand, an independent public accounting firm, where I worked for four years before joining Tampa Electric in 1986. I started in Tampa Electric’s Accounting department, moved to TECO Energy’s Internal Audit department in 1987, and returned to the company’s Accounting department in 1991. I am a Certified Public Accountant in the State of Florida, and I am a member of both the American Institute of Certified Public Accountants (“AICPA”) and the Florida Institute of Certified Public Accountants (“FICPA”). I have served in my current position as Controller of Tampa Electric since July 2009.

Q. Have you previously testified before the Florida Public Service Commission (“FPSC” or “Commission”)?

A. Yes, I have testified or filed testimony before this Commission in several dockets. Most recently, I filed testimony for Tampa Electric in Docket No. 20130040-EI, which was Tampa Electric’s last base rate proceeding, on the same topics I testify to in this case. I testified in Docket No. 20080317-EI regarding Tampa Electric’s petition for an increase in base rates and miscellaneous service charges. I filed testimony in Docket No. 19960007-EI, Tampa

Electric’s environmental cost recovery clause, Docket No. 19960688-EI in support of Tampa Electric’s petition for approval of certain environmental compliance activities for purposes of cost recovery, and most recently Docket No. 20170271-EI in support of Tampa Electric’s petition for recovery of costs associated with named tropical systems during the 2015, 2016, and 2017 hurricane seasons and replenishment of storm reserve subject to final true-up.

Q. What are the purposes of your direct testimony in this proceeding?

A. The purposes of my direct testimony are to: (1) provide background information relevant to the calculation of the revenue requirement reduction required to reflect the recent changes in the Internal Revenue Code (“IRC”), including information about the company’s 2017 Amended and Restated Stipulation and Settlement Agreement (“2017 Agreement”) and Amended Implementation Stipulation, (2) sponsor the calculation of the annual revenue requirement reduction required by the 2017 Agreement, and (3) present information about how the recent federal income tax law changes will impact the company’s financial condition in the future.

Q. How does your prepared direct testimony relate to the prepared direct testimonies of Tampa Electric witnesses Alan Felsenthal, Valerie Strickland, and William Ashburn?

A. Mr. Felsenthal's direct testimony discusses accounting for income taxes and related ratemaking principles, the recent changes caused by the Tax Cuts and Jobs Act of 2017 ("TCJA") and their general impact on regulated utilities, the ratemaking requirement in the TCJA for "protected excess deferred taxes" and the work his firm performed to test and verify the company's calculation of the impact of the TCJA on the company's 2018 forecasted income tax expense.

Ms. Strickland sponsors the company's calculation of the company's forecasted income tax expense for 2018, as originally presented in the company's approved 2018 operating budget and submitted in the company's earnings surveillance report in March 2018, and as adjusted to reflect the impact of the TCJA.

The calculation of the revenue requirement reduction required by the 2017 Agreement in my direct testimony uses Ms. Strickland's calculations of income tax expense before and after the TCJA as verified by Mr. Felsenthal.

Mr. Ashburn uses the calculation of the annual revenue requirement reduction required by the 2017 Agreement in my direct testimony to calculate the required customer rate reductions and provides related tariff sheets using the rate design and cost of service principles specified in the 2017 Agreement.

Q. Did you prepare an exhibit in support of your direct testimony?

A. Yes. Exhibit No. ___ (JSC-1) was prepared under my direction and supervision. My exhibit consists of the following six documents:

Document No. 1	2017 Agreement
Document No. 2	Amended Implementation Stipulation
Document No. 3	2018 Forecasted Earnings Surveillance Report as Filed on March 16, 2018
Document No. 4	2018 Forecasted Earnings Surveillance Report Updated for Effect of TCJA
Document No. 5	Calculation of Annual Revenue Requirement Reduction Required by the 2017 Agreement
Document No. 6	Calculation of the Adjustment to the Annual Revenue Requirement Reduction

Due to the First SoBRA Budget Difference and Tax Reform Adjustment

Background Information

Q. Has the Commission approved any agreements that address the impact of federal income tax reform on the company's revenue requirement and customer rates?

A. Yes. There are two such agreements. The first is the 2017 Agreement. The second is a document we refer to as the "Amended Implementation Stipulation."

Q. Please describe the 2017 Agreement.

A. On September 27, 2017, Tampa Electric, the Office of Public Counsel ("OPC" or "Citizens"), the Florida Industrial Power Users Group ("FIPUG"), the Florida Retail Federation ("FRF"), the Federal Executive Agencies ("FEA"), and the WCF Hospital Utility Alliance ("HUA") (collectively, the "Consumer Parties") entered into the 2017 Amended and Restated Stipulation and Settlement Agreement ("2017 Agreement"). Among other things, the 2017 Agreement amended and restated the stipulation that resolved the company's 2013 rate case ("2013 Agreement"), extended the general base rate freeze included in the 2013 Agreement, limited fuel hedging and investments in natural gas reserves, and replaced the Generation Base Rate Adjustment ("GBRA") mechanism in the 2013 Agreement with a Solar Base Rate Adjustment ("SoBRA") mechanism. The Commission approved the 2017 Agreement by Order No. PSC-2017-0456-S-EI, issued on November 27, 2017 in Docket Nos. 20170210-EI and 20160160-EI.

As it relates to this docket, Paragraph 9 of the 2017 Agreement addresses the procedures and principles to be followed should Congress change the rate of taxation of corporate income during the term of the 2017 Agreement. A copy of the 2017 Agreement is included as Document No. 1 in my exhibit.

Q. Did Congress change the rate of taxation of corporate income during the term of the 2017 Agreement?

A. Yes. The TCJA was enacted by the United States Congress on December 20, 2017 and was signed into law by the President on December 22, 2017. *See Tax Cuts and Jobs Act of 2017*, Pub. Law 115-97, 131 Stat. 2054 (2017). The TCJA triggered the provisions in paragraph 9 of the 2017 Agreement. In his prepared direct testimony, witness Felsenthal describes the changes in the TCJA applicable to public utilities like Tampa Electric, including the required ratemaking treatment for a category of deferred income taxes known as “protected excess deferred taxes.”

Q. Did the company prepare a preliminary estimate of the impact of the TCJA based on the principles and procedures in the 2017 Agreement?

A. Yes. In January 2018, the company estimated the impact of the TCJA to result in a reduction in annual revenue requirements of approximately $95 million for 2018 using the methodologies set forth in Paragraphs 9(b) and 9(c) of the 2017 Agreement.

Q. Please describe the Amended Implementation Stipulation.

A. The Amended Implementation Stipulation is a stipulation between the Consumer Parties and the company. It arose from discussions between the company and Consumer Parties regarding how to implement the storm cost recovery and tax reform provisions in paragraphs 5 and 9 of the 2017 Agreement, respectively. A copy of the Amended Implementation Stipulation is included as Document No. 2 of my exhibit.

Pursuant to paragraph 5 of the 2017 Agreement, Tampa Electric filed a Petition for Recovery of Costs Associated with Named Tropical Systems and Replenishment of Storm Reserve in Docket No. 20170271-EI on December 27, 2017. On January 30, 2018, the company filed an Amended Petition for Recovery of Costs Associated with Named Tropical Systems and Replenishment of Storm Reserve in the same docket ("Amended Storm Petition"). The Amended Storm Petition updated the total estimated storm restoration costs (approximately $102.5 million) from those set forth in the company's original petition and requested approval of revised storm cost recovery factors and tariff sheets to recover the company's proposed total updated storm restoration costs.

Recognizing that the company's estimate of the revenue requirement reduction to reflect tax reform was close to the company's estimate of storm costs to be recovered, Tampa Electric and the Consumer Parties entered into an Amended Implementation Stipulation, which was approved by the Commission on March 1, 2018. See Order No. PSC-2018-125-PCO-EI, issued on March 7, 2018 in Docket Nos. 20170271-EI and 20180013-PU.

Therein, Tampa Electric and the Consumer Parties agreed that Tampa Electric should effectively use the preliminary estimated annual TCJA tax savings reduction of approximately $95 million per year to avoid the need to charge customers for the estimated $102.5 million of storm damage costs that they would have otherwise been obligated to pay beginning in April 2018.

The Parties also recognized that because the estimated amounts of storm costs and tax savings were approximately the same, there was an opportunity to provide customers full credit for 100 percent of the estimated 2018 tax savings during calendar year 2018 and avoid collection of a surcharge from customers to recover the company’s estimated storm damage costs by essentially “netting” the two amounts in 2018, subject to a determination of the final amounts for each and a true-up in 2019 through the conservation cost recovery clause.

The Amended Implementation Stipulation also states that the required one-time reduction to base rates to reflect the impact of the TCJA should occur in conjunction with the first billing cycle in January 2019.

Q. Will this docket be used to determine the final dollar amount of storm costs the company can recover under paragraph 5 of the 2017 Agreement?

A. No. That issue will be decided in Docket No. 20170271-EI. Once the final amount of recoverable storm costs is determined in Docket No. 20170271-EI, those storm costs can be "netted" against the revenue requirement reduction required by the 2017 Agreement as determined in this docket, and any true-up will be addressed in 2019 through the conservation cost recovery clause as contemplated in the 2017 Agreement.

Tax Reform Annual Revenue Requirement Reduction

Q. What procedures and principles were included in the 2017 Agreement to guide the company in the event Congress changed the rate of taxation of corporate income during the term of the 2017 Agreement?

A. The required procedures and principles to be followed are contained in paragraph 9 of the 2017 Agreement. Five key provisions are listed below.

First, according to paragraph 9(a), "[t]o the extent Tax Reform includes a transition rule applicable to excess deferred federal income tax assets and liabilities ("Excess

Deferred Taxes”), defined as those that arise from the re-measurement of those deferred federal income tax assets and liabilities at the new applicable corporate tax rate(s), those Excess Deferred Taxes will be governed by the Tax Reform transition rule, as applied to most promptly and effectively reduce Tampa Electric’s rates consistent with the Tax Reform rules and normalization rules.”

As explained in the testimony of witness Felsenthal, the TCJA prescribes the Average Rate Assumption Method (“ARAM”) as the transition rule for a category of excess deferred taxes known as “protected excess deferred taxes.” As discussed in the prepared direct testimony of witness Strickland, the company had protected excess deferred taxes in the amount of $347.8 million as of December 31, 2017 and has used the ARAM to calculate the “flowback” of protected excess deferred taxes in its calculation of the revenue requirement reduction for tax reform required by the 2017 Agreement.

Second, according to paragraph 9(b), “[i]f Tax Reform is enacted before the company’s next general base rate proceeding, the company will quantify the impact of Tax Reform on its Florida retail jurisdictional net operating income thereby neutralizing the FPSC adjusted net operating income of the Tax Reform to a net zero [and] [t]he company's forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective will be the basis for determination of the impact of Tax Reform."

The provisions of the TCJA became effective January 1, 2018, so the company used its forecasted earnings surveillance report for 2018, which is provided as Document No. 4 of my exhibit, to compute the impact of the TCJA on the company's revenue requirement and customer rates. I describe these calculations later in my testimony.

Third, paragraph 9(b) also states that the company will make a one-time reduction to base rates, which shall be accomplished through "a uniform percentage decrease to customer, demand and energy base rate charges for all retail customer classes." The application of this provision is addressed in the testimony of witness Ashburn.

Fourth, pursuant to paragraph 9(c), "[a]ll Excess Deferred Taxes shall be deferred to a regulatory asset or liability which shall be included in FPSC adjusted capital structure and flowed back to customers over a term consistent with law."

As explained in the prepared direct testimony of witness Strickland, the company estimated its excess Accumulated Deferred Income Taxes ("ADIT") which were recorded in its accounting books and records as of December 31, 2017 in the amount of $484.5 million in accordance with this provision of the agreement. In May 2018, the company revised its estimated excess ADIT to $480.7 million based on the completion of Tampa Electric's 2017 federal income tax return for plant related book-tax differences, for a reduction of $3.8 million from the original amount.

Fifth, with respect to excess deferred taxes not governed by a transition rule ("unprotected excess deferred taxes"), paragraph 9(c) states "there shall be a rebuttable presumption that the following flow-back period(s) will apply: (1) if the cumulative net regulatory liability is less than $100 million, the flow-back period will be five years; or (2) if the cumulative net regulatory liability is greater than $100 million, the flow-back period will be ten years."

As explained in the testimony of witness Strickland, the company had unprotected excess deferred taxes in the amount of $133.0 million as of December 31, 2017, so the company has used a 10-year flow-back period in its calculation of the annual revenue requirement reduction for tax reform required by the 2017 Agreement.

Q. Based on these principles and procedures, what is the annual revenue requirement reduction necessary to account for the effects of TCJA in accordance with the 2017 Agreement?

A. The annual revenue requirement reduction necessary to account for the effects of TCJA in accordance with the 2017 Agreement, prior to applying an adjustment to reflect the difference between budgeted and actual SoBRA revenue requirements and avoid double-counting the effects of tax reform for the company’s SoBRA which is effective beginning in September 2018 (“First SoBRA”), is $104,805,004. A document summarizing the calculation of this amount is included as Document No. 5 of my exhibit. I explain the First SoBRA adjustment later in my testimony.

Q. How was this revenue requirement reduction amount calculated?

A. The annual revenue requirement reduction was calculated by comparing the net operating income (“NOI”) in two forecasted earnings surveillance reports – one without the effects of tax reform and one with the effects of tax reform.

Q. How were the two forecasted earnings surveillance reports prepared?

A. The preparation began with the creation of the 2018 budget using the company's normal budgeting process. To deal with the issue of tax reform appropriately, the board-approved budget was updated to reflect December 2017 actual general ledger account balances, which reflected the necessary 2017 postings related to the TCJA. This 2018 budget was used as the basis of both the company's 2018 forecasted earnings surveillance report ("ESR"), filed with the Commission on March 16, 2018 without the impact of tax reform and the 2018 forecasted ESR updated for the effects of the TCJA.

Q. Please provide additional detail on how the annual revenue requirement reduction was calculated.

A. The calculation began with the company's 2018 forecasted ESR, filed with the Commission on March 16, 2018. This ESR was prepared based on the company's 2018 operating budget, which was approved by company management in March 2018, and reflects income tax expense calculated on a pre-TCJA basis. The company's forecasted FPSC adjusted 13-month average net operating income per the March 16, 2018 forecasted ESR is $360,092,378, a number I will refer to as the "Benchmark NOI."

The next step was to adjust the company's forecasted 2018 ESR to reflect the impact of the TCJA. Document No. 4 of my exhibit contains the company's forecasted 2018 ESR adjusted for the impact of the TCJA and includes the post-TCJA tax expense amount calculated by Ms. Strickland. The company's forecasted FPSC adjusted 13-month average net operating income per 2018 forecasted ESR as adjusted for tax reform is $438,334,554, a number I will refer to as the "Post-TCJA NOI."

The third step in the calculation was to compare the Post-TCJA NOI amount in Document No. 4 of my exhibit to the Benchmark NOI amount in Document No. 3 of my exhibit and to calculate the annual revenue requirement reduction necessary to make the company's NOI for 2018 adjusted for the impact of TCJA equal to the Benchmark NOI. This calculation is shown in Document No. 5 of my exhibit.

The final step was to adjust the annual revenue requirement calculated in the third step to reflect the revision the company made to its proposed First SoBRA, to reflect the impact of the TCJA as well as adjust for differences between actual and budgeted SoBRA revenue requirements.

Q. Please explain the First SoBRA adjustment.

A. On December 14, 2017, the company filed a petition for a limited proceeding to approve its First SoBRA in Docket No. 20170260-EI. Therein, the company requested approval to increase base rates in an amount sufficient to recover the $26,493,000 annual revenue requirement associated with its Payne Creek and Balm solar projects, which are expected to be in service on September 1, 2018. The $26,493,000 in annual revenue requirements was $4,107,000 less than the $30,600,000 (or $10,200,000 for four months) reflected in the 2017 Agreement and included in the budgeted surveillance report. The tariffs filed by the company for the First SoBRA reflect this $26,493,000 annual revenue requirement amount, but because the tariffs will not become effective until the first billing cycle in September 2018, the amount of First SoBRA revenue to be collected in 2018 (four months) was estimated to be $8,831,000 or $1,369,000 less than what was included for budget purposes. This revenue from the First SoBRA was calculated before the TCJA was enacted or became effective and was included in the company's 2018 operating budget, which serves as the basis of the company's 2018 forecasted ESR as presented in Document No. 3 of my exhibit.

Paragraph 9(b) of the 2017 Agreement requires that Tampa Electric adjust any SoBRA not yet in effect to "specifically account for Tax Reform." Consequently, on February 14, 2018, the company filed an Amendment to its petition in Docket No. 20170271-EI to adjust the proposed rates associated with the First SoBRA to reflect the impact of the TCJA. The effects of the TCJA required a downward adjustment to the projected annual revenue requirement for the two First SoBRA projects from $26,493,000 to $24,245,000 and a corresponding downward adjustment to the 2018 four-month recovery amounts from $8,831,000 to $8,081,667, or a difference of $749,333. Since the annual revenue requirement reduction calculated in Step 3 was based on all of the company's budgeted revenues or $30,600,000 (including four months recovery of the pre-TCJA First SoBRA), and the company has revised the First SoBRA to reflect tax reform, the number calculated in step 3 must be reduced by $2,118,333, which includes $749,333 for the impact associated with the TCJA to avoid double-counting the tax savings associated with the First SoBRA plus the $1,369,000 difference between budgeted and actual revenue requirements included for the First SoBRA. This calculation is shown in Document No. 6 of my exhibit.

Q. So, with that explanation, what is the one-time annual revenue requirement reduction, as required in the 2017 Agreement, to account for the impact of the TCJA?

A. The one-time annual revenue requirement reduction to account for the impact of the TCJA is $102,686,671. This calculation is shown in Document No. 5 of my exhibit. The customer rate and tariff changes necessary to implement this reduction are presented and explained in the prepared direct testimony of witness Ashburn.

Future Impacts of TCJA

Q. In his prepared direct testimony, Mr. Felsenthal describes the general effects the TCJA will have on regulated utilities like Tampa Electric. Has the company looked beyond 2018 to assess the impacts the TCJA will have on its financial condition?

A. Yes. It is important for the company and the Commission to consider the impacts of the TCJA beyond 2018, because it will impact the company’s financial integrity in three ways: (1) the TCJA decreases operating cash flows, (2) the

TCJA increases required equity support in the capital structure due to the reduction in ADIT balances, and (3) the TCJA increases the overall weighted cost of capital.

Q. How does the TCJA decrease operating cash flows?

A. The decrease in operating cash flows results from the flowback of excess deferred taxes plus the elimination of bonus depreciation for regulated utilities. As discussed in the prepared direct testimony of Ms. Strickland, the TCJA exempted regulated utilities from the new 100 percent asset expensing provision. The TCJA phase out of bonus depreciation and the exemption from 100 percent asset expensing will result in reduced deferred taxes and greater current taxes payable, which reduces operating cash flows. This will adversely impact Tampa Electric's credit metrics, specifically Funds From Operations to Debt.

Q. Please explain why the company's deferred tax balances will change as a result of the TCJA.

A. Starting in the year 2002, the IRS established bonus depreciation as an income tax deduction. Bonus depreciation allowed companies like Tampa Electric to deduct a large percentage (50 percent in most years) of an asset's cost as tax depreciation in the first year of service. Bonus depreciation deductions substantially reduced taxable income, reduced current taxes payable and increased ADIT. Tampa Electric used bonus depreciation in its tax calculations since 2002. Doing so, together with the normalization requirement, generated large amounts of deferred taxes and caused a substantial increase in the company's ADIT balances.

As noted by witnesses Felsenthal and Strickland, however, the TCJA eliminated the use of bonus depreciation for regulated utilities, and substituted the Modified Accelerated Cost Recovery System ("MACRS") in its place. Although the MACRS is a form of accelerated cost recovery and will still generate deferred taxes in the early years of an asset's life, the elimination of bonus depreciation over time will substantially reduce the relative dollar value of ADIT on the company's balance sheet.

Furthermore, as witnesses Felsenthal and Strickland have explained in detail, the company has revalued its ADIT balances as of December 31, 2017 to reflect the tax rate reduction in the TCJA and identified "excess deferred taxes" that must be flowed back to customers as a reduction of income tax expense in accordance with the IRC and the

2017 Agreement. Over time, the flowback of excess ADIT will further reduce the amount of ADIT in the company's capital structure.

Q. How do the changes in Tampa Electric's deferred tax balances affect the elements of the company's capital structure?

A. As noted by witness Felsenthal, ADIT are often considered a no interest loan and, in Florida, are considered a zero-cost source of capital in a public utility's capital structure. Since the company's rate base and capital structure are synchronized in the ratemaking process, a relative reduction in the amount of zero-cost ADIT must be made up with relatively higher amounts of debt and equity, both of which have a cost. The financial equity ratio can remain constant, but the relative reduction in the dollar amount of ADIT drives a need for debt and equity dollar support to be higher. Because both debt and equity have a cost and ADIT does not, tax reform and the relative reduction of ADIT will cause the overall weighted average cost of capital ("WACC") to increase. Since the WACC is an important part of the revenue requirement calculation, the portions of the TCJA that reduce ADIT actually put upward pressure on the revenue requirement of a public utility like Tampa Electric.

Q. How are the changes in equity support of rate base likely to impact the company’s ability to earn a reasonable rate of return on equity with pre-TCJA NOI levels?

A. As mentioned above, the required equity dollar support of rate base will increase in future years. With an increasing equity denominator, unchanging projected NOI levels will produce a lower Return on Equity (“ROE”) percentage in the future. Thus, the relative reduction of ADIT and the corresponding increase in equity support caused by the TCJA will cause earned ROE to be lower than it would otherwise be without the TCJA.

Q. Has the company modeled this ADIT decrease and the corresponding earned ROE reductions?

A. Yes. Our financial models indicate that ADIT balances will be lower than pre-TCJA projections by almost $200 million by the end of 2019, by almost $250 million by the end of 2021, and by almost $350 million by the end of 2023. This could potentially reduce earned ROE in each year in amounts from 50 to 130 basis points.

Summary

Q. Please provide a summary of your direct testimony.

A. My testimony provides background information relevant to the calculation of the revenue requirement reduction required to reflect the TCJA and the guidelines reflected in the company's 2017 Agreement and Amended Implementation Stipulation. My testimony demonstrates how the annual revenue requirement reduction was calculated. Finally, my testimony discusses how the TCJA will adversely impact the company's financial condition in the future.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

DOCKET NO. 20180045-EI
FILED: 05/31/2018

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

ALAN D. FELSENTHAL

ON BEHALF OF TAMPA ELECTRIC COMPANY

Q. Please state your name, address, occupation and employer.

A. My name is Alan D. Felsenthal. My business address is One North Wacker Drive, Chicago, Illinois 60606. I am a Managing Director at PricewaterhouseCoopers LLP ("PwC").

Q. Please describe your educational background and business experience.

A. I was graduated from the University of Illinois in 1971 and began my career at Arthur Andersen & Co ("Arthur Andersen"), where I was an auditor, and focused on audits of financial statements of regulated entities. In 2002, I joined PricewaterhouseCoopers and became a Managing Director in their Utilities Group and continued performing audits for regulated entities. I was hired by Huron Consulting Group ("Huron") in 2008 and returned to PwC in November of 2010.

At both Arthur Andersen and PwC, I supervised audits of financial statements on which the firms issued audit opinions that were filed with the SEC, the Federal Communications Commission, the Federal Energy Regulatory Commission (“FERC”) and various state commissions. At Arthur Andersen, PwC and Huron, I consulted on a significant number of utility rate cases and helped develop testimony for myself and others on a variety of issues, including construction work in progress in rate base, projected test years, lead-lag studies, cost allocation, several accounting issues (e.g., pension accounting, regulatory accounting, income tax accounting, cost of removal) and compliance with the income tax normalization requirements.

Q. Please describe your duties and responsibilities at PwC.

A. I lead PwC’s regulatory support practice. Throughout my career, my focus has been on the regulated industry sector, primarily electric, gas, telecommunication and water utilities. I have focused on utility accounting, income tax and regulatory issues, primarily as a result of auditing regulated entities. The unique accounting standards applicable to regulated entities embodied in Accounting Standards Codification ("ASC") 980, Regulated Operations (formerly, Statement of Financial Accounting Standards ("SFAS") 71, FAS 90, FAS 92, FAS 101 and various Emerging

Issues Task Force ("EITF") issues, all need to be understood so that auditors can determine whether a company’s financial statements are fairly presented in accordance with generally accepted accounting principles. I have witnessed the issuance of these standards and have consulted with utilities as to how they should be applied. At both Arthur Andersen and PwC, I worked with the technical industry, accounting and auditing leadership to communicate and consult on utility accounting and audit matters.

Q. Have you provided training on the application of Generally Accepted Accounting Principles ("GAAP") to regulated entities?

A. Yes. At Arthur Andersen, Huron and PwC, I developed and taught utility accounting seminars focusing on the unique aspects of the regulatory process and the resulting accounting consequences of the application of GAAP, including accounting and ratemaking for income taxes. I have presented seminars, as well as delivered training on an in-house basis. Seminar participants have included utility company and regulatory commission staff accountants, utility rate departments and internal auditors, tax accountants and others. I have also conducted these seminars for the FERC and several state commissions, and I have presented at various Edison Electric Institute and American Gas Association ratemaking and accounting seminars. The income tax training programs I have presented include topics such as the normalization requirements for public utilities in the Internal Revenue Code (“IRC”), protected and unprotected deferred taxes and the mechanics and application of the Average Rate Assumption Method (“ARAM”).

Q. Have you previously testified before the Florida Public Service Commission (“FPSC” or “Commission”)?

A. Yes. I have testified or filed testimony before this Commission in two dockets. The first was in connection with Central Telephone Company’s rate case filing in Docket No. 19891246-TL, in which I testified on the Company’s approach to determining their projected test year. I next testified in Tampa Electric’s Docket No. 20080317-El on the subject of income taxes.

Q. Have you previously testified before other government entities with regulatory authority over regulated telecommunications, electric or gas companies?

A. Yes. I have testified before the Arizona Corporation

Commission, the Illinois Commerce Commission, the Indiana Utility and Regulatory Commission, the Public Utility Commission of Ohio, the Public Utility Commission of Texas and the Washington Utilities and Transportation Commission on various utility ratemaking topics, including accounting and ratemaking for income taxes.

Q. What are the purposes of your direct testimony in this proceeding?

A. The purposes of my direct testimony are to: (1) discuss accounting for income taxes for public utilities like Tampa Electric Company ("company" or "Tampa Electric") and related ratemaking principles, (2) describe the recent changes caused by the Tax Cuts and Jobs Act of 2017 ("TCJA") and their general impact on regulated utilities, (3) explain the ratemaking requirement in the TCJA for "protected excess deferred taxes" and (4) describe the work PwC performed to test the company's calculation of the impact of the TCJA on the company's 2018 income tax expense.

Q. Did you prepare an exhibit in support of your direct testimony?

A. Yes. Exhibit No. ___ (ADF-1) was prepared under my direction and supervision. My exhibit consists of the following two documents:

Document No. 1 Depreciation Timing Difference Example

Document No. 2 ARAM Illustration

Q. As part of your work for Tampa Electric in this docket, have you read the documents referred to as the 2017 Agreement and Amended Implementation Stipulation in the prepared direct testimony of Mr. Jeffrey S. Chronister?

A. Yes, I have. I also read all of Mr. Chronister’s prepared direct testimony and exhibits as well as the prepared direct testimony and exhibits of company witnesses Valerie Strickland and William R. Ashburn.

Q. Please summarize your direct testimony.

A. After providing a framework for the accounting and regulatory treatment of income taxes and the impacts of the TCJA, I discuss how Tampa Electric’s proposal to reflect the effects of the TCJA from an accounting perspective is consistent and accurate and complies with both the 2017 Agreement and Amended Implementation Stipulation as well as the IRC’s normalization requirements applicable to public utility property.

Accounting for Income Taxes
and Related Ratemaking Principles

Q. Can you please describe the accounting for income taxes required under GAAP?

A. Yes. Accounting for income taxes under GAAP is contained in the accounting literature in section ASC 740 (formerly SFAS No. 109, Accounting for Income Taxes) of the accounting codification. There are three major components to the calculation: currently payable income taxes; deferred income taxes, and investment tax credits.

Q. Please describe the first component, currently payable income taxes.

A. Currently payable income tax expense represents the estimated amount of current year income taxes payable based on current year taxable income. Taxable income for the year is determined in accordance with the IRC. For purposes of preparing an income tax return each year, the IRC contains procedures for determining if and when an item is "taxable" or "deductible." After considering the taxable and deductible amounts in the current year, "taxable income" is determined, which is then multiplied by the applicable statutory tax rate. This subtotal is further adjusted for any available income tax "credits."

The result of calculating the amounts to be included on the annual tax return using the guidance in the IRC is a journal entry to record current income tax expense and current income tax payable.

Q. Are the IRC rules for determining what is taxable or deductible for completing the tax return the same as the GAAP rules for determining what items constitute revenues, income and expenses for the year?

A. No. The IRC rules for determining what is taxable or deductible often differ from what is reportable as revenue, income or expense under GAAP. For instance, certain expenses recorded on the financial statements under GAAP in one period may be deductible on the tax return in a different period. There are also instances where the amounts shown as deductions on the tax return in one period are not reflected on the financial statements until a later period. As a result, at the end of each reporting period, there will likely be accumulated differences of reported assets and liabilities resulting from different book treatment as opposed to tax return treatment of revenues, income and expenses.

The differences each year between book and tax return recognition are referred to as either “timing/temporary differences” or “permanent differences”, with the vast majority being of a timing/temporary nature.

Q. What is the distinction between a timing/temporary difference and a permanent difference?

A. A timing/temporary difference will enter into the determination of book/financial income (revenue, income or expense) in one period and into the determination of taxable income on the tax return (revenue, income/deduction) in another period. Over time, however, the total amount will ultimately enter into each statement equally. A permanent difference will enter into the determination of either book income or taxable income in one period but will not be included in the other.

Q. Can you further explain what is meant by a timing/temporary difference and provide some examples?

A. Yes. One common timing/temporary difference is depreciation. For book purposes, when a company acquires a fixed asset, GAAP requires that the asset be depreciated over its estimated useful life in a systematic and rational manner. The cost of the fixed asset is "allocated" to the periods in which the fixed asset is being used to provide service. The annual allocation is known as depreciation expense. Most utilities, like Tampa Electric, depreciate their fixed assets for book purposes using the straight-line depreciation method. This method of calculating depreciation is different than the accelerated depreciation approach commonly used for determining the depreciation deduction on an income tax return. For income tax purposes that same asset may be depreciated for determining taxable income on the income tax return using an accelerated depreciation method or a different (generally shorter) estimated useful life permitted under the IRC.

When the annual depreciation charge for book purposes is compared to the annual depreciation for income tax purposes, there will likely be differences. In the early years of an asset's life, tax depreciation will exceed book depreciation. In the later years, the reverse will be true because given the same capitalized asset cost, over the life of the asset, total depreciation will be the same.

The sum of the annual depreciation differences results in accumulated depreciation differences when comparing the net book value and net tax value of fixed assets. As I will discuss later, it is important to understand that for any fixed asset book-tax depreciation difference there will be a period of time where tax depreciation is greater than book depreciation, and at some point, the reverse will occur and book depreciation will exceed tax depreciation. This pattern exists because the same amount (the fixed asset amount) will eventually be fully depreciated for tax purposes and book purposes.

Q. Can you provide an example of how depreciation book-tax differences arise and reverse?

A. Yes. An example of this is included in Document No. 1 of my exhibit. This example assumes that a utility acquires property, plant and equipment with an estimated useful life of 10 years for $10.0 million cash and, for simplicity, ignores salvage value and cost of removal. It also assumes that the asset qualifies under the IRC for a five-year tax depreciation using the Modified Accelerated Cost Recovery System (“MACRS”).

The entry to record the acquisition of the asset is to debit property, plant and equipment and to credit cash. Using the straight-line method for book depreciation, the company would record $1.0 million of depreciation expense in its financial statements each year of useful life of the asset. Under MACRS for a five-year asset, the tax depreciation deduction is 20 percent the first year, 32 percent in year two, 19.2 percent in year three, 11.52 percent in years four and five and 5.76 percent in year six. Six years are included in the MACRS table as the assumption of one-half year depreciation in the first and last years are considered. The annual depreciation charges for book and tax are shown on Document No. 1 of my exhibit.

At the end of year 1, the net basis of the asset for book purposes would be $9.0 million ($10.0 million gross plant, less $1.0 million of accumulated book depreciation) while its tax basis would be $8.0 million ($10.0 million gross tax basis less $2.0 million of accumulated tax depreciation). Each year’s book depreciation expense would reduce the net book basis of the asset and each year’s tax depreciation would affect the tax basis of the asset. The difference between the book basis and tax basis of the asset represents a temporary difference under ASC 740.

However, because total depreciation expense/deductions are limited to the gross capitalized cost of the asset, accelerated income tax depreciation claimed in the early years (reducing income tax payments) will reverse in subsequent periods when book depreciation exceeds tax depreciation (increasing income tax payments) so that when the asset is retired, the depreciation temporary difference will have completely reversed. In this example, the reversal begins in year six because, during that year, book depreciation begins to exceed tax depreciation and that result continues until the book life ends.

Q. What are the accounting requirements for timing/temporary differences under ASC 740?

A. Under GAAP, particularly ASC 740, financial statements are required to assign the income tax benefits/expenses to the period in which the associated book income/expense is recorded, and therefore deferred income taxes are recorded on timing/temporary differences. As a result, income tax expense under GAAP includes both a currently payable component (as previously described, based on the tax return) as well as a “deferred” income tax component (based on timing/temporary differences).

To determine current tax expense and taxes currently payable for the year, the company will use the guidance for taxable income and tax deductions in the IRC, arriving at taxable income, applying the current income tax rate to that amount and consider any income tax credits. The result is recorded by the following journal entry:

Current Income Tax Expense	**$XXX,XXX**		
		Currently Payable Income Taxes	**$XXX,XXX**

Q. What is the second component of the income tax calculation?

A. The second component of the income tax calculation is deferred income tax. To calculate this component, the revenue, income and deductible items that enter into the determination of taxable income are compared to those same items as shown on the company's income statement. Where an item has reduced taxable income in an amount greater than the book amount, current income taxes are decreased. But when that additional amount shown on the tax return is an originating timing/temporary difference, the company will record a deferred tax expense. In each case, a deferred tax asset or deferred tax liability is recorded to recognize that there will be a future reversal of that timing/temporary difference. The currently enacted income tax rate will be used to measure the deferred income tax of an originating book-tax difference. The entry to record the deferred tax impacts of a timing/temporary differences is:

Deferred Income Tax Expense $XXX,XXX

Accumulated Deferred Income Taxes $XXX,XXX

Q. What do deferred income taxes represent?

A. Deferred income taxes reflect the liability or asset for income taxes payable or receivable in the future stemming from transactions recorded in the financial statements currently. The sum of the annual deferred tax provisions results in a balance sheet liability or asset referred to as Accumulated Deferred Income Taxes ("ADIT"). In other words, to the extent that accelerated tax depreciation is claimed on the income tax return in an amount that exceeds book depreciation reported on the financial statements, a liability for future taxes results. This future tax liability is due to the fact that greater depreciation claimed in early years will "use up" the tax basis of assets at which point book depreciation will exceed tax depreciation resulting in higher taxes in the future.

For regulated entities, such as Tampa Electric, the process of recording deferred income taxes on temporary differences is referred to as "normalization", "deferred tax accounting," or “comprehensive inter-period income tax allocation.”

Q. Can you please explain how current and deferred income taxes would be recorded on the financial statements for the depreciation difference example you discussed previously?

A. Yes. In year 1 of the example, the company would record on its books depreciation expense of $1.0 million in accordance with GAAP. In that same year, they would reduce taxable income on the income tax return by $2.0 million. Assuming a 35 percent income tax rate, by claiming a $2.0 million depreciation deduction, *current* taxes payable and *current* tax expense would be reduced by $700,000 (35 percent income tax rate times the $2.0 million tax depreciation deduction).

However, by claiming an additional $1.0 million of tax depreciation ($2.0 million tax depreciation compared to $1.0 million of book depreciation) the company will also record a *deferred* income tax liability and *deferred* tax expense of $350,000 (35 percent income tax rate times the book-tax difference of $1.0 million). The deferred tax will begin becoming payable when the book depreciation exceeds tax depreciation. In other words, by claiming accelerated depreciation (compared to straight line book depreciation) in years 1-5, the company has incurred a deferred tax obligation that will become payable in years 6-10.

Q. Does claiming deductions for income tax purposes in excess of expenses recorded for book purposes provide incentives to the company that benefit customers?

A. Yes. By claiming tax deductions using accelerated depreciation, the company reduces its current income tax payments, but tax payments will be higher in the future when the temporary differences reverse. As a result, ADIT balances are often referred to as “interest free loans” from the U.S. Treasury. This was the objective Congress intended when it included accelerated depreciation provisions in the IRC. Congress believed that allowing companies to increase their tax depreciation deductions (and thereby reduce current income tax payments), would lower the financing costs of investments in capital assets and, therefore, companies would be incented to make such expenditures.

Q. Can you give an example of a book-tax difference that is permanent?

A. Yes. Certain items of revenue, income and expense are, over time, treated differently for financial reporting purposes than for income tax purposes and are included in only one of either taxable income or financial reporting income.

These are referred to as permanent differences.

An example of a permanent difference is the cost of meals and entertainment. These costs are reported as expenses in the financial statements for a given period, but, based on the IRC, are not completely deductible in determining taxable income on the income tax return. Thus, over time, the financial statement reporting of meals and entertainment expenses will differ from the related amounts on the income tax return.

Deferred income taxes are not required on permanent differences because the difference will never reverse, it is “permanent.” In the case of meals and entertainment costs, in the period reported, current income taxes will be adjusted to reflect the non-deductibility of these costs and there will be no deferred income taxes since these amounts, under the current IRC, will never be deducted on the tax return.

Q. Is the distinction between permanent and temporary differences important in the income tax calculation?

A. Yes. Because permanent differences do not require deferred income tax accounting, the income tax effects of such items increase or decrease total income tax expense. With timing differences, each and every item that impacts current income tax expense has an equal and offsetting impact to deferred income tax expense. Because total income tax expense affects net income under GAAP and total income tax expense must be recovered in a rate case, permanent differences need to be separately identified and included in the income tax calculation.

Q. Please explain the third component, tax credits.

A. Tax credits, such as the investment tax credit, are direct offsets against taxes otherwise payable. The investment tax credit is calculated by applying a percentage to investments in property, plant and equipment, effectively reducing the net expenditure on such investment. For expenditures on public utility property, the journal entry to record the investment tax credit when claimed is:

Currently Payable Income Taxes	**$XXX,XXX**		
		Unamortized Investment Tax Credits	**$XXX,XXX**

The unamortized investment tax credit is then amortized over the book lives of the property giving rise to the investment tax credit:

Unamortized Investment Tax Credits $XX,XXX

Income Tax Expense $XX,XXX

In this manner, the investment tax credit is deferred on the balance sheet when realized and allocated to the income statement as the property is being depreciated. The accounting and ratemaking treatment of the investment tax credit was not directly impacted by the TCJA.

Ratemaking Treatment of Income Taxes

Q. Is deferred income tax accounting appropriate for ratemaking purposes?

A. Yes. Income tax expense in a given year is the result of that year's economic activity. In determining the revenue requirement, it is important for regulatory commissions to consider the recovery of all appropriate costs of providing service, including the associated income tax effects of the costs.

During the ratemaking process, regulators consider all items of revenues, income and expenses and makes a finding as to whether the individual revenues, income and expenses should be allowed in the determination of revenue requirements. Once regulators determine the allowable costs excluding income taxes, the income tax consequences, both current and deferred, can be calculated. This is because income taxes do not exist independently. They are dependent on and result from a determination of income and expenses. The revenue, income and expenses are generally determined on an accrual basis and the tax consequences of income and expenses must be determined on that same accrual basis (both current and deferred income taxes).

As I discussed earlier, the accelerated depreciation (the major component of deferred taxes for capital intensive entities such as Tampa Electric) of assets was meant to lower the cost of financing assets by providing the company an interest free loan. The ADIT balance (the interest free loan from the U.S. Treasury) is a zero-cost source of capital in the cost of capital computation thereby giving the benefit of reduced financing costs to ratepayers.

Q. Has the FERC taken a position on the appropriateness of deferred income tax accounting?

A. Yes. The FERC requires comprehensive inter-period income tax allocation for all book-tax timing/temporary differences. Orders 144 and 144A provide guidance in this area. This has been the FERC methodology since the early 1980's. The FERC Uniform System of Accounts ("FERC USOA") and many FERC rate orders require normalization.

Q. Has the FPSC taken a position on the appropriateness of deferred income tax accounting?

A. Yes. The FPSC has long acknowledged that normalization is appropriate for revenues, income and expenses that are recognized at different times for book and tax purposes.

Q. Does the IRC contain requirements addressing deferred income tax accounting?

A. Yes. The IRC contains specific requirements that are applicable to the use of accelerated depreciation on public utility property. These requirements, called the “normalization requirements,” mandate that in order for a public utility to be eligible to claim accelerated depreciation for income tax purposes, the regulator must permit recovery of deferred income taxes on the difference resulting from using accelerated depreciation for income tax purposes and straight-line depreciation for book purposes.

The penalty for violating the normalization requirements is the loss of the ability to claim accelerated depreciation for income tax purposes on all assets as of the violation date and on subsequent additions. It is a severe penalty.

Q. How do the terms “protected” and “unprotected” deferred income taxes relate to the normalization requirements for public utility property under the IRC?

A. The income tax normalization requirements in the IRC pertain to accelerated depreciation on public utility property, excess ADIT and investment tax credits. Certain contributions in aid of construction must also be normalized. Book-tax differences that require the provision of deferred taxes, as well as appropriate treatment of the resulting ADIT, are known as “protected” accumulated deferred taxes. Book-tax differences where deferred tax expense is not required to be applied in the ratemaking process are called “unprotected.”

Q. Document No. 4 in Exhibit No. ___ (VS-1) of Tampa Electric witness Valerie Strickland includes a presentation of the company’s income tax calculation in the format required for Minimum Filing Requirement Schedule C-22. Referring to that document, can you identify which book-tax differences are protected and which are unprotected?

A. Yes. Witness Strickland's Document No. 4 in Exhibit No. ___ (VS-1) lists the individual book-tax differences which gave rise to the ADIT balances recorded as of December 31, 2017. The protected ADIT's relate to accelerated depreciation and are described as:

- o ADIT related to differences caused by using straight-line depreciation for determining book depreciation and an accelerated depreciation method for determining tax depreciation (method difference).
- o ADIT related to differences caused by using shorter depreciation lives for determining tax depreciation than for determining book depreciation (life difference).
- o ADIT related to contributions in aid of construction (CIAC) which are included as taxable income when received with the contribution providing a depreciable basis and future tax depreciation deductions.

In short, depreciation related method and life differences are considered "protected." All other temporary book-tax differences are considered "unprotected."

Q. Does the distinction between protected and unprotected ADIT matter under the Tax Cuts and Jobs Act of 2017?

A. Yes. The distinction between protected ADIT and unprotected ADIT is critical. The Tax Cuts and Jobs Act of 2017 (the "TCJA") contains specific language on how excess ADIT relating to protected ADIT is to be treated in order to avoid a normalization violation. Similar guidance does not exist for excess unprotected ADIT. I will discuss these provisions later in my direct testimony.

Tax Cuts and Jobs Act of 2017

Q. Please generally describe the Tax Cuts and Jobs Act of 2017.

A. The TCJA was enacted by the United States Congress on December 20, 2017 and was signed into law by the President on December 22, 2017. *See Tax Cuts and Jobs Act of 2017*, Pub. Law 115-97, 131 Stat. 2054 (2017). The TCJA amends the IRC and is the most significant set of changes to the federal income tax laws since the Tax Reform Act of 1986. The TCJA makes major changes in many areas of our nation's tax laws, some of which directly affect regulated utilities like Tampa Electric.

Q. What are the most significant parts of the TCJA for regulated utilities?

A. Although there may be other portions of the TCJA that may have some effect on regulated utilities, the most significant changes in the TCJA to regulated utilities and their ratepayers can be summarized as follows:

(a) The TCJA reduces the federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018.

(b) The TCJA exempts regulated utilities from the immediate expensing of certain capital additions and applies the MACRS rules to regulated utility property additions, without a provision for “bonus” (accelerated) tax depreciation.

(c) The TCJA exempts regulated utilities from an interest deductibility limitation.

(d) The TCJA retains the corporate deduction for state and local taxes.

(e) The TCJA includes normalization provisions for public utility property that requires application of the ARAM to the flowback of “protected” excess deferred income taxes.

(f) The TCJA leaves unchanged the 2015 renewable credit tax arrangement and the Electric Vehicle tax credit.

(g) The TCJA eliminates the Alternative Minimum Tax.

(h) The TCJA eliminates the Section 199 manufacturing deduction.

Q. Please describe the provisions of the TCJA that will have the greatest impact on regulated utilities like Tampa Electric and their customers.

A. The TCJA will have significant, though varying impacts on most utilities in terms of reported tax expenses charged against the company’s operations, cash flows and the calculation of revenue requirements and cost of service.

The most significant provision of the TCJA for regulated utilities, including Tampa Electric, is the reduction of the Federal Income Tax Rate from 35 percent to 21 percent, which will reduce current income tax expense and originating deferred tax expense. As a result of the lower 21 percent income tax rate becoming effective under the TCJA, all companies, including public utilities, were required under ASC 740 to “remeasure,” as of December 31, 2017, the amounts of ADIT in their financial statements. Regulated utilities reclassified the reduction in ADIT to a regulatory liability representing the excess ADIT that will be used to reduce future revenue requirements.

The loss of bonus tax depreciation on plant additions going forward will also have a significant impact with regulated utilities now limited to MACRS, with no bonus tax depreciation, reducing the amount of available ADIT.

Some of the TCJA effects will occur immediately while others will occur over time. However, in each of these cases, cash flow decreases.

Q. Can you explain how the reduction in the federal corporate income tax rate will affect Tampa Electric’s current and deferred income taxes, including excess ADIT?

A. Yes. The Federal corporate tax rate is reduced from 35 percent to 21 percent for tax years beginning after January 1, 2018. At a 35 percent tax rate, revenue of $1.5385 was required to provide $1.00 of after-tax income. A corporate tax rate of 21 percent requires $1.2685 of revenue to generate $1.00 of after tax income. This reduction in the cash outflow from the company to the U.S. Treasury to pay currently payable income taxes is offset by reduced cash flows (revenue requirements) from ratepayers.

With respect to deferred Federal income taxes, those related to originating book-tax differences will be provided and collected at 21 percent rather than at 35 percent. Therefore, there will be reduced cash inflow because, at a 21 percent tax rate, for every $100 of accelerated depreciation or other book-tax difference, a utility will now have an interest-free loan from the U.S. Treasury of $21 compared to $35 under the previous income tax rate. However, initially there is no corresponding reduction in cash outflow from the company.

With respect to reversing book-tax differences, there will be no change in cash flow because the effects of reversing book-tax differences will continue to be computed and passed onto ratepayers at the tax rate used when the book-tax difference originated (generally 35 percent).

The effect of this reduced cash inflow will be an increase in outside financing requirements. The substitution of investor supplied capital having a financing cost of more than zero for interest-free ADIT will likely increase the company's overall cost of capital.

The TCJA continues the normalization requirements that deferred income taxes must be provided on depreciation timing/temporary differences between the financial statements and the tax return. The Federal ADIT on the company’s books as of December 31, 2017 were, in most cases, stated at 35 percent of the related timing/temporary difference. For regulatory or ratemaking purposes, the reversals of the ADIT are credited to income as the related timing/temporary difference reverse, and that credit to income is computed as 35 percent of the reversing timing/temporary difference. The amount credited to income in future years with respect to all Federal ADIT at December 31, 2017 will not change as a result of the TCJA. In fact, the TCJA affirms the existing accounting for timing/temporary difference reversals as to ADIT related to protected book-tax differences (depreciation method and life timing differences, CIAC) by requiring that these ADIT be flowed back in rates and on the books using the ARAM.

Q. How is the ARAM computed?

A. The ARAM requires the development of an average rate which is determined by dividing the aggregate normalized protected timing/temporary differences into the ADIT that have been provided on such timing/temporary differences. The average rate so calculated is applied to reversing timing differences to derive the deferred taxes that are credited to income tax expense. Under this approach, protected ADIT are reduced over the remaining lives of the property which gave rise to the ADIT as the timing/temporary differences reverse. Public utilities must take care to properly apply the ARAM to protected ADIT because a normalization violation could occur if the amount of protected excess ADIT is reduced more rapidly or to a greater extent than under the ARAM.

The normalization violation would result in an increase in current income taxes payable for the amount of the more rapid reduction plus, more importantly, accelerated depreciation methods could not be used for income tax purposes going forward. Rather, book depreciation would have to be used for income tax purposes.

Q. What are “excess” ADIT and how are they calculated?

A. Excess ADIT means the ADIT balance existing immediately prior to the reduction in the corporate tax rate less the amount that would have been in the ADIT balance had that balance been determined using the revised lower corporate income tax rate.

Q. Can you summarize the net impacts of the tax rate reduction on utility revenue requirements?

A. The net effect of the tax rate change on taxes currently payable is to decrease tax expense. The net effect of the tax rate change on deferred taxes is that the provision on originating book-tax differences would be reduced, the reversals of previously provided deferred income taxes would not be changed (continue to reverse such existing ADIT at the average rate they had been provided) and the amount of ADIT at the time of enactment would decline. The decline in this zero-cost source of capital will likely cause the weighted cost of capital to increase compared to the cost if the TCJA had not been enacted.

Q. Other than the reduction in tax rates which will have an effect on current and deferred income taxes, what is another impact of the TCJA for utilities such as Tampa Electric?

A. For capital intensive industries, the use of accelerated depreciation to determine the tax liability is significant. The TCJA allows many companies to deduct, for income tax purposes, significant portions (in some cases, all) of their capital expenditures. However, the utility industry is specifically excluded from being able to apply this provision. Instead, public utility property continues to be subject to the MACRS without a provision for bonus tax depreciation. Prior to the TCJA, the utility industry had been permitted to apply for bonus tax depreciation.

As a result of losing bonus tax depreciation, all else being equal, aggregate cash flow will decrease as taxes currently payable will be higher and the deferred provision and resulting ADIT will be lower. Since ADIT will be lower, the weighted cost of capital will be higher reflecting the replacement of zero-cost capital with investor funds containing a cost greater than zero.

Protected Excess Deferred Income Taxes

Q. Please provide more detail on how the TCJA prescribes the ratemaking treatment for "protected" excess deferred income taxes.

A. The TCJA requires that excess ADIT be reversed, over the lives of the related property as temporary/timing differences reverse using the ARAM, or, if the records needed to compute the ARAM are unavailable, through an alternative procedure known as the Reverse South Georgia Method ("RSGM"). The ARAM is required for excess ADIT for those "protected" book-tax differences subject to the aforementioned normalization rules. Tampa Electric has the records to apply the ARAM and, as discussed in the direct testimony of Valerie Strickland, has done so in this case.

Q. Does the TCJA prescribe a method for excess ADIT on "unprotected" excess ADIT?

A. No. Prior to the TCJA, the ADIT provided on all book-tax differences typically reversed at the tax rate used to record the deferred tax expense when the book-tax difference originated; however, the TCJA does not contain such a requirement on the excess ADIT on unprotected book-tax differences. The balance of unprotected ADIT is thus up to a decision by the company and the regulator. I understand that Tampa Electric has agreed to a 10-year amortization of the unprotected excess ADIT existing at December 31, 2017 if the amount of unprotected excess ADIT is greater than $100 million.

Q. Have you prepared an exhibit that demonstrates how the ARAM is to be calculated?

A. Yes, Document No. 2 of my exhibit shows the originating and reversing book-tax differences and the required ADIT each year. The example in Document No. 2 is based on the assumptions used in my previous example describing depreciation book-tax differences and how such differences originate and reverse. However, in this example I begin with an income tax rate of 35 percent in the early years that is reduced to 21 percent before the asset is fully depreciated. The example again assumes a $1 million asset placed in service in 2016 with a 10-year book life and a five-year MACRS life, with no bonus tax depreciation. The MACRS rate is shown in Column B and each year’s tax depreciation is shown in Column C. Book depreciation is $100,000 each year and Column F contains the difference between tax and book depreciation each year. Column G contains the income tax rates, beginning with 35 percent in 2016 and 2017, reducing that rate to 21 percent at the beginning of 2018.

Columns H and I show each year’s deferred tax expense, with Column H showing the deferred tax expense on originating book-tax differences and Column I showing the deferred tax expense on reversing book-tax differences. Column K shows the ADIT balance, increasing and decreasing the previous year’s balance by the deferred tax expense.

Q. Can you walk through the determination of excess ADIT and how the ARAM is used to reverse the ADIT for the tax rate change?

A. Yes. When the tax rate changed at the end of 2017, the balance of ADIT was $112,000 (Column K). This balance was derived by applying the 35 percent tax rate to the 2016 and 2017 originating book-tax differences in Column F ($100,000 + $220,000 = $320,000). The excess ADIT is calculated by applying the new 21 percent tax rate to those cumulative book-tax differences at the time of the rate change ($320,000 x 21 percent = $67,200) and comparing that amount to the then existing ADIT balance with the difference representing the excess ADIT ($112,000 - $67,200 = $44,800).

Under the ARAM, this excess ADIT balance does not begin reversing until 2021 when the book-tax difference begins to reverse. In 2018 through 2020, book-tax differences continue to originate, now at the lower 21 percent income tax rate with no reversal permitted for excess ADIT.

At the end of 2020 the ADIT balance is $137,704 (Column K) and the cumulative book-tax difference is $442,400 (the 2016 through 2020 differences in Column F). The average rate at which the $137,704 ADIT balance was accumulated is thus 31.1266 percent ($137,704 / $442,400). This is the average rate that must be applied to the book-tax differences reversing in each year beginning in 2021

(Column F) producing the reversal of the deferred tax expense each year (Column I).

At the end of its useful life, the originating and reversing deferred tax expense equal one another and the ADIT balance is 0.

Q. If a rate higher than 31.1266 percent were used to reduce the reversing ADIT or if any of the excess ADIT were reversed prior to 2020 what would happen?

A. Flowing back protected ADIT more rapidly than permitted under the ARAM will result in a violation of the normalization rules. The TCJA specifies the penalty for violating the normalization rules is severe and two-fold: (1) currently payable income tax is increased by the amount by which the utility reduced its excess tax reserve more rapidly than permitted under the ARAM or the RSGM, and (2) the utility will be unable to claim accelerated depreciation for income tax purposes.

Q. Once the excess ADIT related to protected differences are identified, is it fair to characterize the remaining excess ADIT as relating to unprotected book-tax differences?

A. Yes.

Q. Are any of the unprotected book-tax differences related to property, plant and equipment?

A. Yes. The more significant unprotected book-tax differences with some elements of property, plant and equipment accounting are book-tax differences for the treatment of repairs (deducted currently for tax, capitalized and depreciated for books), different amounts capitalized into the book and tax bases of depreciable property, plant and equipment (overheads) and cost of removal.

Q. Please describe the cost of removal book-tax difference.

A. For most commercial and industrial companies, when computing book depreciation, the concept of “salvage value” is taken into consideration when determining the book basis to be depreciated. When a fixed asset is placed in service, the book basis subject to book depreciation is the amount incurred in rendering that asset ready for service less any expected salvage value that will be received when that asset is retired. So for instance, if an asset placed in service cost $1,000, with a five-year life and $50 of salvage is expected to be received upon retirement, the book basis to be depreciated is $950. Annual book depreciation charges will be $190 ($950 / 5 = $190).

Most regulated entities, including Tampa Electric, do not receive a net salvage upon the retirement of property, plant and equipment. Instead, they incur the opposite, a “cost of removal” upon retirement, meaning there are additional expenditures required to remove such property, plant and equipment. The costs to remove, dispose or otherwise permanently retire an asset from service including the costs of dismantling, tearing down or demolishing, meet the cost of removal definition. When depreciation rates are established for regulated entities, such rates are increased to reflect the estimated cost of removal. If, when expending the removal cost, there is some salvage received, the salvage is netted against the cost of removal to produce a net cost of removal or “negative net salvage.” For book purposes, this treatment charges the customers who benefit from using the property, plant and equipment, with the cost to remove that asset at the end of its depreciable life.

For instance, if the cost of property, plant and equipment is $1,000 and there is a $50 estimated cost associated with removing that asset when it is retired, the annual book depreciation charge is $210 ($1,050 / 5 = $210). In the utility's depreciation study, depreciation rate for this asset would be 21 percent--20 percent to recover the incurred cost of $1,000 over five years and 1 percent to recover the estimated cost of removal in years 1 to 5 (1 percent x $1,000 each year = $10 per year). In this manner, year 5 to cover the actual removal cost incurred upon retirement.

Q. How is cost of removal treated for income tax purposes?

A. For income tax purposes, cost of removal is deducted when the actual removal costs are expended. Because book depreciation includes an estimated component to recover cost of removal, but for tax purposes the cost is not deductible until expended, a book-tax difference results.

Q. Please explain the deferred income tax consequences of cost of removal.

A. As explained above, the impact to deferred tax of cost of removal is the opposite of, for example, the impact of accelerated depreciation because the book expense (the cost of removal component of book depreciation expense) is deducted for income tax purposes in later years when the cost of removal is expended. The effect is to create an ADIT asset (rather than liability) when book depreciation initially exceeds tax depreciation by the amount of the cost of removal component of book depreciation. The ADIT for cost of removal is reversed when the tax depreciation deduction for cost of removal is expended and subsequently deducted.

Q. Is the cost of removal a protected or unprotected book-tax difference?

A. Cost of removal is an unprotected book-tax difference. Cost of removal, or negative salvage value, is not a depreciation method or life difference. Unlike accelerated versus straight-line depreciation differences which are required to be normalized in order to permit the utility to enjoy the benefits of the interest free loan by accelerating recovery of depreciation tax deductions, cost of removal does not provide an up-front tax deduction. This view is shared by the Edison Electric Institute and my Firm. I am not aware of any applicable guidance from the Internal Revenue Service to the contrary covering the specific issue of cost of removal when the net cost of removal produces a net cost. Private letter rulings in this area, if applicable, are confusing or not on point.

Q. What is Tampa Electric proposing for reducing revenues and customer bills for the excess ADIT related to unprotected book-tax differences resulting from the TCJA?

A. As mentioned previously, there is no requirement in the IRC for excess ADIT which applies to unprotected book-tax differences. While one approach is to use an ARAM-type approach to unprotected excess ADIT reversing the excess ADIT as the related book-tax difference reverses, Tampa Electric has entered into the 2017 Agreement and Amended Implementation Stipulation which have been approved by the FPSC and, due to the dollar amount of excess unprotected excess ADIT, will amortize the unprotected excess ADIT balance over 10 years.

The calculation of the amortization is straightforward. The company's unprotected ADIT balance as of December 31, 2017 was divided by 10 and this amount was used to reduce income tax expense and revenue requirements beginning January 1, 2019.

Q. You have stated that the effects of the tax rate reduction and the loss of the ability to claim bonus tax depreciation will have a negative effect on cash flows because there will be less ADIT. What is the significance of a decrease in cash flows?

A. A decrease in cash flow, all else being equal, is often considered a negative factor by investors when they evaluate the quality of a security. There will be a negative factor in this instance, because there will be a reduction in zero-cost capital due to a lower amount of ADIT which must be replaced by investor funds which typically have a cost greater than zero.

In addition, other effects of the TCJA which would likely be considered negatively by investors include a reduction in pretax coverage ratios and an increase in the invested capital per dollar of property, plant and equipment. In addition, because of the reduction in the tax rates, the company’s shareholders will now share losses and declines in earnings with the US Treasury in the ratio of 79 percent to 21 percent rather than 65 percent to 35 percent. The existence of these negative factors will likely be recognized in the cost of capital.

PWC Procedures

Q. What procedures did PWC perform with respect to Tampa Electric’s 2018 income tax expense calculations in this docket?

A. The following procedures were performed by me or under my direction and supervision:

1. We read Document Nos. 1 through 4 included as the exhibit to Valerie Strickland’s direct testimony.
2. We analyzed the roll-forward of the company’s ADIT from December 31, 2017 noting that adjustments to such balances primarily reflected minimal differences as a result of adjusting balances to agree with amounts to be included in the 2017 income tax return filing as well as reclassifying the cost of removal and CIAC ADIT from the accelerated depreciation ADIT line item to separate line items.
3. We obtained management’s schedule identifying which of the company’s book-tax differences and related excess ADIT were identified as protected or unprotected differences based on their descriptions. We obtained documentation supporting these conclusions and agreed with management’s classification.
4. We obtained management’s calculation of amounts determined to represent reversal of protected excess ADIT or amortization of unprotected excess ADIT. We tested the schedule for mathematical accuracy and agreed management’s schedule to standard system

reports.

5. On a sample basis, we tested the ARAM by examining book depreciation by vintage by asset compared to tax depreciation by vintage by asset noting the reversal in 2018 and that the appropriate tax rate was applied. The detail support is maintained in the company's Power Plan property and income tax software systems.

6. We recalculated the company's break out and allocation of the cost of removal excess ADIT from the book-tax depreciation ADIT line item by tax vintage.

Q. As a result of applying the above procedures and your understanding of ADIT and the TCJA, do you agree with Tampa Electric's calculations of excess ADIT, the flowback of protected excess ADIT using the ARAM and the amortization of unprotected excess ADIT in the 2018 tax calculations prepared by Ms. Strickland?

A. Yes.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

DIRECT TESTIMONY

OF

RALPH SMITH

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20180045-EI

I. INTRODUCTION

Q. WHAT ARE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS?

A. My name is Ralph Smith. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan, 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, ("Larkin") is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes, I have testified before the Florida Public Service Commission ("FPSC" or "Commission") previously. I have also testified before several other state regulatory commissions.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Exhibit RCS-1, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel ("OPC") to review the impacts on public utility revenue requirements associated with the Tax Cuts and Jobs Act of 2017 ("TCJA" or "2017 Tax Act"). My testimony addresses the impacts of the TCJA on Tampa Electric Company ("TECO" or "Company") on behalf of the OPC. Accordingly, I am appearing on behalf of the Citizens of the State of Florida.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I am presenting OPC's recommendations regarding certain aspects of the TCJA impacts on the Company.

Q. WHAT INFORMATION DID YOU REVIEW IN PREPARATION OF YOUR TESTIMONY?

A. I reviewed the Company's May 31, 2018 filing, including the Company's direct testimony and exhibits. I reviewed the Company's responses to OPC's formal and informal discovery and other materials pertaining to the TCJA and its impacts on regulated public utilities such as TECO. I also reviewed Rule 25-14.011. Florida Administrative Code ("F.A.C."), concerning procedures for processing requests for rulings to be filed with the Internal Revenue Service ("IRS").

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. I first summarize the Company's quantifications and proposals related to the TCJA impacts. I then present the OPC's recommendations.

II. TAMPA ELECTRIC MAY 31 FILING CONCERNING TCJA IMPACTS

Q. WHAT ARE THE PRIMARY IMPACTS OF THE TCJA THAT THE COMPANY HAS QUANTIFIED IN ITS MAY 31, 2018 FILING?

A. The Company has identified two major impacts from the TCJA: (1) a net regulatory liability for excess accumulated deferred income taxes of approximately $484.528 million and (2) a one-time base rate revenue requirement change of $102.687 million.

Specifically, on Exhibit ___(JSC-1), Document No. 5, attached to the direct testimony of Jeffrey Chronister, the Company identifies a one-time base rate revenue requirement reduction of approximately $102.687 million.

Concerning the net regulatory liability for excess accumulated deferred income taxes, the Company has identified the amount of $480.715 million on Exhibit ___(VS-1), Document No. 2, attached to the direct testimony of Valerie Strickland. That document also shows the Company's classification of each of the identified balances between "protected" and "unprotected".

Q. WHAT ARE ACCUMULATED DEFERRED INCOME TAXES?

A. Accumulated Deferred Income Taxes ("ADIT") represent a source of non-investor supplied cost-free capital to rate regulated utilities. Under the Uniform System of Accounts ("USOA"), utilities in the electric and gas utility industry record ADIT in specified accounts, such as accounts 190, 281, 282 and 283. The amounts recorded in account 190 typically represent an asset, and the amounts recorded in accounts 281, 282 and 283 represent liabilities.

Q. HOW IS THE UTILITY'S ADIT IMPACTED BY THE TCJA?

A. The Utility's ADIT must be revalued at the new 21 percent corporate federal income tax rate.

All non-property related ADIT (FERC account 190 and 283 for electric utilities and gas distribution utilities) that had previously been recorded at a higher federal income tax rate, such as the 35 percent rate in effect prior to January 1, 2018, will be reduced.

Additionally, property related ADIT (FERC account 282) will also need to be revalued at the new corporate tax rates.

Q. WHAT IS "EXCESS" ACCUMULATED DEFERRED INCOME TAXES ("EXCESS ADIT" OR "EADIT")?

A. Regulated public utilities will be required to identify the portions of their ADIT balances that represent "excess" ADIT based on recalculations using the difference between the old federal income tax ("FIT") rate (typically 35%) under which the ADIT was originally accumulated and the new federal corporate income tax rate of 21% provided for in the TCJA. Basically, utility ADIT must be revalued at the new FIT rate and the amounts that have been accumulated using federal income tax rates higher than the current 21% flat rate will represent "excess" ADIT.

Q. HOW DO IRS NORMALIZATION REQUIREMENTS AFFECT THE CATEGORIZATION OF ADIT AND EXCESS ADIT?

A. IRS normalization requirements will apply to the portion of the property-related ADIT that relates to the use of accelerated tax depreciation (including bonus tax depreciation). This will result in two general categories of excess ADIT: (1) "protected" (i.e., subject to the normalization requirements) and (2) "unprotected" property and non-property related excess ADIT.

Q. HOW DOES THE CATEGORIZATION OF "PROTECTED" OR "UNPROTECTED" AFFECT THE AMORTIZATION OF THE EXCESS ADIT?

A. The 2017 Tax Act provides that the Average Rate Assumption Method ("ARAM") must be used for the protected portion. The flow back of the "protected" excess ADIT, therefore, must follow the prescribed method to comply with normalization requirements. In contrast, the flow back of the unprotected portion of the excess ADIT will be up to the discretion of the Commission. Unprotected ADIT is not subject to normalization requirements and will be revalued at the lower 21% tax rate, creating balances of excess unprotected ADIT that can be flowed back to customers over amortization periods to be determined by the Commission or applied in some other manner (e.g., such as for the recovery of regulatory assets) to be determined by the Commission.

Q. HOW DID THE COMPANY CLASSIFY ITS EXCESS ADIT BETWEEN THE "PROTECTED" AND "UNPROTECTED" CATEGORIES?

A. As shown on Exhibit No. ___(VS-1), Document No. 2, attached to the Direct Testimony of Company witness Strickland, TECO classified the excess ADIT relating to the following book-tax differences as "protected":

Schedule M Item	Protected Excess ADIT
Depreciation - Book	$ -
Depreciation - Book Tax Diff Federal	$ 395,187,966
Depreciation - Book Tax Diff State	$ (16,869,899)
CIAC	$ (10,779,917)
2017 NOL from bonus tax depreciation from Polk Units 2 thorugh 4 going into service [1]	$ (19,783,342)
Total Protected Excess ADIT Liability	$ 347,754,808

[1] TECO labled this item as: "DEF SEP CO - EMERA FED NOL - PROTECTED"
Source: TEP Exhibit __(VS-1), Document No. 2

The "protected" items for TECO are comprised of differences between tax and book depreciation that relate to the depreciation method and life, as well as contributions in aid of construction ("CIAC") and the 2017 net operating loss from bonus tax depreciation from Polk units 2 through 4 going into service.

The Company classified all of the other EADIT, including book-tax differences related to repairs deductions, cost of removal/negative net salvage, as well as other book-tax differences, as "unprotected".

The Company's adjusted results shown on Exhibit No. ___(VS-1), Document No. 2, show a "protected" net EADIT liability of $347.755 million, and an "unprotected" EADIT liability of $132.960 million, for a net EADIT liability of $480.715 million.

The flowback of the "protected" EADIT is done according to the ARAM. The flowback of the "unprotected" EADIT asset is done on a straight-line basis over 10 years, pursuant to the 2017 Settlement Agreement between TECO, OPC and other parties that was approved by the Commission. The impacts of the EADIT amortization is included in the derivation of the (lower) revenue requirement amount of $102.687 million.

Q. DO YOU DISAGREE WITH THE COMPANY'S CLASSIFICATION OF THE EADIT BETWEEN THE "PROTECTED" AND "NON-PROTECTED" CATEGORIES?

A. I have no disagreement with the Company's classification of EADIT. However, it should be noted that the guidance provided in the TCJA and in previous IRS rulings presents some degree of uncertainty as to the classification of the EADIT related to at least one of the large book-tax differences, specifically to the EADIT relating to cost of removal/negative net salvage. At page 12 of her direct testimony, Ms. Strickland identifies the asset (debit balance) related to the cost of removal EADIT for TECO to be $27.8 million, which is also shown on Document No. 2 of her exhibit.

Q. WHAT ARE THE COMPANY'S REASONS FOR CLASSIFYING COST OF REMOVAL AS "UNPROTECTED"?

A. As explained in the direct testimony of Company witnesses Strickland at pages 10-11 and Alan Felsenthal at pages 40 through 41, the Company has identified the following reasons for classifying the EADIT related to cost of removal/negative net salvage as "unprotected":

- A timing difference is “protected” if there is tax depreciation or an asset that falls within Internal Revenue Code Section 168, and cost of removal generates no tax depreciation;
- Cost of removal/negative net salvage is not a depreciation method or life difference;
- The Edison Electric Institute supports the "unprotected" classification for cost of removal/negative net salvage;
- PricewaterhouseCoopers ("PwC") as a firm supports the "unprotected" classification for cost of removal/negative net salvage; and
- Existing private letter rulings in this area "are confusing or not on point."

Q. DO YOU HAVE AN OPINION AS TO WHETHER THE EADIT RELATED TO COST OF REMOVAL/NEGATIVE NET SALVAGE IS "PROTECTED" OR "UNPROTECTED"?

A. Yes, I do. Based on currently available guidance, it is also my opinion that the EADIT related to cost of removal/negative net salvage is "unprotected." This is because the tax deduction for cost of removal is not addressed under §167 or §168 of the Internal Revenue Code ("IRC" or "Code"), which are the sections pertaining to the use of accelerated tax depreciation and the sections which contain the normalization requirements pertaining to the continued use of accelerated tax depreciation. Deductions that are provided for under other sections of the Code are not subject to the normalization requirements associated with the utility's ability to continue to use accelerated depreciation for federal income tax purposes.

Q. IS THERE SOME UNCERTAINTY IN THIS AREA?

A. Yes, there is. The comparison of utility book and tax depreciation for purposes of tracking the method/life and other differences can be very complex. Utility book depreciation rates typically include a component for negative net salvage (as well as for the recovery of original cost over the estimated useful life of the assets). The normalization process involves comparing book and tax depreciation; however, the calculations can be very complex. Such calculations are typically done by larger utilities (such as TECO and its affiliate Peoples Gas System ("PGS")), using specialized software, such as PowerPlan and PowerTax, and the proper application can require significant additional analytical work by the utility and the vendor. Because the comparison of book and tax depreciation involves complex calculations and the fact that utility book depreciation typically includes an element for negative net salvage, there have been concerns raised in some jurisdictions (e.g., New York) and by some Florida utilities (e.g., Duke Energy Florida) about the cost of removal/negative net salvage component of book depreciation and the risks presented for potential normalization violations. Another large Florida regulated utility, Duke Energy Florida, appears to be taking a different position than TECO and PGS concerning the treatment of cost of removal/negative net salvage and has proposed to treat that item as "protected," pending receipt of additional guidance.

Q. IS THERE A GOOD WAY TO OBTAIN SPECIFIC GUIDANCE CONCERNING THE CLASSIFICATION BY PGS AND TECO OF THE EADIT RELATING TO THE COST OF REMOVAL/NEGATIVE NET SALVAGE AS "UNPROTECTED"?

A. Yes. One potential source of such additional guidance, which would apply directly to the utility to whom it is issued, would be from the IRS in a private letter ruling. Seeking a private letter ruling from the IRS which addresses that utility's specific fact situation and interpretation is one of the best ways of obtaining guidance and providing clarity.

III. FINDINGS AND RECOMMENDATIONS

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S QUANTIFICATIONS OF THE TCJA IMPACTS AT THIS TIME?

A. No, I am not. The Company's quantifications do not appear to be unreasonable for the purposes of estimating the one-time annual revenue requirement reduction and EADIT related to the TCJA.

Q. WHAT AMOUNT SHOULD BE USED FOR COMPUTING THE ONE-TIME REVENUE REQUIREMENT REDUCTION?

A. The $102.687 million one-time revenue requirement reduction shown on Company Exhibit No. __(JSC-1), Document No. 5 should be used as the one-time base rate revenue requirement reduction and for evaluating any true-up required under the Amended Implementation Agreement filed on February 13, 2018 in Docket Nos. 20170271-EI and 20180013-PU. This represents the estimated net revenue requirement calculated pursuant to the 2017 Agreement.

Q. SHOULD THE COMPANY BE REQUIRED TO SEEK CLARITY REGARDING ITS CLASSIFICATION OF THE EADIT FOR COST OF REMOVAL/NEGATIVE NET SALVAGE AS "UNPROTECTED"?

A. Yes. A private letter ruling ("PLR") request should be submitted to the IRS by the Company to obtain clarity. Since the factual situation is similar for TECO and for its affiliate, PGS, concerning cost of removal/negative net salvage as it relates to EADIT, it may be practical for both companies to submit the PLR request. The PLR request should be drafted by the Companies, but should be subject to review and input by the Commission, Staff, and OPC prior to being submitted to the IRS, pursuant to the administrative procedure specified in Rule 25-14.011, F.A.C. This pre-submission review is to ensure that it presents the Company's fact situation and analysis accurately and in a neutral manner (i.e., is not an "advocacy piece").

Q. SHOULD AN UNDERSTANDING BE IN PLACE CONCERNING HOW AN AFFIRMATIVE OR NEGATIVE RESULT OF THE PLR APPLICATION WILL BE ADDRESSED?

A. Yes. There should be an understanding in place concerning the application of an affirmative or negative result of the PLR, which I will address below.

Q. WHAT IS YOUR RECOMMENDATION FOR APPLICATION OF A PLR?

A. Pursuant to the procedure described in Rule 25-14.011, F.A.C., the Company should report the results to the Commission, the OPC and intervenors. If the ruling is affirmative (i.e., agrees with the Company's classification of the EADIT related to cost of removal/negative net salvage as "unprotected"), no adjustment to the Company's EADIT amortization will be necessary. On the other hand, if the PLR is negative (i.e., rules that the EADIT related to cost of removal/negative net salvage should instead be treated as "protected"), along with the notification, the Company should provide updated calculations of its "unprotected" EADIT amortization, and for the "protected" portion of the EADIT, recalculations of the ARAM results. The Company's notification should also identify the related revenue requirement impacts of a reclassification of the EADIT related to cost of removal/negative net salvage from "unprotected" to "protected" if the PLR indicates such treatment is necessary. Any final resolution emanating from a PLR should also be used in further true-up of the 2018 amount relative to the final storm cost recovery pursuant to the Amended Implementation Agreement.

Q ARE THERE ANY OTHER IMPACTS FROM 2018 THAT NEED TO BE ADDRESSED?

A. Yes. For TECO there will be a potential refund after true up for the 2018 period net of storm costs per the Amended Implementation Agreement after that storm proceeding and this TCJA-related proceeding are concluded.

Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

VALERIE STRICKLAND

Q. Please state your name, address, occupation and employer.

A. My name is Valerie Strickland. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by TECO Services, Inc. ("TSI") as the Director of Corporate Taxes.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for managing TSI's Tax Department, which provides tax services to Tampa Electric Company ("Tampa Electric" or "company". My responsibilities include the preparation and filing of tax returns, tax accounting for internal and external purposes, and tax planning, as well as managing federal and state tax audits. The only taxes I do not oversee are payroll taxes, which are the responsibility of TSI's Payroll Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I was educated in Europe where I received a Master’s degree in Accounting & Finance from the “Institut de l’Administration and Gestion” in Paris, France. Upon graduation in 1992, I joined Coopers & Lybrand LLC, an independent accounting firm, as a tax professional. In 1998, Coopers & Lybrand LLC merged with Price Waterhouse LLP and became PricewaterhouseCoopers LLP (“PwC”). I continued to work for PwC as a Tax Manager until I joined the TECO Energy Tax Department in 2000. I am also an active participant of the Edison Electric Institute (“EEI”) Taxation Committee.

Q. What are the purposes of your direct testimony in this proceeding?

A. The purposes of my direct testimony are to explain how the company is accounting for the impacts of the Tax Cuts and Jobs Act of 2017 (“TCJA”) and to sponsor the company’s calculation of forecasted income tax expense for 2018 based on its 2018 Forecasted Earnings Surveillance Report (filed March 15, 2018) as adjusted to reflect the impact of the TCJA.

Q. Did you prepare an exhibit in support of your direct testimony?

A. Yes. Exhibit No. ___ (VS-1) was prepared under my direction and supervision. My exhibit consists of four documents, as described below.

Document No. 1	Estimated Excess ADIT as of December 31, 2017
Document No. 2	Revised Estimate of Excess ADIT
Document No. 3	2018 Tax Expense under the TCJA
Document No. 4	MFR C-22 With and Without Tax Reform

Q. As part of your work for Tampa Electric in this docket, have you read the documents referred to as the "2017 Agreement" and "Amended Implementation Stipulation" (and related FPSC Orders) in the prepared direct testimony of Tampa Electric witness Jeffrey S. Chronister?

A. Yes, I have.

Q. What does the 2017 Agreement require with respect to protected and unprotected excess deferred taxes?

A. With respect to "protected" excess deferred income taxes, paragraph 9(a) of the 2017 Agreement states: “[t]o the extent Tax Reform includes a transition rule applicable to excess deferred federal income tax assets and liabilities (“Excess Deferred Taxes”), defined as those that arise from the re-measurement of those deferred federal income tax assets and liabilities at the new applicable corporate tax rate(s), those Excess Deferred Taxes will be governed by the Tax Reform transition rule, as applied to most promptly and effectively reduce Tampa Electric’s rates consistent with the Tax Reform rules and normalization rules.” The TCJA prescribes the Average Rate Assumption Method (“ARAM”) as the transition rule for a category of excess deferred taxes known as “protected excess deferred taxes.”

With respect to “unprotected” excess deferred taxes, paragraph 9(c) of the 2017 Agreement states “there shall be a rebuttable presumption that the following flow-back period(s) will apply: (1) if the cumulative net regulatory liability is less than $100 million, the flow-back period will be five years; or (2) if the cumulative net regulatory liability is greater than $100 million, the flow-back period will be ten years.”

Accounting for the Impact of the TCJA

Q. What changes to the Internal Revenue Code ("IRC") in the TCJA have made the biggest impact on Tampa Electric?

A. Although the TCJA includes other changes that impact the way Tampa Electric calculates income tax expense, the decrease in the federal income tax rate from 35 percent to 21 percent and the flowback of protected and unprotected excess deferred taxes have the greatest impact on Tampa Electric.

Q. What steps has the company taken to properly account for the impact of the TCJA?

A. Tampa Electric became aware that tax reform had become a priority of the federal government in 2017 and began participating in internal and external discussions – with PwC and EEI - to better understand the potential impacts of tax reform.

Tampa Electric made the change in the federal tax rate in accordance with FASB Accounting Standards Codification ("ASC") Topics 740 (Accounting for Income Taxes) and 980 (Accounting for Regulated Operations) and Rule 25-14.013

(10), Florida Administrative Code.

The company reviewed the book-tax differences that factor into the calculation of income tax expense to determine whether and the extent to which the TCJA would impact the differences. These differences are reflected in Document No. 4 of my exhibit, which presents the company’s 2018 income tax expense calculation in the format required by Minimum Filing Requirement (“MFR”) Schedule C-22.

The company separately identified and evaluated tax credits to ensure that they would be properly accounted for in the calculation of income tax and the valuation of deferred tax balances.

Tampa Electric then re-measured its non-tax credit related accumulated deferred income tax (“ADIT”) balances and calculated the related excess ADIT balances. Excess ADIT arise from the re-measurement of the company’s deferred federal income tax assets and liabilities at the new applicable corporate tax rate.

As I previously mentioned, the TCJA prescribes the Average Rate Assumption Method (“ARAM”) as the transition rule for treatment of “protected” excess deferred taxes, and the

2017 Settlement provides that the treatment of excess deferred taxes will be governed by the tax reform transition rule. The 2017 Agreement provides that “unprotected” excess deferred taxes be amortized over 10 years if the amount is greater than $100 million, and over five years if the total is less than $100 million.

Since Tampa Electric uses the PowerPlan Provision module from a software company called PowerPlan to calculate its current and deferred tax expense, the company has worked with PowerPlan consultants to configure the system to estimate its deferred taxes and generate the required journal entries in accordance with ASC Topics 740 and 980. As of December 31, 2017, the company’s excess deferred income taxes liability was $484.5 million. This is shown in Document No. 1 of my exhibit.

In early 2018, the company engaged PowerPlan to assist with the implementation of ARAM for protected timing differences. The company analyzed its records to segregate protected versus unprotected timing differences in order to derive the correct amount of protected for ARAM flowback as well as flowback of unprotected differences under the “2017 Agreement”.

Witness Felsenthal describes the ARAM in greater detail in his prepared direct testimony. I will discuss the amounts and treatment of the protected versus unprotected excess deferred taxes in more detail later in my testimony.

In May 2018, the TSI Tax Department completed Tampa Electric's 2017 federal corporate income tax return for plant related book-tax differences to derive the best possible estimate of the company's excess deferred income taxes. As a result of this activity, the company revised its estimate of excess ADIT as of December 31, 2017 to $480.7 million, which is $3.8 million lower than the original amount recorded in the company's December 31, 2017 Audited Financial Statements. This revision is reflected in Document No. 2 of my exhibit.

Q. What are "protected" excess deferred taxes?

A. Protected excess deferred taxes are excess ADIT associated with the use of accelerated tax depreciation under IRC section 167 and 168. Book-tax differences related to depreciation occur when the method and life used to compute depreciation are different for tax and book purposes. Additionally, in accordance with Internal Revenue Service ("IRS") Notice 87-82 "Regulated Public Utilities-

Contribution In Aid of Construction After Tax Reform", when a regulated company does not calculate a gross up for Contribution In Aid of Construction ("CIAC"), the timing difference related to CIAC is then required to be normalized under IRC section 167 and 168, and therefore becomes protected under the normalization rules as a method-life timing difference.

The normalization provisions of the TCJA specify that protected excess ADIT may not be used to reduce protected excess tax reserves more rapidly or to a greater extent than the reserve would be reduced using the ARAM. Under the ARAM, excess ADIT are reduced and flowed back into the calculation of income tax expense as the timing difference giving rise to the deferred taxes reverse. Under ARAM, the calculation of the average tax rate is made as of the beginning of the year in which temporary differences in the vintage account begin to reverse, namely, in the first year in which the book depreciation exceeds tax depreciation. Any method that results in the flowback of a taxpayer's excess deferred tax reserve more rapidly than the ARAM is a violation of the depreciation normalization requirements.

As of December 31, 2017, the company estimated its protected excess deferred taxes to be $313.5 million as shown on

Document No. 1 of my exhibit.

In May 2018, Tampa Electric completed a detailed analysis to refine the amounts of its deferred tax balances related to method and life book-tax differences. This information was not readily available in the existing records. For example, the book depreciation amount contains reversal amounts of book depreciation related to unprotected ADIT such as cost of removal, basis adjustments (excluding CIAC), and tax repairs. The company therefore identified and reclassified the book depreciation related to these timing differences to the unprotected category. As shown in Document No. 2 of my exhibit, the company reclassified $34.2 million of excess ADIT from the original estimate developed as of December 31, 2017, resulting in a revised total protected excess ADIT amount of $347.8 million.

Q. What are “unprotected” excess deferred taxes?

A. Any book-tax differences other than method and life depreciation differences are not “protected” by the normalization rules. The original estimated amount of unprotected deferred taxes is $171.0 million as shown on Document No. 1 of my exhibit. However, as mentioned in my previous answer, the company went through a detailed analysis to determine the proper categorization of book depreciation reversal amounts that belong in the unprotected category. The company identified the need to reclassify deferred tax assets in the amount of $38.0 million, and the revised unprotected deferred taxes estimate is $133.0 million, as shown on Document No. 2 of my exhibit.

Q. What is the amount associated with “tax repairs” and why is that amount considered unprotected?

A. The company uses the tax repairs module within PowerPlan to optimize the tax repairs deduction allowed under IRC section 162. The company is currently maximizing its tax deduction by expensing qualifying capital costs for Generation and Transmission and Distribution repairs for tax purposes. For book purposes, however, these costs are capitalized and depreciated over the life of the asset. Therefore, tax repairs deductions generate significant deferred tax liability every year. Even though the book-tax timing difference is directly related to plant, it is not considered protected since it is not related to method or life differences. The amount of excess ADIT associated with the tax repairs book-tax difference is $173.3 million, as shown on Document No. 2 of my exhibit.

Q. What are the amounts associated with cost of removal?

A. The total excess ADIT deficiency related to cost of removal is $27.8 million as shown on Document No. 2 of my exhibit.

Q. Why does the company consider ADIT related to cost of removal to be unprotected?

A. The company believes that excess ADIT related to cost of removal are unprotected. A timing difference is protected if there is tax depreciation on an asset that falls within IRC section 168. Cost of removal generates no tax depreciation, rather it generates a tax deduction when payments occur at the end of the asset’s life. For book purposes, depreciation expense includes a factor for this estimated cost of removal. The book depreciation in excess of the future tax deduction related to that asset creates a deferred tax asset which was embedded in accumulated book depreciation. Therefore, Tampa Electric reclassified cost of removal amounts to the unprotected excess ADIT category. Witness Felsenthal’s testimony describes how cost of removal originates and reverses in greater detail. The amount of Tampa Electric’s reclassification for cost of removal is a $95.8 million deferred tax asset as shown on Document No. 2 of my exhibit.

Q. Has the company complied with the requirements of the 2017 Agreement related to protected and unprotected excess deferred income taxes?

A. Yes. As I previously described, I believe Tampa Electric implemented the new corporate income tax rate and other provisions of the TCJA, including calculating the flowback of its excess deferred tax amounts using the prescribed ARAM transition rule for protected excess deferred taxes and following the method stated in the 2017 Agreement for unprotected excess deferred taxes.

Calculation of 2018 Income Tax Expense

Q. Have you prepared calculations showing the impact of the TCJA on the company’s 2018 financial forecast?

A. Yes. Document No. 3 of my exhibit shows the calculation of the company’s forecasted 2018 income tax expense with and without the impact of the TCJA. The amount of tax expense I identified in this document, without the impact of the TCJA, was included in the company’s 2018 forecasted earnings surveillance report filed with this Commission on March 16, 2018 and included in witness Chronister’s prepared direct testimony as Document No. 3 of Exhibit No.

___ (JSC-1).

Document No. 3 of my exhibit also provides the calculation of the company’s revised forecasted 2018 income tax expense based on the TCJA. This amount of tax expense, with the impact of the TCJA, is included in the company’s updated 2018 forecasted earnings surveillance report that reflects the impact of the TCJA and in witness Chronister’s exhibit as Document No. 4.

In an effort to be transparent, I have also provided our calculation of the company’s 2018 projected income tax expense, with and without the effects of the TCJA, in the format normally seen in a base rate proceeding as MFR Schedule C-22. This presentation shows each of the temporary and permanent book-tax differences that impact the calculation of current and deferred income tax expense and is included as Document No. 4 of my exhibit.

Q. Please explain how the calculation of tax expense under the current tax law is different than the calculation under the former tax laws.

A. The tax expense under the TCJA was calculated using the rules in effect as of January 1, 2018, with major changes including the decrease of the Federal Income Tax Rate from 35 percent to 21 percent, the repeal of IRC section 199 deduction, transition rules with respect to the former bonus depreciation provision, new 100 percent asset expensing exemption for regulated utilities, and the calculation of the flowback of excess deferred taxes. As provided in Document No. 3, the total 2018 tax expense without tax reform is $168.1 million, and the total 2018 tax expense with tax reform is $85.9 million. The change in the total 2018 tax expense between the current law and the former law is an annual decrease of $82.1 million.

Q. How did the company reflect the “flowback” of excess deferred income taxes in its calculation of income tax expense under the TCJA?

A. The flowback of protected excess deferred taxes for 2018 was calculated using the ARAM as required by the TCJA and the 2017 Agreement, and it reduces 2018 income tax expense by $10.2 million.

The flowback of unprotected excess deferred taxes was accomplished by reflecting one-tenth of the balance of unprotected excess deferred taxes as of January 1, 2018 as a $13.3 million reduction to 2018 deferred income tax expense. This treatment is consistent with the 2017 Agreement, which states that the flowback of unprotected excess deferred taxes in amounts that exceed $100 million will occur over a 10-year period.

In his direct testimony, witness Felsenthal describes the work PwC performed to test and verify the company's calculation of the impact of the TCJA on the company's 2018 forecasted income tax expense.

Q. Are the amounts you have identified in calculating the company's 2018 income tax expense under the TCJA subject to change?

A. Yes, although I have provided the company's best estimates at this time, it is possible that there may be a need to true-up the calculated amounts. Once Tampa Electric has filed its 2017 federal and state income tax returns in October 2018, the company will provide revised unprotected excess deferred tax amounts if a true-up is needed. In addition, if the IRS issues clarification rules with respect to the treatment of cost of removal or application of the previous bonus depreciation rules, and these rulings are different than the company's proposed treatment of these items, then Tampa Electric will true-up those amounts.

Summary

Q. Please summarize your direct testimony.

A. The key drivers of the impact of the TCJA as reflected in the 2018 Forecasted Earnings Surveillance Report are changes in the Federal Income Tax Rate, IRC section 199 deduction, bonus depreciation, and the flowback of excess ADIT generated by the rate change. I have quantified Tampa Electric’s total excess ADIT resulting from the TCJA, as well as quantified the protected and unprotected amounts related to those excess deferred taxes and their respective flowback amounts under IRS rules and the 2017 Agreement.

Q. Does this conclude your prepared direct testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

VALERIE STRICKLAND

Q. Please state your name, address, occupation and employer.

A. My name is Valerie Strickland. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by TECO Services, Inc. ("TSI") as the Director of Corporate Taxes.

Q. Are you the same Valerie Strickland who filed direct testimony in this docket?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is to respond to the recommendations of Office of Public Counsel ("OPC") witness Ralph Smith and provide information about obtaining a Private Letter Ruling ("PLR") for Tampa Electric Company ("Tampa Electric" or "company") from the Internal Revenue

Service ("IRS").

Q. Please describe the recommendations offered by OPC witness Smith, to which you wish to respond.

A. OPC witness Smith agreed with the company that excess accumulated deferred income taxes ("excess ADIT") associated with cost of removal/net negative salvage ("cost of removal") are "unprotected." He did not take issue with any of the components of the company's income tax or revenue requirement calculations and did not propose any adjustments to the company's calculation of the 2018 annual revenue requirement impact of the Tax Cuts and Jobs Act of 2017 ("TCJA"). However, he did suggest there is some uncertainty regarding the treatment of excess ADIT related to cost of removal and recommended that Tampa Electric and Peoples Gas System be required to request guidance from the IRS via a PLR.

Q. Is Tampa Electric willing to request the suggested PLR?

A. While the company believes its proposed treatment of excess ADIT related to cost of removal is appropriate, it is not opposed to requesting a PLR as suggested by OPC.

Q. Please describe the process to obtain a PLR and the associated timing and costs.

A. Tampa Electric would retain a tax attorney experienced with utility income tax issues and normalization requirements to assist in the process of filing a PLR request. The company would work with the attorney to develop a draft PLR request based on the facts and circumstances set forth in my prepared direct testimony, the reasoning in the prepared direct testimony of Mr. Alan Felsenthal and applicable statutes, regulations and other authorities. Once the draft request is complete, the company would provide the draft to the Commission's staff and the other parties to this docket for their feedback. Once the draft PLR request has been finalized, the company would submit the request to the IRS. The process typically takes about seven months from start to receiving the ruling. Tampa Electric estimates the out of pocket costs to obtain a PLR to be between $70,000 and $90,000.

Q. Would Tampa Electric request the PLR jointly for itself and its affiliate, Peoples Gas System?

A. Yes, the company would plan to request one PLR for both entities. This can be done when the companies are owned by the same parent company and the requested ruling is the same. If the IRS refuses the request for one PLR covering both entities, each company would need to request a separate PLR.

Q. Should the PLR request delay implementation of the company's proposed treatment of cost of removal?

A. No. Tampa Electric should proceed with its current proposal to adjust for the effects of tax reform. In the event that the PLR states that cost of removal should be treated as protected, instead of unprotected, the company would calculate a true-up to be applied in a manner consistent with the tax reform and storm cost recovery netting true-up described in the company's Amended Implementation Agreement.[1]

Q. Does this conclude your rebuttal testimony?

A. Yes.

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[1] Submitted in Docket Nos. 20170271-EI and 20180013-PU on February 13, 2018 and approved by Commission Order No. PSC-2018-0125-PCO-EI issued on March 7, 2018.

CHAIRMAN GRAHAM: What about exhibits?

MS. BROWNLESS: Yes, sir. We have stipulated -- we have a stipulated comprehensive exhibit list, which includes the prefiled exhibits attached to the witness's testimony in this case. The list has been provided to the parties, to the Commissioners and the court reporter. This list is marked as the first hearing exhibit and the other exhibits should be marked as set forth in the chart.

CHAIRMAN GRAHAM: So we need to enter the comprehensive exhibit list into the record?

MS. BROWNLESS: Yes, sir. We'd ask that you enter the comprehensive exhibit list marked as Exhibit No. 1 into the record at this time.

CHAIRMAN GRAHAM: We will do that.

(Whereupon, Exhibit No. 1 was entered into the record.)

MS. BROWNLESS: Thank you. We would also ask that Exhibits 2 through 14 be moved into the record as set forth in the comprehensive exhibit list.

CHAIRMAN GRAHAM: Do we have any objections to those?

MR. MOYLE: No objection.

MR. WAHLEN: No objection.

MS. PONDER: No objection.

CHAIRMAN GRAHAM: Okay. Let the record show there's no objection. So we'll enter Exhibits 2 through 14 into the record.

(Whereupon, Exhibit Nos. 2 through 14 were entered into the record.)

MS. BROWNLESS: Thank you.

CHAIRMAN GRAHAM: Okay. Decision time.

MS. BROWNLESS: At this time, we recommend that if the Commission decides that a bench decision is appropriate that the proposed stipulations for Issues 1 through 14 listed on Pages 9 through 14 of the prehearing order be approved.

CHAIRMAN GRAHAM: All right. Commissioners, do we have any questions of staff for the parties? Commissioner Brown.

COMMISSIONER BROWN: Thank you. Just a somewhat minor question in the overall scheme of things here. I mean, this is obviously a leading tax reform measure. It's tremendous. It's truly monumental in nature, but I do want a little bit more clarification on Issues 1F and 1G regarding the IRS and the private letter ruling that Tampa Electric made or will be seeking if we approve this -- stipulate to this overall stipulation.

So I'm going to direct it maybe to staff and maybe Tampa Electric. If the court -- if the IRS rules that the excess ADIT is reclassified as protected, first of all, one, how long would that procedure take? Obviously we would want customers to receive the benefit as soon as possible. So -- and then, two, what would the approximate amount be that would be flowed back, either/or?

MR. WAHLEN: I can take a shot at that. The process of getting a private letter ruling can take between six months and a year. Once we get the ruling --

COMMISSIONER BROWN: It is the IRS.

MR. WAHLEN: It is the IRS. As soon as we get the ruling, we'll consult with the parties. If it does turn out that cost removal is protected, there will be an additional rate adjustment or refund to the customers and our plan is to do that as quickly as possible within a certain number of days or depending on what the clause, you know, schedule's like, just handle it as part of a clause.

COMMISSIONER BROWN: Of next year's clause. Okay. Well, first, I have to commend you all. This is a tremendous undergoing and is very -- I mean, the due diligence that has occurred between all of the parties -- Mr. Moyle noted the open and transparent process, which is always appreciated, but to have you all come here to allow the avoidance of a litigated case and to provide us with a sensible resolution that would flow back to the ratepayers is just tremendous.

So, commend you all. Commend you, staff, for the diligence that you all expended on it, too, and that's all I have.

CHAIRMAN GRAHAM: Thank you, Commissioner Brown. Commissioner Clark.

COMMISSIONER CLARK: Yeah. I'll echo Commissioner Brown's regards. This is a complex issue. I'm a short-termer, but of all the things we've addressed, this is probably one of the most difficult to put all of the pieces together and I understand that there is some serious moving pieces that are in play here. And that's kind of where my question leads.

I am struggling with understanding -- you have a settlement agreement now. This is -- becomes a part of that. What effect does this have on the settlement agreement that's in place and how does that affect whether you might come in for a base-rate adjustment in the future? Is there a connection here that I'm missing?

MR. WAHLEN: Sure. Let's see if John can answer for Tampa Electric.

Well, like I said in our opening, if we were not constrained by the settlement agreement, we probably would be advocating for a smaller decrease because tax reform does reduce the income tax rate, but it also has taken away bonus depreciation and that's going to slow the growth of deferred taxes. It's going to decrease the amount of zero cost capital in the capital structure and it's going to put earnings pressure on the company -- all that's in the testimony -- so it's going to make it more difficult for the company to earn within its range. It's going to work absolutely as hard as it can to continue doing that, but it does put a lot of pressure on us and we're just going to have to do the very best we can for the term of the agreement.

COMMISSIONER CLARK: Is there a provision in the settlement that allows you to come back in? I realize -- my biggest issue is the downward pressure on earnings. I mean, that's --

MR. WAHLEN: Well, there's a -- I'm sorry. There is a provision in the agreement that if the company falls below the bottom of the range on an actual basis, it can come in for a rate increase or limited proceeding. Of course, our goal is to not do that, but there is a provision consistent with the agreement that would make that open to us, but we have talked with the consumer parties and we're going to continue to be transparent and keep them aware of where we are and before -- we will not make any sudden moves without letting people know what's going on.

COMMISSIONER CLARK: Great. Thank you.

MR. MOYLE: Can I comment on that, as well? I mean, I didn't intend to head down this path, but the opening statement raised at -- your question raised it. I think it's important, at least for the perspective of the consumers, to be heard on this point in that -- you know, when we settle a case there's a lot of give and take, and the provision is in there. We appreciate what TECO is saying, which is we're going to stick to the deal. A deal is a deal and that's meaningful because otherwise if -- you know, you're giving up something and all of a sudden you think you're getting a stay-out for this amount of time and it's half of that amount of time, that's not making you feel like, oh, that was a good deal. Not casting any aspersions, because there is a provision in the agreement, but, you know, I think if you went back and looked at the history of regulation in the State of Florida, you know, we hope they stay within the range, but if a company goes below the range, you know, if they aren't earning nine percent, rather than 9.25 percent, you know, that's not the first time that will have happened. And a lot of people would say, you know, nine percent ain't all bad, eight-and-a-half ain't all bad, eight percent isn't bad and, you know, we don't view it as an automatic boom, oh, we got to come in and get more money from ratepayers.

So I don't know whether we're going to be having this conversation in a more formal way. I think we all hope not because have managed to resolve a number of things through discussions and settlement with TECO including the case here before you today, but, you know, just want to make that point. Don't want there to be any kind of foreshadowing that, you know, in some way there's a magic bottom line and if you go just below that then you're back in for rates.

So I think Tampa Electric with the new company that bought them, the Canadian company, has been good to deal with on this, but this is really important to the ratepayers that the federal tax savings, you know, that a lot of people have talked about and held up that they're coming back to the ratepayers and I think anything that dilutes that or obfuscates that or taints it is probably not going to be well-received by not only the FIPUG members, but all of the consumers throughout the state who would otherwise realize those tax savings, who may not be getting it completely.

COMMISSIONER CLARK: Thank you.

CHAIRMAN GRAHAM: Mr. Moyle, I have to agree with you. I am -- that range is always plus or minus one percent, and since I've been here it's been more on the plus side. So going on the minus side it's not, once again, outside of the range. And this was foreseeable because if it wasn't foreseeable it wouldn't have been in the agreement. So there is really no surprise here by anybody.

I applaud all of the groups for getting together and actually come with the first agreement in the first place and was forethinking enough to come up with a solution for this. And I thank the prehearing officer for shortening my hearing from one week to under an hour.

COMMISSIONER BROWN: Not mine.

CHAIRMAN GRAHAM: But I -- there's no more lights and no more questions, I guess we'll entertain a motion.

COMMISSIONER BROWN: Mr. Chairman, with your pleasure, I would move to approve the stipulations on Issues 1 through 14, which are listed on pages 9 through 14 of the prehearing order.

COMMISSIONER GRAHAM: It's been moved and seconded. Any further discussion on the motion?

(No comments made.)

COMMISSIONER GRAHAM: Seeing none, all in favor say, aye.

(Chorus of ayes.)

COMMISSIONER GRAHAM: Any opposed?

(No comments made.)

COMMISSIONER GRAHAM: By action you've approved the motion.

Staff, is there any other matters to come before us in this docket?

MS. BROWNLESS: No, sir. I know of no other matters. And since the Commission has made a bench decision, post-hearing filings are not necessary.

The final order will be issued by

September 10th, 2018.

CHAIRMAN GRAHAM: Do the parties have any final comments?

MR. WAHLEN: Just thank you.

MR. MOYLE: Appreciate it.

MS. PONDER: Thank you.

CHAIRMAN GRAHAM: I want to thank you guys very much. Seeing there's no other issues, this resolves this docket and I think we're adjourned.

It's raining outside so everybody please travel safe and I will see you next week.

(Whereupon, proceedings concluded at 1:30 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DANA W. REEVES, Professional Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 29th day of August, 2018.

Dana Reeves

____

DANA W. REEVES
NOTARY PUBLIC
COMMISSION #FF968527
EXPIRES MARCH 22, 2020