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DEPUTY GENERAL COUNSEL

August 21, 2019

VIA ELECTRONIC DELIVERY

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

Re: Docket No. 20190001-EI
Docket No. 20190002-EG
Docket No. 20190007-EI

Dear Mr. Teitzman:

Please find enclosed for filing in the above-referenced Dockets the following:

- Unopposed Joint Motion to Modify Order No. PSC-2012-0425-PAA-EU Regarding Weighted Average Cost of Capital Methodology; and
- Exhibit A.

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.

Respectfully,

/s/ Dianne M. Triplett

Dianne M. Triplett

DMT/cmck
Enclosure

cc: Parties of Record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

DOCKET NO. 20190001-EI

In re: Energy conservation cost recovery clause.

DOCKET NO. 20190002-EG

In re: Environmental cost recovery clause.

DOCKET NO. 20190007-EI

Filed: August 21, 2019

UNOPPOSED JOINT MOTION TO MODIFY ORDER NO. PSC-2012-0425-PAA-EU REGARDING WEIGHTED AVERAGE COST OF CAPITAL METHODOLOGY

Duke Energy Florida, LLC (“DEF”), Florida Power & Light Company (“FPL”), Gulf Power Company (“Gulf”), Tampa Electric Company (“Tampa Electric”), and Florida Public Utilities Company (“FPUC”) (collectively, “the IOUs”), pursuant to Rule 28-106.204, Florida Administrative Code, hereby file this Unopposed Joint Motion for the Florida Public Service Commission (“FPSC” or “Commission”) to approve modifications to Order No. PSC-2012-0425-PAA-EU (the “Order”) in which the Commission approved a stipulation and settlement agreement entered into by the IOUs, the Office of Public Counsel (“OPC”), and the Florida Industrial Power Users Group (“FIPUG”) to specify the methodology for calculating the weighted average cost of capital (“WACC”) applicable to clause-recoverable investments. Specifically, the IOUs propose a methodology to comply with the Internal Revenue Code (“IRC”) Treasury Regulation Section §1.167(1)-1(h)(6) which requires public utilities to apply Normalization by utilizing a consistency adjustment and proration formula to compute the depreciation-related Accumulated Deferred Federal Income Tax (“ADFIT”) balance to be included for ratemaking purposes when a forecasted test period is utilized to set rates unless the Limitation Provision is met or exceeded. The IOUs

maintain that the modifications proposed herein are in the public interest because the modified methodology will accurately align current costs with cost recovery while enabling compliance to IRC Treasury Regulation Section §1.167(1)-1(h)(6). In support of this Unopposed Joint Motion, the IOUs state as follows:

1. On August 16, 2012, the Commission issued Order No. PSC-2012-0425-PAA-EU approving a stipulation and settlement agreement entered into by the IOUs, OPC, and FIPUG to specify the methodology for calculating the WACC applicable to clause-recoverable investments. A timeline example of the methodology was provided with the stipulation and settlement agreement, as follows:

(a) For the Projection Filing, use the May Earnings Surveillance Report (“ESR”) WACC for the calendar year in which the filing is made.

(b) For the Actual/Estimated True-up Filing, use the May ESR WACC from the prior calendar year for January-June of the year being trued-up, and the current calendar year May ESR WACC for July -December of the year being trued-up.

(c) For the Final True-up Filing regarding a particular calendar year, use the same WACCs that were used for the Actual/Estimated True-up Filing regarding that same particular calendar year.

(d) In the event that a base rate decision is rendered by the Commission subsequent to the period captured by the relevant May ESR, then the Commission's decision on the cost of capital and capital structure as reflected in the order implementing the base rate decision will supersede the actuals used in the May ESR from the effective date of the Order, until the next actual May ESR.

2. The Order also reaffirmed that questions regarding the appropriate capital structure and return on equity should be the subject of a proceeding other than clause proceedings.

3. The Internal Revenue Service (“IRS”) issued Private Letter Rulings (“PLR”) on October 3, 2017 and August 11, 2017 regarding IRS Normalization Rules. These PLRs state that the IRC Treasury Regulation Section §1.167(1)-1(h)(6)(ii) requires public utilities to apply Normalization by utilizing a consistency adjustment and proration formula to compute the depreciation-related ADFIT balance to be included for ratemaking purposes when a forecasted test period is utilized to set rates unless the Limitation Provision is met or exceeded. The Limitation Provision in Treasury Regulation Section §1.167(1)-1(h)(6)(i) states that as long as the amount of depreciation-related ADFIT used in ratemaking is lower than the amount that would have been used under the Consistency Rule, then there is no violation of Normalization. The purpose of the IRS Normalization Rules is to preserve for regulated utilities the benefits of accelerated depreciation as a source of cost-free capital. Further, the purpose of both the Consistency Rule and the Proration Formula is to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers.

4. The PLRs go on to state that the Consistency Rule, Code Section 168(i)(9)(B), provides that “...one way the Normalization Rules are not satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which uses an estimate or projection of tax expense, depreciation expense, or a reserve for deferred taxes unless such estimate or projection is also used with respect to the other two items and with respect to rate base.” Therefore, if an IOU uses an estimate or projection of tax expense, depreciation expense, or a reserve for deferred taxes, the IOU would also use a consistent time period for rate base so long as the Limitation Provision is not met.

5. Treasury Regulation Section §1.167(1)-1(h)(6)(ii) provides that if solely a future period is used for such determination, the limit on the amount of depreciation-related ADFIT for the period is the amount at the beginning of the future period with a pro rata adjustment for any increases or decreases during that period. There is a specific “Proration Formula” that must be applied to project changes in depreciation-related ADFIT so long as the Limitation Provision is not met. The Proration Requirement is as follows:

The pro rata portion of any increase to be credited or decrease to be charged during a future period...shall be determined by multiplying any such increase or decrease by a fraction, the numerator of which is the number of days remaining in the period at the time such increase or decrease is to be accrued, and the denominator of which is the total number of days in the period.

6. A potential inconsistency exists between the Order and the IRS regulations in that the Order is prescriptive regarding the time period of the WACC that will be applied to clause investments, which does not allow for the modifications required to avoid a Normalization violation if the Limitation Provision is not met.

7. To address the potential inconsistency between the Order and the IRS regulations, the IOUs propose that Order No. PSC-2012-0425-PAA-EU be modified beginning with the 2020 projections cycle of clause-recoverable expenses. The existing methodology as outlined above in Paragraph 1, will be applied if the Limitation Provision is met or exceeded. The Limitation Provision is met or exceeded if the actual ADFIT balance for the current period is less than or equal to the ADFIT projected for the future period in which the new rates would take effect. The determination of whether each IOU meets or exceeds the Limitation Provision for each clause projection filing will be documented and available for review by the Commission and interveners as needed.

8. In the event the Limitation Provision in Treasury Regulation Section §1.167(l)-1(h)(6)(i) is not met, the following alternative WACC methodology for use to calculate a return in the cost recovery clauses would be utilized (as further demonstrated in the example calculation attached as Exhibit A to this Unopposed Joint Motion):

(a) For the Projection Filing, use the mid-point return on equity (“ROE”) WACC calculation from the Forecasted Earnings Surveillance Report (“FESR”) for the calendar year in which the filing is made (e.g., for the 2020 Projection which is made in August/September of 2019, the 2019 FESR would be used; for the 2021 Projection which is made in August/September of 2020, the 2020 FESR would be used, and so on), except that an adjustment must be made to the ADFIT balance included in capital structure to reflect depreciation-related ADFIT which is consistent with the time period of the projection filing and to reflect depreciation-related ADFIT using the Proration Formula prescribed by Treasury Regulation Section §1.167(l)-1(h)(6)(i).

(b) For the Actual/Estimated True-up Filing, use the mid-point ROE WACC calculation from the current year FESR (e.g., for the 2021 Actual/Estimated True-up Filing which is made in August/September 2021, the 2021 FESR would be used; for the 2022 Actual/Estimated filing which is made in August/September 2022, the 2022 FESR would be used; and so on). The Proration Formula adjustment included in the mid-point ROE WACC calculation must be carried forward from the Projection Filing into the Actual/Estimated True-up Filing, except that if the depreciation-related ADFIT balance in the Projection Filing was over-estimated, the Proration Formula adjustment must be reduced to reflect the difference between the originally projected and prorated depreciation-related ADFIT balance and the re-projected depreciation-related ADFIT balance. The resulting mid-point ROE WACC calculation will be used to calculate a monthly return on clause investments on the books and records of the utility consistent with this methodology.

(c) For the Final True-up Filing regarding a particular calendar year, use the actual December ESR mid-point ROE WACC calculation of the year being trued-up. The Proration Formula adjustment included in the mid-point ROE WACC calculation must be carried forward from the Projection Filing into the Final True-up Filing, except that if the depreciation-related ADFIT balance in the Projection Filing was over-estimated, the Proration Formula adjustment must be reduced to reflect the difference between the originally projected and prorated depreciation-related ADFIT balance and the final depreciation-related ADFIT balance. The resulting mid-point ROE WACC calculation will be used to calculate a monthly return on clause investments on the books and records of the utility consistent with this methodology.

9. The proposed modifications will avoid the potential inconsistency described above, thereby enabling the IOUs to remain in compliance with the Normalization provisions of the IRS Treasury Regulations.

10. Pursuant to Rule 28-106.204(3), the IOUs have conferred with all parties to these proceedings and can confirm that the Office of Public Counsel and FIPUG (the signatories to the original stipulation and settlement agreement) and Commission Staff take no position on the motion. By the time of the filing of this motion, the IOUs did not receive a position from PCS Phosphate or SACE.

WHEREFORE, for the reasons stated herein, the IOUs respectfully request that the Commission approve the above-described proposed modifications to the methodology for calculating the WACC applicable to clause-recoverable investments set forth in Order No. PSC-2012-0425-PAA-EU.

Respectfully submitted this 21st day of August, 2019.

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BY: /s/ Beth Keating

CERTIFICATE OF SERVICE – Dkt. Nos. 20190001-EI, 20190002-EG, 20190007-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 21st day of August, 2019.

/s/ Dianne M. Triplett

Attorney

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

DOCKET NO. 20190001-EI

In re: Energy conservation cost recovery clause.

DOCKET NO. 20190002-EG

In re: Environmental cost recovery clause.

DOCKET NO. 20190007-EI

Filed: August 20, 2019

**UNOPPOSED JOINT MOTION TO MODIFY ORDER NO. PSC-2012-0425-PAA-EU
REGARDING WEIGHTED AVERAGE COST OF CAPITAL METHODOLOGY**

EXHIBIT A

Example for computing ADFIT balance when proration is applied and ADFIT balance is under-estimated

2019 Clause Projection Filing										
2018 Forecasted Surveillance as Filed in early 2018 (13-month average)										
	Sys Per Book	Retail Per Book	Pro Rata Adj	Specific Adj.	Adj'd Retail	Cap Ratio	Cost Rate	Weighted Cost		
Common Equity	5,891,599,748	5,323,070,556	(707,195,732)	617,119,403	5,232,994,227	44.13%	10.50%	4.63%		
Long Term Debt	5,921,942,306	5,350,485,110	(710,837,889)		4,639,647,221	39.12%	4.70%	1.84%		
Short Term Debt	(83,297,529)	(75,259,461)	9,998,584		(65,260,877)	-0.55%	0.37%	0.00%		
Cust Dep Active	207,308,055	207,308,055	(27,541,880)		179,766,175	1.52%	2.36%	0.04%		
Cust Dep InActive	1,871,004	1,871,004	(248,572)		1,622,432	0.01%				
Invest Tax Cr	21,626,622	19,539,690	(2,595,943)		16,943,748	0.14%	7.77%	0.01%		
Deferred Inc Tax	2,746,202,103	2,481,198,347	(329,639,231)	(297,398,236)	1,854,160,880	15.63%				
Total	14,707,252,309	13,308,213,301	(1,768,060,662)	319,721,167	11,859,873,806	100.00%		6.52%		
							pretax WACC	8.08%		
2018 Forecasted Surveillance with ADFIT Consistency and Proration Adjustments										
	System Per Sys Per Book	Consistency & Proration Adj.	System Per Books Adj'd	Retail Per Books	Pro Rata Adj	Specific Adj	Adjusted Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	5,891,599,748	(24,478,038)	5,867,121,710	5,300,988,543	(704,262,030)	617,119,403	5,213,845,916	43.97%	10.50%	4.62%
Long Term Debt	5,921,942,306	(24,604,103)	5,897,338,203	5,328,289,371	(707,889,077)		4,620,400,294	38.96%	4.70%	1.83%
Short Term Debt	(83,297,529)	346,079	(82,951,450)	(74,947,258)	9,957,107		(64,990,151)	-0.55%	0.37%	0.00%
Cust Dep Active	207,308,055	(861,310)	206,446,745	206,446,745	(27,427,451)		179,019,294	1.51%	2.36%	0.04%
Cust Dep InActive	1,871,004	(7,774)	1,863,230	1,863,230	(247,539)		1,615,691	0.01%		
Invest Tax Cr	21,626,622	(89,853)	21,536,769	19,458,633	(2,585,174)		16,873,459	0.14%	7.77%	0.01%
Deferred Inc Tax	2,746,202,103	49,694,999	2,795,897,102	2,526,114,036	(335,606,498)	(297,398,236)	1,893,109,303	15.96%		
Total	14,707,252,309	-	14,707,252,309	13,308,213,301	(1,768,060,662)	319,721,167	11,859,873,806	100.00%		6.50%
								pretax WACC	8.06%	
Proration Adjustment and Consistency Adjustment to Reflect Projected ADFIT Consistent with Projection Year										
	Month	ADIT Bal	Deprec-Related ADFIT Bal *	Deprec-Related ADFIT Activity	Days to Prorate	Future Days in Period	Prorated Deprec-Related ADFIT Activity	Prorated Deprec-Related ADFIT Bal		
	Dec-18	2,759,647,299	2,759,647,299					2,759,647,299		
projected	Jan-19	2,764,693,365	2,764,693,365	5,046,066	31	335	4,631,321	2,764,278,619		
projected	Feb-19	2,767,835,179	2,767,835,179	3,141,814	28	307	2,642,567	2,766,921,186		
projected	Mar-19	2,772,682,410	2,772,682,410	4,847,231	31	276	3,665,303	2,770,586,490		
projected	Apr-19	2,779,530,453	2,779,530,453	6,848,043	30	246	4,615,393	2,775,201,883		
projected	May-19	2,787,033,347	2,787,033,347	7,502,895	31	215	4,419,513	2,779,621,396		
projected	Jun-19	2,795,928,416	2,795,928,416	8,895,069	30	185	4,508,460	2,784,129,856		
projected	Jul-19	2,805,768,431	2,805,768,431	9,840,014	31	154	4,151,677	2,788,281,533		
projected	Aug-19	2,815,547,642	2,815,547,642	9,779,211	31	123	3,295,460	2,791,576,994		
projected	Sep-19	2,825,287,877	2,825,287,877	9,740,235	30	93	2,481,759	2,794,058,752		
projected	Oct-19	2,833,521,418	2,833,521,418	8,233,541	31	62	1,398,574	2,795,457,326		
projected	Nov-19	2,838,362,139	2,838,362,139	4,840,720	30	32	424,392	2,795,881,718		
projected	Dec-19	2,843,977,160	2,843,977,160	5,615,021	31	1	15,384	2,795,897,102		
		<u>2,799,216,549</u>	<u>2,799,216,549</u>	<u>84,329,861</u>	<u>365</u>		<u>36,249,803</u>	<u>2,795,897,102</u>		
2018 Forecasted Surv Bal.		<u>2,746,202,103</u>	<u>2,746,202,103</u>				13 Mo Avg Bal	<u>2,799,216,549</u>		
Consistency Adjustment		53,014,446	53,014,446				Proration Adj	<u>(3,319,447)</u>		
Proration Adjustment			<u>(3,319,447)</u>							
Total Adjustment			<u>49,694,999</u>							
* Assumes deprec-related ADFIT equals total ADIT for simplicity purposes. Tax Normalization only applies to deprec-related ADFIT which will be different from total ADIT.										

Example for computing ADFIT balance when proration is applied and ADFIT balance is under-estimated

2019 Preliminary True-Up Filing - Under-Estimated ADFIT										
2019 Forecasted Surveillance as Filed in early 2019 (13-month average)										
	Sys Per Book	Retail Per Book	Pro Rata Adj	Specific Adj.	Adj'd Retail	Cap Ratio	Cost Rate	Weighted Cost		
Common Equity	6,009,431,743	5,429,990,246	(718,396,171)	586,263,433	5,297,857,508	43.80%	10.50%	4.60%		
Long Term Debt	6,040,381,152	5,457,955,451	(722,096,011)		4,735,859,440	39.15%	4.70%	1.84%		
Short Term Debt	(84,963,480)	(76,771,130)	10,156,940		(66,614,190)	-0.55%	0.37%	0.00%		
Cust Dep Active	211,454,216	211,454,216	(27,975,722)		183,478,494	1.52%	2.36%	0.04%		
Cust Dep InActive	1,908,424	1,908,424	(252,487)		1,655,937	0.01%				
Invest Tax Cr	22,059,154	19,932,166	(2,637,057)		17,295,110	0.14%	7.77%	0.01%		
Deferred Inc Tax	2,799,878,068	2,529,908,193	(334,710,796)	(267,658,412)	1,927,538,984	15.93%				
Total	15,000,149,278	13,574,377,567	(1,795,911,305)	318,605,020	12,097,071,282	100.00%		6.49%		
							pretax WACC	8.04%		
2019 Forecasted Surveillance with ADFIT Proration Adjustment										
	System Per Books	Proration Adj.	System Per Books Adj'd	Retail Per Books	Pro Rata Adj	Specific Adj	Adjusted Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	6,009,431,743	1,635,045	6,011,066,788	5,431,465,361	(718,591,331)	586,263,433	5,299,137,463	43.81%	10.50%	4.60%
Long Term Debt	6,040,381,152	1,643,466	6,042,024,618	5,459,438,163	(722,292,177)		4,737,145,987	39.16%	4.70%	1.84%
Short Term Debt	(84,963,480)	(23,117)	(84,986,596)	(76,791,986)	10,159,699		(66,632,286)	-0.55%	0.37%	0.00%
Cust Dep Active	211,454,216	57,532	211,511,749	211,511,749	(27,983,334)		183,528,415	1.52%	2.36%	0.04%
Cust Dep InActive	1,908,424	519	1,908,943	1,908,943	(252,556)		1,656,387	0.01%		
Invest Tax Cr	22,059,154	6,002	22,065,156	19,937,581	(2,637,773)		17,299,808	0.14%	7.77%	0.01%
Deferred Inc Tax*	2,799,878,068	(3,319,447)	2,796,558,621	2,526,907,755	(334,313,834)	(267,658,412)	1,924,935,509	15.91%		
Total	15,000,149,278	-	15,000,149,278	13,574,377,567	(1,795,911,305)	318,605,020	12,097,071,282	100.00%		6.49%
								pretax WACC	8.04%	
Proration Adjustment - Under-Estimated										
	Month	Deprec-Related ADFIT Bal*	Original Projected Deprec-Related ADFIT Activity	Actual/Projected Deprec-Related ADFIT Activity	Variance	Accumulated Change in Variance				
		2,759,647,299				-				
projected	Jan-19	2,764,647,299	5,046,066	5,000,000	(46,066)	(46,066)				
projected	Feb-19	2,767,647,299	3,141,814	3,000,000	(141,814)	(187,880)				
projected	Mar-19	2,772,647,299	4,847,231	5,000,000	152,769	(35,111)				
projected	Apr-19	2,779,647,299	6,848,043	7,000,000	151,957	116,846				
projected	May-19	2,787,647,299	7,502,895	8,000,000	497,105	613,951				
projected	Jun-19	2,796,647,299	8,895,069	9,000,000	104,931	718,883				
projected	Jul-19	2,806,647,299	9,840,014	10,000,000	159,986	878,868				
projected	Aug-19	2,816,647,299	9,779,211	10,000,000	220,789	1,099,657				
projected	Sep-19	2,826,647,299	9,740,235	10,000,000	259,765	1,359,421				
projected	Oct-19	2,834,647,299	8,233,541	8,000,000	(233,541)	1,125,880				
projected	Nov-19	2,839,647,299	4,840,720	5,000,000	159,280	1,285,160				
projected	Dec-19	2,845,647,299	5,615,021	6,000,000	384,979	1,670,139				
	13-Month Avg	2,799,878,068	84,329,861	86,000,000	1,670,139	661,519				
2019 Preliminary True-up Budget Variance			661,519							
Original 2019 Projected Prorated ADFIT			2,795,897,102							
2019 Actual/Estimated Allowable ADFIT			2,796,558,621							
2019 Actual/Estimated ADFIT			2,799,878,068							
Proration Adjustment for 2019 Preliminary True-up			(3,319,447)							

* Assumes deprec-related ADFIT equals total ADIT for simplicity purposes. Tax Normalization only applies to deprec-related ADFIT which will be different from total ADIT.

Example for computing ADFIT balance when proration is applied and ADFIT balance is under-estimated

2019 Final True-Up Filing - Under-Estimated ADFIT

2019 Actual Surveillance as Filed in February 2020 (13-month average) - [Note, assumes 2019 actual surveillance is same as 2019 forecasted surveillance for simplicity]

	Sys Per Book	Retail Per Book	Pro Rata Adj	Specific Adj.	Adj'd Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	6,009,431,743	5,429,880,083	(718,381,596)	586,263,433	5,297,761,919	43.79%	10.50%	4.60%
Long Term Debt	6,040,381,152	5,457,844,720	(722,081,362)		4,735,763,359	39.15%	4.70%	1.84%
Short Term Debt	(84,963,480)	(76,769,572)	10,156,734		(66,612,838)	-0.55%	0.37%	0.00%
Cust Dep Active	211,454,216	211,454,216	(27,975,722)		183,478,494	1.52%	2.36%	0.04%
Cust Dep InActive	1,908,424	1,908,424	(252,487)		1,655,937	0.01%		
Invest Tax Cr	22,059,154	19,931,762	(2,637,003)		17,294,759	0.14%	7.77%	0.01%
Deferred Inc Tax	2,800,178,068	2,530,127,934	(334,739,868)	(267,658,412)	1,927,729,653	15.94%		
Total	15,000,449,278	13,574,377,567	(1,795,911,305)	318,605,020	12,097,071,282	100.00%		6.49%

pretax WACC 8.04%

2019 Actual Surveillance with Proration Adjustment

	System Per Books	Consistency & Proration Adj.	System Per Books Adj'd	Retail Per Books	Pro Rata Adj	Specific Adj	Adjusted Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	6,009,431,743	1,635,045	6,011,066,788	5,323,156,879	(707,207,201)	617,119,403	5,233,069,082	44.13%	10.50%	4.63%
Long Term Debt	6,040,381,152	1,643,466	6,042,024,618	5,350,571,878	(710,849,416)		4,639,722,461	39.12%	4.70%	1.84%
Short Term Debt	(84,963,480)	(23,117)	(84,986,596)	(75,260,682)	9,998,746		(65,261,935)	-0.55%	0.37%	0.00%
Cust Dep Active	211,454,216	57,532	211,511,749	211,511,749	(28,100,361)		183,411,387	1.55%	2.36%	0.04%
Cust Dep InActive	1,908,424	519	1,908,943	1,908,943	(253,612)		1,655,331	0.01%		
Invest Tax Cr	22,059,154	6,002	22,065,156	19,540,007	(2,595,985)		16,944,023	0.14%	7.77%	0.01%
Deferred Inc Tax*	2,800,178,068	(3,319,447)	2,796,858,621	2,476,784,527	(329,052,833)	(297,398,236)	1,850,333,458	15.60%		
Total	15,000,449,278	-	15,000,449,278	13,308,213,301	(1,768,060,662)	319,721,167	11,859,873,806	100.00%		6.52%

pretax WACC 8.08%

Proration Adjustment - Under-Estimated

	Month	Deprec-Related ADFIT Bal*	Actual Deprec-Related ADFIT Activity	Accumulated Deprec-Related ADFIT Activity	Change in Variance
	Dec-18	2,759,647,299			-
actual	Jan-19	2,764,697,299	5,000,000	5,050,000	50,000
actual	Feb-19	2,767,747,299	3,000,000	3,050,000	50,000
actual	Mar-19	2,772,797,299	5,000,000	5,050,000	50,000
actual	Apr-19	2,779,847,299	7,000,000	7,050,000	50,000
actual	May-19	2,787,897,299	8,000,000	8,050,000	50,000
actual	Jun-19	2,796,947,299	9,000,000	9,050,000	50,000
actual	Jul-19	2,806,997,299	10,000,000	10,050,000	50,000
actual	Aug-19	2,817,047,299	10,000,000	10,050,000	50,000
actual	Sep-19	2,827,097,299	10,000,000	10,050,000	50,000
actual	Oct-19	2,835,147,299	8,000,000	8,050,000	50,000
actual	Nov-19	2,840,197,299	5,000,000	5,050,000	50,000
actual	Dec-19	2,846,247,299	6,000,000	6,050,000	50,000
		2,800,178,068	86,000,000	86,600,000	600,000

2019 Final True-up Budget Variance	300,000
2019 Actual/Estimated Allowable ADFIT	2,796,558,621
2019 Final Allowable ADFIT	2,796,858,621
2019 Actual ADFIT	2,800,178,068
Proration Adjustment for 2019 Final True-up	(3,319,447)

* Assumes deprec-related ADFIT equals total ADIT for simplicity purposes. Tax Normalization only applies to deprec-related ADFIT which will be different from total ADIT.

Example for computing ADFIT balance when proration is applied and ADFIT balance is over-estimated

2019 Clause Projection Filing										
2018 Forecasted Surveillance as Filed (13-month average)										
	Sys Per Book	Retail Per Book	Pro Rata Adj	Specific Adj.	Adj'd Retail	Cap Ratio	Cost Rate	Weighted Cost		
Common Equity	5,891,599,748	5,323,070,556	(707,195,732)	617,119,403	5,232,994,227	44.13%	10.50%	4.63%		
Long Term Debt	5,921,942,306	5,350,485,110	(710,837,889)		4,639,647,221	39.12%	4.70%	1.84%		
Short Term Debt	(83,297,529)	(75,259,461)	9,998,584		(65,260,877)	-0.55%	0.37%	0.00%		
Cust Dep Active	207,308,055	207,308,055	(27,541,880)		179,766,175	1.52%	2.36%	0.04%		
Cust Dep InActive	1,871,004	1,871,004	(248,572)		1,622,432	0.01%				
Invest Tax Cr	21,626,622	19,539,690	(2,595,943)		16,943,748	0.14%	7.77%	0.01%		
Deferred Inc Tax	2,746,202,103	2,481,198,347	(329,639,231)	(297,398,236)	1,854,160,880	15.63%				
Total	14,707,252,309	13,308,213,301	(1,768,060,662)	319,721,167	11,859,873,806	100.00%		6.52%		
								pretax WACC 8.08%		
2018 Forecasted Surveillance with ADFIT Consistency and Proration Adjustments										
	System Per Sys Per Book	Consistency & Proration Adj.	System Per Books Adj'd	Retail Per Books	Pro Rata Adj	Specific Adj	Adjusted Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	5,891,599,748	(24,478,038)	5,867,121,710	5,300,988,543	(704,262,030)	617,119,403	5,213,845,916	43.97%	10.50%	4.62%
Long Term Debt	5,921,942,306	(24,604,103)	5,897,338,203	5,328,289,371	(707,889,077)		4,620,400,294	38.96%	4.70%	1.83%
Short Term Debt	(83,297,529)	346,079	(82,951,450)	(74,947,258)	9,957,107		(64,990,151)	-0.55%	0.37%	0.00%
Cust Dep Active	207,308,055	(861,310)	206,446,745	206,446,745	(27,427,451)		179,019,294	1.51%	2.36%	0.04%
Cust Dep InActive	1,871,004	(7,774)	1,863,230	1,863,230	(247,539)		1,615,691	0.01%		
Invest Tax Cr	21,626,622	(89,853)	21,536,769	19,458,633	(2,585,174)		16,873,459	0.14%	7.77%	0.01%
Deferred Inc Tax	2,746,202,103	49,694,999	2,795,897,102	2,526,114,036	(335,606,498)	(297,398,236)	1,893,109,303	15.96%		
Total	14,707,252,309	-	14,707,252,309	13,308,213,301	(1,768,060,662)	319,721,167	11,859,873,806	100.00%		6.50%
										pretax WACC 8.06%
Proration Adjustment and Consistency Adjustment to Reflect Projected ADFIT Consistent with Projection Year										
	Month	ADIT Bal	Deprec-Related ADFIT Bal *	Deprec-Related ADFIT Activity	Days to Prorate	Future Days in Period	Prorated Deprec-Related ADFIT Activity	Prorated Deprec-Related ADFIT Bal		
	Dec-18	2,759,647,299	2,759,647,299					2,759,647,299		
projected	Jan-19	2,764,693,365	2,764,693,365	5,046,066	31	335	4,631,321	2,764,278,619		
projected	Feb-19	2,767,835,179	2,767,835,179	3,141,814	28	307	2,642,567	2,766,921,186		
projected	Mar-19	2,772,682,410	2,772,682,410	4,847,231	31	276	3,665,303	2,770,586,490		
projected	Apr-19	2,779,530,453	2,779,530,453	6,848,043	30	246	4,615,393	2,775,201,883		
projected	May-19	2,787,033,347	2,787,033,347	7,502,895	31	215	4,419,513	2,779,621,396		
projected	Jun-19	2,795,928,416	2,795,928,416	8,895,069	30	185	4,508,460	2,784,129,856		
projected	Jul-19	2,805,768,431	2,805,768,431	9,840,014	31	154	4,151,677	2,788,281,533		
projected	Aug-19	2,815,547,642	2,815,547,642	9,779,211	31	123	3,295,460	2,791,576,994		
projected	Sep-19	2,825,287,877	2,825,287,877	9,740,235	30	93	2,481,759	2,794,058,752		
projected	Oct-19	2,833,521,418	2,833,521,418	8,233,541	31	62	1,398,574	2,795,457,326		
projected	Nov-19	2,838,362,139	2,838,362,139	4,840,720	30	32	424,392	2,795,881,718		
projected	Dec-19	2,843,977,160	2,843,977,160	5,615,021	31	1	15,384	2,795,897,102		
		2,799,216,549	2,799,216,549	84,329,861	365		36,249,803	2,795,897,102		
2018 Forecasted Surv Bal.		2,746,202,103	2,746,202,103				13-Mo Avg Bal	2,799,216,549		
Consistency Adjustment		53,014,446	53,014,446				Proration Adj	(3,319,447)		
Proration Adjustment			(3,319,447)							
Total Adjustment			49,694,999							

* Assumes deprec-related ADFIT equals total ADIT for simplicity purposes. Tax Normalization only applies to deprec-related ADFIT which will be different from total ADIT.

Example for computing ADFIT balance when proration is applied and ADFIT balance is over-estimated

2019 Preliminary True-Up Filing - Over-Estimated ADFIT										
2019 Forecasted Surveillance as Filed in early 2019 (13-month average)										
	Sys Per Book	Retail Per Book	Pro Rata Adj	Specific Adj.	Adj'd Retail	Cap Ratio	Cost Rate	Weighted Cost		
Common Equity	6,009,431,743	5,430,470,498	(718,459,709)	586,263,433	5,298,274,222	43.80%	10.50%	4.60%		
Long Term Debt	6,040,381,152	5,458,438,177	(722,159,877)		4,736,278,300	39.15%	4.70%	1.84%		
Short Term Debt	(84,963,480)	(76,777,920)	10,157,838		(66,620,081)	-0.55%	0.37%	0.00%		
Cust Dep Active	211,454,216	211,454,216	(27,975,722)		183,478,494	1.52%	2.36%	0.04%		
Cust Dep InActive	1,908,424	1,908,424	(252,487)		1,655,937	0.01%				
Invest Tax Cr	22,059,154	19,933,929	(2,637,290)		17,296,639	0.14%	7.77%	0.01%		
Deferred Inc Tax	2,798,570,376	2,528,950,242	(334,584,058)	(267,658,412)	1,926,707,772	15.93%				
Total	14,998,841,586	13,574,377,567	(1,795,911,305)	318,605,020	12,097,071,282	100.00%		6.49%		
								pretax WACC		8.04%
2019 Forecasted Surveillance with ADFIT Proration Adjustment										
	System Per Books	Proration Adj.	System Per Books Adj'd	Retail Per Books	Pro Rata Adj	Specific Adj	Adjusted Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	6,009,431,743	1,316,762	6,010,748,505	5,431,658,570	(718,616,893)	586,263,433	5,299,305,110	43.81%	10.50%	4.60%
Long Term Debt	6,040,381,152	1,323,544	6,041,704,696	5,459,632,367	(722,317,870)		4,737,314,497	39.16%	4.70%	1.84%
Short Term Debt	(84,963,480)	(18,617)	(84,982,096)	(76,794,717)	10,160,061		(66,634,657)	-0.55%	0.37%	0.00%
Cust Dep Active	211,454,216	46,333	211,500,549	211,500,549	(27,981,852)		183,518,697	1.52%	2.36%	0.04%
Cust Dep InActive	1,908,424	418	1,908,842	1,908,842	(252,543)		1,656,299	0.01%		
Invest Tax Cr	22,059,154	4,834	22,063,988	19,938,290	(2,637,867)		17,300,424	0.14%	7.77%	0.01%
Deferred Inc Tax*	2,798,570,376	(2,673,274)	2,795,897,102	2,526,533,666	(334,264,341)	(267,658,412)	1,924,610,912	15.91%		
Total	14,998,841,586	-	14,998,841,586	13,574,377,567	(1,795,911,305)	318,605,020	12,097,071,282	100.00%		6.49%
									pretax WACC 8.04%	
Proration Adjustment - Over-Estimated										
	Month	Deprec-Related ADFIT Bal*	Original Projected Deprec-Related ADFIT Activity	Actual/Projected Deprec-Related ADFIT Activity	Variance	Accumulated Change in Variance				
		2,759,647,299				-				
projected	Jan-19	2,764,647,299	5,046,066	5,000,000	(46,066)	(46,066)				
projected	Feb-19	2,767,647,299	3,141,814	3,000,000	(141,814)	(187,880)				
projected	Mar-19	2,772,647,299	4,847,231	5,000,000	152,769	(35,111)				
projected	Apr-19	2,779,647,299	6,848,043	7,000,000	151,957	116,846				
projected	May-19	2,787,647,299	7,502,895	8,000,000	497,105	613,951				
projected	Jun-19	2,796,647,299	8,895,069	9,000,000	104,931	718,883				
projected	Jul-19	2,805,647,299	9,840,014	9,000,000	(840,014)	(121,132)				
projected	Aug-19	2,814,647,299	9,779,211	9,000,000	(779,211)	(900,343)				
projected	Sep-19	2,823,647,299	9,740,235	9,000,000	(740,235)	(1,640,579)				
projected	Oct-19	2,831,647,299	8,233,541	8,000,000	(233,541)	(1,874,120)				
projected	Nov-19	2,835,647,299	4,840,720	4,000,000	(840,720)	(2,714,840)				
projected	Dec-19	2,841,647,299	5,615,021	6,000,000	384,979	(2,329,861)				
		2,798,570,376	84,329,861	82,000,000	(2,329,861)	(646,173)				
Original 2019 Projected Prorated ADFIT			2,795,897,102							
2019 Actual/Estimated ADFIT			2,798,570,376							
Proration Adjustment for 2019 Preliminary True-up			(2,673,274)							

* Assumes deprec-related ADFIT equals total ADIT for simplicity purposes. Tax Normalization only applies to deprec-related ADFIT which will be different from total ADIT.

Example for computing ADFIT balance when proration is applied and ADFIT balance is over-estimated

2019 Final True-Up Filing - Over-Estimated ADFIT										
2019 Actual Surveillance as Filed in February 2020 (13-month average) - [Note, assumes 2019 actual surveillance is same as 2019 forecasted surveillance for simplicity]										
	Sys Per Book	Retail Per Book	Pro Rata Adj	Specific Adj.	Adj'd Retail	Cap Ratio	Cost Rate	Weighted Cost		
Common Equity	6,009,431,743	5,430,580,686	(718,474,287)	586,263,433	5,298,369,831	43.80%	10.50%	4.60%		
Long Term Debt	6,040,381,152	5,458,548,932	(722,174,530)		4,736,374,402	39.15%	4.70%	1.84%		
Short Term Debt	(84,963,480)	(76,779,478)	10,158,045		(66,621,433)	-0.55%	0.37%	0.00%		
Cust Dep Active	211,454,216	211,454,216	(27,975,722)		183,478,494	1.52%	2.36%	0.04%		
Cust Dep InActive	1,908,424	1,908,424	(252,487)		1,655,937	0.01%				
Invest Tax Cr	22,059,154	19,934,334	(2,637,343)		17,296,990	0.14%	7.77%	0.01%		
Deferred Inc Tax	2,798,270,376	2,528,730,453	(334,554,980)	(267,658,412)	1,926,517,061	15.93%				
Total	14,998,541,586	13,574,377,567	(1,795,911,305)	318,605,020	12,097,071,282	100.00%		6.49%		
								pretax WACC		8.04%
2019 Actual Surveillance with Proration Adjustment										
	System Per Books	Consistency & Proration Adj.	System Per Books Adj'd	Retail Per Books	Pro Rata Adj	Specific Adj	Adjusted Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	6,009,431,743	1,168,993	6,010,600,736	5,323,431,714	(707,243,714)	617,119,403	5,233,307,403	44.13%	10.50%	4.63%
Long Term Debt	6,040,381,152	1,175,013	6,041,556,165	5,350,848,127	(710,886,117)		4,639,962,010	39.12%	4.70%	1.84%
Short Term Debt	(84,963,480)	(16,528)	(84,980,007)	(75,264,568)	9,999,263		(65,265,305)	-0.55%	0.37%	0.00%
Cust Dep Active	211,454,216	41,133	211,495,350	211,495,350	(28,098,183)		183,397,167	1.55%	2.36%	0.04%
Cust Dep InActive	1,908,424	371	1,908,795	1,908,795	(253,593)		1,655,203	0.01%		
Invest Tax Cr	22,059,154	4,291	22,063,446	19,541,016	(2,596,119)		16,944,897	0.14%	7.77%	0.01%
Deferred Inc Tax*	2,798,270,376	(2,373,274)	2,795,897,102	2,476,252,866	(328,982,199)	(297,398,236)	1,849,872,431	15.60%		
Total	14,998,541,586	-	14,998,541,586	13,308,213,301	(1,768,060,662)	319,721,167	11,859,873,806	100.00%		6.52%
								pretax WACC		8.08%
Proration Adjustment - Over-Estimated										
	Month	Deprec-Related ADFIT Bal*	Actual/Projected Deprec-Related ADFIT Activity	Actual Deprec-Related ADFIT Activity	Variance	Accumulated Change in Variance				
	Dec-18	2,759,647,299				-				
actual	Jan-19	2,764,597,299	5,000,000	4,950,000	(50,000)	(50,000)				
actual	Feb-19	2,767,547,299	3,000,000	2,950,000	(50,000)	(100,000)				
actual	Mar-19	2,772,497,299	5,000,000	4,950,000	(50,000)	(150,000)				
actual	Apr-19	2,779,447,299	7,000,000	6,950,000	(50,000)	(200,000)				
actual	May-19	2,787,397,299	8,000,000	7,950,000	(50,000)	(250,000)				
actual	Jun-19	2,796,347,299	9,000,000	8,950,000	(50,000)	(300,000)				
actual	Jul-19	2,805,297,299	9,000,000	8,950,000	(50,000)	(350,000)				
actual	Aug-19	2,814,247,299	9,000,000	8,950,000	(50,000)	(400,000)				
actual	Sep-19	2,823,197,299	9,000,000	8,950,000	(50,000)	(450,000)				
actual	Oct-19	2,831,147,299	8,000,000	7,950,000	(50,000)	(500,000)				
actual	Nov-19	2,835,097,299	4,000,000	3,950,000	(50,000)	(550,000)				
actual	Dec-19	2,841,047,299	6,000,000	5,950,000	(50,000)	(600,000)				
		2,798,270,376	82,000,000	81,400,000	(600,000)	(300,000)				
Original 2019 Projected Prorated ADFIT			2,795,897,102							
2019 Final ADFIT			2,798,270,376							
Proration Adjustment for 2019 Final True-up			(2,373,274)							
* Assumes deprec-related ADFIT equals total ADIT for simplicity purposes. Tax Normalization only applies to deprec-related ADFIT which will be different from total ADIT.										