DUKE ENERGY
FLORIDA

Dianne M. Triplett
DEPUTY GENERAL COUNSEL

November 2, 2018

VIA ELECTRONIC FILING

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

Re: *Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Duke Energy Florida, LLC;* Docket No. 20180047-EI

Dear Ms. Stauffer:

Enclosed for filing in the above-subject Docket is a Joint Motion by Duke Energy Florida, LLC, and Citizens of Florida Through Office of Public Counsel to Approve Stipulated Positions and Suspend Procedural Dates.

Thank you for your assistance in this matter. Please feel free to call me at (727) 820-4692 should you have any questions concerning this filing.

Sincerely,

/s/ Dianne M. Triplett

Dianne M. Triplett

DMT/cmk
Enclosure

299 First Avenue North (33701) ▪ Post Office Box 14042 (33733) ▪ St. Petersburg, Florida
Phone: 727.820.4692 ▪ Fax: 727.820.5041 ▪ Email: dianne.triplett@duke-energy.com

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Duke Energy Florida, LLC.	Docket No. 20180047-EI Dated: November 2, 2018

JOINT MOTION BY DUKE ENERGY FLORIDA, LLC, AND CITIZENS OF FLORIDA THROUGH OFFICE OF PUBLIC COUNSEL TO APPROVE STIPULATED POSITIONS AND SUSPEND PROCEDURAL DATES

Duke Energy Florida, LLC, ("DEF") and the Citizens of Florida through the Office of Public Counsel ("OPC") (collectively the "Joint Movants"), pursuant to Rule 28-106.204, Florida Administrative Code, hereby move the Commission to approve the Stipulated Positions (the "Stipulations") attached hereto as Exhibit "A" and made a part hereof, and suspend the procedural dates set forth in the Order Establishing Procedure, Order No. PSC-2018-0210-PCO-EI, as amended by Order Nos. PSC-2018-0279-PCO-EI and PSC-2018-0447-PCO-EI (collectively "Orders Establishing Procedure"). The proposed Stipulations will resolve all issues in this docket and implement specific provisions regarding tax reform contained in the 2017 Second Revised and Restated Settlement Agreement (2017 Agreement) and Implementation Stipulation approved by the Commission in Order Nos. PSC-2017-0451-AS-EU and PSC-2018-0103-PCO-EI, respectively. In support of this Motion, the Joint Movants state:

1. The Commission opened this docket to consider the impacts of the Tax Cuts and Jobs Act ("Tax Act") on DEF. After engaging in discovery, OPC and DEF have agreed upon the Stipulations, which would resolve all issues in this proceeding. The other parties to this proceeding, the Florida Industrial Power Users Group ("FIPUG"), the Florida Retail Federation ("FRF") and PCS Phosphate d/b/a White Springs ("PCS Phosphate") take no position on the Stipulations, but do not object to the Commission's approval of the Stipulations.

2. Each of the parties to this proceeding waives their right to conduct cross examination of any witnesses, and agrees that the hearing and other procedural dates set forth in the Orders Establishing Procedure can and should be suspended because a full evidentiary hearing would be unnecessary, given the status of the Stipulations. Accordingly, the Joint Movants request that the procedural dates set forth in the Orders Establishing Procedure be suspended. The Joint Movants also respectfully request that the Commission consider these Stipulations for approval at an Agenda Conference before the hearing that is currently scheduled for January 2019.

3. The Joint Movants have conferred, pursuant to Rule 28-106.204(3), with the other parties in the docket, and are authorized to represent that FIPUG, FRF, and PCS Phosphate do not object to this Motion.

4. The Joint Movants expressly consent to having the undersigned sign this Motion on their behalf.

WHEREFORE, the Joint Movants respectfully request that the Commission approve the Stipulations, attached as Exhibit "A," and suspend the procedural dates set forth in the Orders Establishing Procedure.

Respectfully submitted this 2nd day of November, 2018.

/s/ Dianne M. Triplett
Dianne M. Triplett

DUKE ENERGY FLORIDA, LLC

DIANNE M. TRIPLETT
Deputy General Counsel
299 First Avenue North
St. Petersburg, FL 33701
T: 727. 820.4692; F: 727.820.5041
E: Dianne.Triplett@Duke-Energy.com

MATTHEW R. BERNIER
Associate General Counsel
106 E. College Avenue, Suite 800
Tallahassee, FL 32301
T: 850.521.1428; F: 727.820.5041
E: Matthew.Bernier@Duke-Energy.com

OFFICE OF PUBLIC COUNSEL

J.R. KELLY
Public Counsel
CHARLES J. REHWINKEL
Deputy Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
kelly.jr@leg.state.fl.us
rehwinkel.charles@leg.state.fl.us

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 2nd day of November, 2018.

/s/ Dianne M. Triplett
Attorney

Adria Harper / Margo DuVal Office of General Counsel Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850 aharper@psc.state.fl.us mduval@psc.state.fl.us Charles J. Rehwinkel / J.R. Kelly Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, Room 812 Tallahassee, FL 32399 kelly.jr@leg.state.fl.us rehwinkel.charles@leg.state.fl.us	Jon C. Moyle, Jr. / Karen A. Putnal Moyle Law Firm, P.A. 118 North Gadsden Street Tallahassee, FL 32301 jmoyle@moylelaw.com kputnal@moylelaw.com Robert S. Wright / John T. LaVia, III Gardner Law Firm 1300 Thomaswood Drive Tallahassee, FL 32308 jlavia@gbwlegal.com schef@gbwlegal.com James Brew / Laura Wynn Stone Law Firm 1025 Thomas Jefferson St., N.W., Ste. 800 W Washington, D.C. 20007 jbrew@smxblaw.com law@smxblaw.com

EXHIBIT A

STIPULATION LANGUAGE – DOCKET 20180047

ISSUE 1: Has DEF complied with the applicable provisions of its 2017 Second Revised and Restated Settlement Agreement (2017 Agreement) and Implementation Stipulation regarding Tax Cuts and Jobs Act of 2017 (TCJA)?

STIPULATION: Yes, as detailed below.

ISSUE 1a: Was DEF's "forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective" used?

STIPULATION: Yes. The Company properly used the 2018 Forecasted Earnings Surveillance Report as filed on March 15, 2018 to compute the annual revenue requirement impact associated with the TCJA in accordance with the 2017 Agreement.

ISSUE 1b: Were "protected" excess accumulated deferred income taxes (ADIT) for 2018 using a 21 percent federal corporate tax rate appropriately calculated and flowed back?

STIPULATION: Yes. The amount of "protected" excess ADIT as of December 31, 2017 was estimated to be $560.5 million. "Protected" excess ADIT amounts were properly reflected in the calculation of 2018 income tax expense using the average rate assumption method (ARAM) in accordance with the Internal Revenue Code and the 2017 Agreement.

ISSUE 1c: What were the "protected" ADIT for 2018 using a 35 percent federal corporate tax rate?

STIPULATION: Total Protected ADIT for 2018 using a 35 percent federal corporate tax rate is $1,768,801,034.

ISSUE 1d: Were "unprotected" excess ADIT for 2018 using a 21 percent federal corporate tax rate appropriately calculated and flowed back?

STIPULATION: Yes. Book-tax differences not covered by "protected" normalization rules were properly considered to be "unprotected". The amount of "unprotected" excess ADIT as of December 31, 2017 was estimated to be $248.5 million. Excess "unprotected" ADIT were properly reflected in the calculation of 2018 income tax expense over a ten-year flow back period in accordance with the 2017 Agreement.

<u>ISSUE 1e</u>: What were the "unprotected" ADIT for 2018 using a 35 percent federal corporate tax rate?

STIPULATION: Total Unprotected ADIT for 2018 using a 35 percent federal corporate tax rate is $1,020,458,892.

<u>ISSUE 1f</u>: Were ADIT appropriately calculated?

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

DEF's calculation of excess ADIT is an estimate at this time. DEF will calculate the actual amount of excess ADIT as of December 2017 in December 2018 based on the 2017 filed tax return that was filed in September 2018. DEF will submit the actual excess ADIT and amortization amounts in December 2018 and will true-up these amounts retroactive to January 2018.

<u>ISSUE 1g</u>: Are DEF's calculations and classifications of the excess ADIT between "protected" and "unprotected" appropriate?

STIPULATION: Yes, DEF's classifications of excess ADIT between "protected" and "unprotected" are appropriate.

<u>ISSUE 1h</u>: Should DEF seek a private letter ruling from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as primarily "protected" ?

STIPULATION: Yes. DEF does not object to seeking a PLR from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as primarily protected.

<u>ISSUE 1i</u>: If DEF seeks a private letter ruling and the IRS rules therein (or in another private letter ruling) that the excess ADIT relating to cost of removal/negative net salvage is to be treated as "unprotected", what process should be followed for the reclassification?

STIPULATION: If DEF receives a private letter ruling ("PLR") from the IRS ruling that the excess ADIT relating to cost of removal/negative net salvage is to be treated entirely as unprotected, then a reclassification should be made in the company's books and records and flow-back amounts should be trued up retroactive to January 2018 based on the ruling.

<u>ISSUE 1j</u>: Were appropriate adjustments made to the Citrus CC GBRA for the impact of the TCJA for the tax year 2018?

STIPULATION: Yes. In accordance with the 2017 Agreement, for 2018 the Company adjusted its cost recovery request for the Citrus CC GBRA in Docket No. 20180084-EI to reflect lower revenue requirements as a result of the TCJA.

<u>ISSUE 2</u>: What is the appropriate amount of amortization for 2018 of "protected" excess ADIT?

STIPULATION: Amortization of the "protected" excess ADIT under ARAM is estimated to be $27.0 million, calculated by applying the 4.82% ARAM rate to the estimated balance of protected excess ADIT of $560.5 million. This amount is subject to true-up as explained in Issues 1f and 1i.

<u>ISSUE 3</u>: What is the appropriate amount of annual amortization of "unprotected" excess ADIT?

STIPULATION: Amortization of the "unprotected" excess ADIT over a ten year period is $24.9 million, calculated by dividing the "unprotected" excess ADIT balance of $248.5 million by 10 years. This amount is subject to true-up as explained in Issues 1f and 1i.

<u>ISSUE 4</u>: What is the revenue requirement impact of the amortization of excess ADIT?

STIPULATION: The total amortization of excess ADIT is estimated to be $51.9 million. After removing the wholesale portion of 3.73%, the retail amortization is $49.9 million, and the application of the 0.74655 tax gross-up factor results in a revenue requirement of $66.9 million

<u>ISSUE 5</u>: What is the amount of tax savings under the TCJA based on the 2018 forecasted earnings surveillance report?

STIPULATION: The tax savings calculated in accordance with the template in Exhibit 6 to the 2017 Agreement, based on the 2018 forecasted earning surveillance report, are $100.1 million. Exhibit 6 calculates the difference between income tax expense at the 35 percent federal tax rate and income tax at the 21 percent federal tax rate. With respect to DEF's capital structure, the excess ADIT regulatory liability has been included in the ADIT row on Schedule 3 ("Average - Capital Structure") of DEF's 2018 forecasted earnings surveillance report, and the first year excess ADIT amortization has been reflected. As the excess ADIT is amortized, DEF's debt and equity ratios increase, thereby resulting in a higher weighted average cost of capital (all other things being equal) as compared to the weighted average cost of capital absent tax reform, and this differential will likely grow each year as excess ADIT is amortized.

ISSUE 6: What is the revenue requirement impact of the tax savings that were calculated based on the 2018 Forecasted Earnings Surveillance report?

STIPULATION: The tax savings are $100.1 million, and the application of the 0.74655 tax gross-up factor results in a revenue requirement of $134.1 million.

ISSUE 7: What is the appropriate amount of tax savings to apply to accelerated depreciation of Crystal River coal units 4&5 (CR4&5) per the 2017 Agreement?

STIPULATION: The appropriate amount of accelerated depreciation of CR4&5 is $50 million. The 2017 Agreement provides for an amount of CR4&5 accelerated depreciation equal to the lesser of 40% of the revenue requirement impact of the TCJA based on the 2018 forecast earnings surveillance report or $50 million. The revenue requirement impact of the TCJA in the 2018 forecasted earnings surveillance report is $134.1 million, and 40% of this amount is $53.6 million. Therefore, the appropriate amount of accelerated depreciation of CR4&5 is $50 million.

ISSUE 8: What is the total amount of annual revenue requirement decrease/increase due to the enactment of the TCJA for the tax year 2018?

STIPULATION: The revenue requirement decrease due to the enactment of the TCJA for the tax year 2018 is estimated to be $150.9 million, made up of the revenue requirement impact of the TCJA based on the 2018 Forecasted Earnings Surveillance Report of $84.1 million (after removing the $50 million accelerated depreciation of CR4&5) and the estimated revenue requirement on the amortization of excess ADIT of $66.8 million. This amount is subject to true-up as explained in Issues 1f and 1i.

ISSUE 9: What is the amount of the 2018 annual revenue requirement decrease attributable to the TCJA that should be used in Docket No. 20170272-EI to recover the storm costs?

STIPULATION: The estimated $150.9 million annual revenue requirement impact should be used in Docket No. 20170272-EI to recover the storm costs. This amount is subject to true-up as explained in Issues 1f and 1i.

<u>ISSUE 10</u>: What are the appropriate base rate charges implementing the TCJA and when should the new base rate charges become effective?

STIPULATION: Pursuant to the 2017 Agreement and the Implementation Stipulation, a one-time rate reduction should be accomplished via a uniform percentage decrease to customer, demand and energy base rate charges, excluding delivery voltage credits, for all retail customer classes, effective concurrent with the first billing cycle after the storm costs authorized for recovery in docket no. 20170272 have been fully recovered as contemplated by the Implementation Stipulation. This rate reduction is currently an estimate of $150.9 million, but it will be subject to true-up upon DEF's filing of the final amount of excess ADIT amortization as explained in Issues 1f and 1i. DEF will submit revised tariff sheets for Staff's administrative approval at least sixty days prior to the effective date of this base rate decrease.

<u>ISSUE 11</u>: Should this docket be closed?

STIPULATION: This docket should remain open to consider feedback from the IRS through the PLR regarding whether the treatment of excess ADIT relating to the cost of removal/negative net salvage as unprotected is appropriate and until all true-ups and offsets are fully implemented pursuant to the 2017 Agreement and the Implementation Stipulation.