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May 31, 2018

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

Re: DOCKET NO. 20180044-GU - In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Peoples Gas System

Dear Ms. Stauffer:

Attached for filing in the above docket on behalf of Peoples Gas System are the following:

1. Peoples Gas System's Petition for Limited Proceeding to Reduce Base Rates and Charges to Reflect Impact of the Tax Cuts and Jobs Act of 2017
2. Prepared Direct Testimony and Exhibit (ADF-1) of Alan D. Felsenthal
3. Prepared Direct Testimony and Exhibit (VS-1) of Valerie Strickland
4. Prepared Direct Testimony and Exhibit (JSC-1) of Jeffrey S. Chronister

Thank you for your assistance in connection with this.

Sincerely,

Andrew M. Brown

AB/plb
Attachment
cc: Parties of Record
Ms. Kandi M. Floyd
Ansley Watson, Jr., Esq.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Consideration of the Tax Impacts Associated with Tax Cuts and Jobs Act of 2017 for Peoples Gas System	))))	Docket No. 20180044-GU Filed: May 31, 2018

PEOPLES GAS SYSTEM'S PETITION FOR LIMITED PROCEEDING TO REDUCE BASE RATES AND CHARGES TO REFLECT IMPACT OF THE TAX CUTS AND JOBS ACT OF 2017

Pursuant to Sections 366.076, 120.57(2) and 366.06(3), Florida Statutes, and Rule 28-106.301, F.A.C., Peoples Gas System ("Peoples" or "the company") respectfully petitions the Florida Public Service Commission ("FPSC" or "the Commission") for a limited proceeding in this docket to potentially reduce base rates and charges effective for the first meter reading cycle in January 2019 to reflect the impact of the Tax Cuts and Jobs Act of 2017, and states:

Background

The Tax Cuts and Jobs Act of 2017 ("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). On February 6, 2018, the Commission asserted jurisdiction over this subject matter and put utilities on notice that all revenue requirements adjustments ultimately imposed by the Commission due to the TCJA's provisions would be calculated as of February 6, 2018, or the date contained in each utility's settlement agreement, or January 1, 2018 if there is no settlement agreement and that date is agreed to by the utility. Order No. PSC-2018-0104-PCO-PU related to this Commission decision requires each regulated utility to provide the Commission with its calculation of the impacts of the TCJA.

This Petition addresses the impacts of the TCJA on Peoples including the excess accumulated deferred income taxes and excess deferred income taxes not related to depreciation which result from the TCJA ("Tax Reform").

I. Preliminary Information

1. The Petitioner's name and address are:

Peoples Gas System
702 North Franklin Street
Tampa, Florida 33602

2. Any pleading, motion, notice, order or other document required to be served upon Peoples or filed by any party to this proceeding shall be served upon the following individuals:

Andrew M. Brown
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3. Peoples is a natural gas local distribution company providing sales and transportation delivery of natural gas throughout most of the state of Florida and is a public utility subject to the Commission's regulatory jurisdiction under Chapter 366, Florida Statutes. Peoples' principal place of business is located at 702 North Franklin Street, Tampa, Florida 33602.

4. This Petition is in response to a proposed action by the Commission. Accordingly, the Petitioner is providing the information requested in the proposed agency action.

II. TCJA Impact on Revenue Requirements and Rates

5. Section 366.076(1), Florida Statutes, provides that the Commission may conduct a limited proceeding to consider and act upon any issue within its jurisdiction, including any such issue which, once resolved, requires a public utility to adjust its rates. Approval of the company's calculations of the impacts of TCJA through a limited proceeding under Section 366.076, Florida Statutes, will provide the Commission and substantially affected persons a single proceeding in which all issues related to Tax Reform can be resolved. Accordingly, Peoples requests that the Commission use this docket to provide, through a limited proceeding, an opportunity for a hearing to address the matters that are the subjects of this Petition.

III. Statement on Disputed Issues of Material Fact

6. Peoples is not currently aware of any disputed issues of material fact, but the Office of Public Counsel or other parties, may assert disputed issues of material fact during this proceeding.

IV. Statement of Ultimate Facts Alleged

7. The ultimate facts are:

(a) The company quantified 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 based on the company's forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective.

(b) The company's forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective is the 2018 forecasted earnings surveillance report, which was filed on March 15, 2018.

(c) The federal corporate income tax rate is 21%, effective January 1, 2018.

(d) To avoid a normalization violation, TCJA requires that a taxpayer like Peoples, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, may not reduce protected excess deferred tax reserves more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method ("ARAM"). The mechanics and requirements of the ARAM are set forth in TCJA.

(e) Based on the 21% corporate tax rate effective January 1, 2018, the amount of protected excess deferred tax reserves as of December 31, 2017 was approximately $86.9 million.

(f) Based on the 21% corporate tax rate effective January 1, 2018, the amount of unprotected excess deferred tax reserves as of December 31, 2017 was a deficiency of $17.9 million.

(g) The flow-back period used for unprotected excess deferred tax reserves is 10 years.

(h) Based on the company's December 31, 2017 balances for protected and unprotected excess deferred tax reserves specified above, the company's 2018 forecasted earnings surveillance report filed on March 15, 2018, the 21% federal corporate income tax rate effective January 1, 2018, and using the ARAM and 10-year flow back periods for protected and unprotected excess deferred tax reserves, respectively, the annual revenue requirement calculation for 2018 necessary to reflect the effect of Tax Reform is $9,920,560.

V. Relief Requested

8. Peoples requests that the Commission grant the following relief:

(a) Approve Peoples' calculations of the annual revenue requirement impacts for the effects of TCJA.

(b) Establish a procedural schedule giving consumer parties and other substantially affected persons an opportunity for an evidentiary hearing on the company's final calculation of the annual revenue requirements for the effects of TCJA.

(c) Make a determination that the calculated annual revenue requirement for 2018 reflects the impacts of Tax Reform.

(d) Grant such other relief as may be required or appropriate.

9. Peoples is entitled to the relief requested pursuant to Chapter 366, Florida Statutes, Chapter 120, Florida Statutes, and FPSC Order No. PSC-2018-0104-PCO-PU.

VI. Conclusion

For the reasons shown above, Peoples respectfully requests that the Commission grant this Petition and the relief requested herein.

DATED this 31st day of May, 2018

Respectfully submitted,

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ATTORNEYS FOR PEOPLES GAS SYSTEM

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Petition, filed on behalf of Tampa Electric Company, has been furnished by electronic mail on this 31st day of May, 2018 to the following:

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Andrew M. Brown

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20180044-GU

IN RE: CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FOR PEOPLES GAS SYSTEM

DIRECT TESTIMONY AND EXHIBIT

OF

ALAN D. FELSENTHAL

ON BEHALF OF

PEOPLES GAS SYSTEM

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

ALAN D. FELSENTHAL

ON BEHALF OF PEOPLES GAS SYSTEM

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 PwC 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 also testified in Tampa Electric's Docket No. 20080317-EI 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 Peoples Gas System ("Peoples Gas" or "company") and related ratemaking principles, (2) describe the recent changes caused by the Tax Cuts and Jobs Act of 2017 ("TCJA") and the general impact of the changes 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 any exhibits 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 Peoples Gas in this docket, have you read the prepared direct testimony of Mr. Jeffrey S. Chronister and Ms. Valerie Strickland?

A. Yes, I have. I have read all of Peoples Gas witness Jeffrey S. Chronister's prepared direct testimony and exhibit as well as the prepared direct testimony and exhibit of Peoples Gas witness Valerie Strickland.

Q. Please provide a summary of 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 Peoples Gas' proposal to reflect the effects of the TCJA from an accounting perspective is consistent and accurate and complies with Order PSC-2018-0104-PCO in Docket No. 20180013-PU 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 an example?

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 Peoples Gas, 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 one, 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 exceed 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 exceeds tax depreciation resulting in higher taxes in the future.

For regulated entities, such as Peoples Gas, 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 one 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 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	**$XXX,XXX**	
Unamortized investment tax credit		**$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 credit	**$XX,XXX**	
Income tax expense		**$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 Peoples Gas) 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. 1 in Exhibit No. __(VS-1) of Peoples Gas witness Valerie Strickland includes a presentation of the company’s income tax calculation in the format required for Minimum Filing Requirement Schedule C-21. Referring to that document, can you identify which book-tax differences are protected and which are unprotected?

A. Yes. Witness Strickland’s Document No. 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:

- 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).

- ADIT related to differences caused by using shorter depreciation lives for determining tax depreciation than for determining book depreciation (life difference).

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 TCJA?

A. Yes. The distinction between protected ADIT and unprotected ADIT is critical. 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 TCJA.

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 includes 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 Peoples Gas.

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 flow-back 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 Peoples Gas 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 Peoples Gas, 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 as regulated utilities will now be 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 Peoples Gas’ 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) by requiring that these ADIT be flowed back in rates and on the books using 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 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 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 Peoples Gas?

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" (accelerated) depreciation. Prior to the TCJA, the utility industry had been permitted to apply for "bonus" (accelerated) depreciation.

As a result of losing bonus 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"). ARAM is required for excess ADIT for those "protected" book-tax differences subject to the aforementioned normalization rules. Peoples Gas has the records to apply 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 Peoples Gas is proposing a 10-year amortization of the unprotected excess ADIT existing at December 31, 2017.

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 Peoples Gas, 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 Peoples Gas 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, Peoples Gas is proposing to amortize the unprotected excess ADIT balance over 10 years.

The calculation of the amortization is straight-forward. The company’s unprotected ADIT balance as of December 31, 2017 was divided by 10 and this amount was factored into the revenue requirement calculation beginning January 1, 2019. Peoples Gas has an unprotected ADIT asset and will increase tax expense to reflect the amortization.

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 U.S. 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 Peoples

Gas'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 Peoples Gas witness Valerie Strickland's prepared 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 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 Peoples Gas’ calculations of excess ADIT, the flow back of protected excess ADIT using 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.

EXHIBIT

OF

ALAN D. FELSENTHAL

ON BEHALF OF PEOPLES GAS SYSTEM

Table of Contents

Depreciation Timing Difference Example

Year	Book Depreciation	Tax Depreciation	Difference	Cumulative Difference
1	1,000,000	2,000,000	1,000,000	1,000,000
2	1,000,000	3,200,000	2,200,000	3,200,000
3	1,000,000	1,920,000	920,000	4,120,000
4	1,000,000	1,152,000	152,000	4,272,000
5	1,000,000	1,152,000	152,000	4,424,000
6	1,000,000	576,000	(424,000)	4,000,000
7	1,000,000		(1,000,000)	3,000,000
8	1,000,000		(1,000,000)	2,000,000
9	1,000,000		(1,000,000)	1,000,000
10	1,000,000		(1,000,000)	0
Total	10,000,000	10,000,000	0	

ARAM Illustration

		(A)	(B)	(A x B = C)	(A x D = E)	(C-E=F)	(G)	(F x G = H)	(F x J = I)	(J)	(K)
Line No.	Year	Asset Cost	5-year MACRS Tax Rate	Tax Depreciation	Book Depreciation 10 years S/L	Tax over Book Difference	Tax Rate	Originating Deferred	Reversing Deferred	Average Rate	ADIT
1	2016	1,000,000.00	20.000%	200,000.00	100,000.00	100,000.00	35%	35,000.00			35,000.00
2	2017		32.000%	320,000.00	100,000.00	220,000.00	35%	77,000.00			112,000.00
3	2018		19.200%	192,000.00	100,000.00	92,000.00	21%	19,320.00			131,320.00
4	2019		11.520%	115,200.00	100,000.00	15,200.00	21%	3,192.00			134,512.00
5	2020		11.520%	115,200.00	100,000.00	15,200.00	21%	3,192.00			137,704.00
6	2021		5.760%	57,600.00	100,000.00	(42,400.00)	21%		(13,197.67)	31.1266%	124,506.33
7	2022		0.000%	-	100,000.00	(100,000.00)	21%		(31,126.58)	31.1266%	93,379.75
8	2023		0.000%	-	100,000.00	(100,000.00)	21%		(31,126.58)	31.1266%	62,253.16
9	2024		0.000%	-	100,000.00	(100,000.00)	21%		(31,126.58)	31.1266%	31,126.58
10	2025		0.000%	-	100,000.00	(100,000.00)	21%		(31,126.58)	31.1266%	-
				1,000,000.00	1,000,000.00	-		137,704.00	(137,704.00)		

$1,000,000 asset placed in service on January 1, 2016

Book depreciation using straight-line method, 10-year life, no half-year convention

Tax Depreciation using MACRS, five-year life

Average rate (Column J) computed when the book/tax difference reverses (2021). Computation is based on dividing the ADIT balance ($137,704 in Column K) by the cumulative book-tax differences at the beginning of the year ($442,400, total increases in Column F)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20180044-GU

IN RE: CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FOR PEOPLES GAS SYSTEM

DIRECT TESTIMONY AND EXHIBIT

OF

VALERIE STRICKLAND

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 Peoples Gas System ("PGS" or "company"). My responsibilities include the preparation and filing of all tax returns, all tax accounting for both internal and external purposes, all tax planning as well as managing all 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 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 Institution (“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 its forecasted income tax expense for 2018 as shown in its 2018 Forecasted Earnings Surveillance Report (filed March 15, 2018) and as adjusted to reflect the impact of the TCJA.

Q. Did you prepare any exhibits 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	MFR C-21 With and Without Tax Reform
Document No. 2	Estimated Excess ADIT as of December 31, 2017
Document No. 3	Revised Estimate of Excess ADIT
Document No. 4	2018 Tax Expense Under the TCJA

Q. As part of your work for Peoples Gas System in this docket, have you reviewed Order No. PSC-2018-0104-PCO-PU in Docket No. 20180013-PU, Issued February 26, 2018 regarding the Commissions jurisdiction over the TCJA revenue requirement impacts?

A. Yes, I have.

Q. Please provide a summary of 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, elimination of bonus depreciation, and the flow back of excess deferred taxes generated by the rate change. I have quantified the company's total excess accumulated deferred income tax resulting from the TCJA, as well as quantified the protected and unprotected amounts related to those excess deferred taxes and their respective flow back amounts under IRS rules and the Company's proposed treatment of unprotected excess deferred tax flowback.

Accounting for the Impact of TCJA

Q. What changes to the Internal Revenue Code in the TCJA have made the biggest impact on PGS?

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

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

A. The company 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.

The change in the federal tax rate was made 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 Par (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. 1 of my exhibit, which presents the company’s 2018 income tax expense calculation in the format required by MFR C-21.

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.

The company 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.

Since Peoples Gas 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 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 $66.7 million. This is shown in Document No. 2 of my exhibit.

In early 2018, the company engaged PowerPlan to assist with the implementation of the Average Rate Assumption method ("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. 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 PGS'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 $69.1 million which is $2.4 million higher than the original amount recorded in the company’s December 31, 2017 Audited Financial Statements. This revision is reflected in Document No. 3 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 Internal Revenue Code (“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. 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 ARAM. Under 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 originally estimated its protected excess deferred taxes to be $54.6 million. In May 2018, the company 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, 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. 3 of my exhibit, the company reclassed $32.4 million of excess ADIT from the original estimate developed as of December 31, 2017 resulting in a revised total protected excess ADIT balance of $87.0 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 $12.1 million as shown on Document No. 2 of my exhibit. However, as mentioned previously, 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 $30.0 million and the revised unprotected deferred tax balance estimate is an excess tax deficiency of $17.9 million as shown in Document No. 3 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 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 the amount of excess ADIT associated with the tax repairs book-tax difference is $17.5 million, as shown on Document No. 3 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 $23.2 million as shown on Document No. 3 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 direct testimony describes how cost of removal originates and reverses in greater detail. The amount of PGS' reclassification for cost of removal is a $33.6 million deferred tax asset as shown on Document No. 3 of my exhibit.

Q. What guidance does the TCJA provide for protected and unprotected excess deferred taxes?

A. With respect to "protected" excess deferred income 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 have historically been governed by the Tax Reform transition rule. The TCJA prescribes 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, the company has used a 10-year flow back period in its calculation of the revenue requirement amount related to tax reform.

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. 4 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 15, 2018 and included in witness Chronister’s prepared direct testimony as Document No. 3 of Exhibit No. ___ (JSC-1).

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 C-21. 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. 1 of my exhibit.

Then in accordance with Order No. PSC-2018-0104-PCO-PU in Docket No. 20180013-PU the company implemented an effective date of February 6, 2018 to determine the budgeted tax benefits of the TCJA.

Q. Please explain how the calculation of tax expense under the new tax laws is different than the calculation under the old tax laws.

A. The tax expense under 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, transition rules with respect to former bonus depreciation provision, new 100 percent asset expensing exemption for regulated utilities and the calculation of flow back of excess deferred taxes. As provided in Document No. 4 of my exhibit, the total 2018 tax expense without Tax Reform is $26.9 million, and the total 2018 tax expense with Tax Reform is $17.3 million. The change in the total 2018 tax expense between the new law and the former law is a decrease of $9.6 million.

Q. How did the company reflect the “write-down” or “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 ARAM as required by the TCJA and reduces 2018 income tax expense by $2.1 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 $1.8 million expense to 2018 deferred income tax expense.

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?

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 PGS 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 PGS will true-up those amounts.

Impact of the TCJA on the Company

Q. Are there any impacts from the TCJA that can adversely impact the company?

A. Yes. Deferred taxes generally benefit a regulated utility and its customers by allowing the company to utilize that source of capital to fund its operations. Flowing back those deferred taxes causes the utility to replace that source of capital with debt or equity, which could have an adverse impact on the credit metrics of the company. Witness Chronister discusses these impacts in more detail in his direct testimony.

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, bonus depreciation, and the flowback of excess ADIT generated by the rate change. I have quantified PGS' 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 company's proposed treatment of unprotected excess deferred flowback.

Q. Does this conclude your direct testimony?

A. Yes.

EXHIBIT

OF

VALERIE STRICKLAND

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
EXHIBIT NO. ___ (VS-1)
WITNESS: STRICKLAND

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PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE CALCULATION OF STATE AND FEDERAL INCOME TAXES PROVIDE DETAIL ON ADJUSTMENTS TO INCOME TAXES AND INVESTMENT TAX CREDITS.

TYPE OF DATA SHOWN:
TAX YEAR 2018 WITH TAX REFORM
WITNESS: V. Strickland

COMPANY: PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU

LINE NUMBER	DESCRIPTION	AMOUNT	AMOUNT
1	NET UTILITY OPERATING INCOME		$ 52,048
2	ADD INCOME TAX ACCOUNTS		17,303
3	TAXABLE INCOME PER BOOKS		69,351
4	ADJUSTMENTS TO TAXABLE INCOME (PROVIDE DETAIL)*		(35,501)
5	TAXABLE INCOME		33,850
6	STATE TAXABLE INCOME		33,850
7	INCOME TAX (5.5% OR APPLICABLE RATE OF LINE 6)	1,862	
8	EMERGENCY EXCISE		
9	ADJUSTMENTS TO STATE TAXABLE INCOME (PROVIDE DETAIL)*	(1,341)	
10	STATE TAX - CURRENT	521	
11	FEDERAL TAXABLE INCOME (LINE 6 - LINE 10)		33,328.93
12	FEDERAL INCOME TAX RATE (21% OR APPLICABLE RATE)		21%
13	FEDERAL INCOME TAX BEFORE CREDITS		6,999
14	ADJUSTMENTS TO FEDERAL TAXABLE INCOME (PROVIDE DETAIL)*		-
15	FEDERAL TAX - CURRENT		$ 6,999
16	SUMMARY:		
17			
18	FEDERAL TAX - CURRENT		6,999
19	STATE TAX - CURRENT		521
20	CURRENT YEAR DEFERRED TAX EXPENSE		10,117
21	WRITE-OFF OF EXCESS DEFERRED TAXES BEFORE TAX REFORM		-
22	WRITE-OFF OF EXCESS DEFERRED TAXES RELATED TO TAX REFORM		(334)
23	TOTAL CURRENT INCOME TAX EXPENSE		$ 17,303

*DETAIL OF ADJUSTMENTS TO TAXABLE INCOME LINE 6	AMOUNT
1 TAX OVER BOOK DEPRECIATION	(7,612)
2 BONUS ACCRUAL	1,160
3 MEDICAL & LIFE BENEFITS-FAS 106	(304)
4 LONG TERM MEDICAL - FAS 112	100
5 LONG TERM INCENTIVE	1,516
6 PENSION	(1,574)
7 RESTORATION PLAN	47
8 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN	451
9 VACATION	(40)
10 AMORT. OF CAPITALIZED CUSTOMER ASSISTANT COSTS	6,672
11 BAD DEBT	135
12 CONTRACTOR DAMAGE RESERVE	(40)
13 ENERGY CONSERVATION REVENUE	303
14 ENVIRONMENTAL DISPOSAL COSTS	(2,000)
15 HEDGES	172
16 INSURANCE RESERVE	244
17 RESEARCH EXPENSE	55
18 STORM RESERVE	(46)
19 WHOLE PRICING INTEREST COMPONENT	524
20 WORKERS COMPENSATION	(1)
21 CI-BS REPLACEMENT	251
22 ACQUISTION ADJUSTMENT	149
23 AIAC	(400)
24 AMORT - LH IMPROVEMENTS AND LAND RIGHTS	1,993
25 CIAC	2,234
26 COST OF REMOVAL	(9,160)
27 GAIN/LOSS ON SALE OF ASSETS	(2,136)
28 LEASE - PLANT	530
29 REPAIRS	(31,062)
30 TAX INTEREST CAPITALIZED	1,760
31 INDIRECT COSTS	342
32 50% MEALS (PERMANENT DIFFERENCE)	140
33 CLUB DUES (PERMANENT DIFFERENCE)	20
34 POLITICAL CONTRIBUTIONS (PERMANENT DIFFERENCE)	76
TOTAL ADJUSTMENTS $	(35,501)

*DETAIL OF ADJUSTMENTS TO STATE TAXABLE INCOME LINE 11	
1 PRIOR YEAR INCOME TAX TRUE UP/MISC. ADJUSTMENTS	
2 IRS AUDIT ADJUSTMENTS	0
3 STATE TIMING DIFFERENCE	(1,341)
TOTAL ADJUSTMENTS $	(1,341)

*DETAIL OF ADJUSTMENTS TO FEDERAL TAXABLE INCOME LINE 16	
1 PRIOR YEAR INCOME TAX TRUE UP/MISC. ADJUSTMENTS	0
2 IRS AUDIT ADJUSTMENTS	0
3	0
TOTAL ADJUSTMENTS $	-

PEOPLES GAS SYSTEM
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FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU

EXPLANATION: PROVIDE THE CALCULATION OF STATE AND FEDERAL INCOME TAXES PROVIDE DETAIL ON ADJUSTMENTS TO INCOME TAXES AND INVESTMENT TAX CREDITS.

TYPE OF DATA SHOWN:
TAX YEAR 2018 WITHOUT TAX REFORM
WITNESS: V. Strickland

LINE NUMBER	DESCRIPTION	AMOUNT	AMOUNT
1	NET UTILITY OPERATING INCOME		$ 42,595
2	ADD INCOME TAX ACCOUNTS		26,897
3	TAXABLE INCOME PER BOOKS		69,492
4	ADJUSTMENTS TO TAXABLE INCOME (PROVIDE DETAIL)*		(73,349)
5	TAXABLE INCOME		(3,857)
6	STATE TAXABLE INCOME		(3,857)
7	INCOME TAX (5.5% OR APPLICABLE RATE OF LINE 6)	(212)	
8	EMERGENCY EXCISE		
9	ADJUSTMENTS TO STATE TAXABLE INCOME (PROVIDE DETAIL)*	289	
10	STATE TAX - CURRENT	77	
11	FEDERAL TAXABLE INCOME (LINE 6 - LINE 10)		(3,934)
12	FEDERAL INCOME TAX RATE (35% OR APPLICABLE RATE)		35%
13	FEDERAL INCOME TAX BEFORE CREDITS		(1,377)
14	ADJUSTMENTS TO FEDERAL TAXABLE INCOME (PROVIDE DETAIL)*		-
15	FEDERAL TAX - CURRENT		$ (1,377)
16	SUMMARY:		
17			
18	FEDERAL TAX - CURRENT		(1,377)
19	STATE TAX - CURRENT		77
20	CURRENT YEAR DEFERRED TAX EXPENSE		28,197
21	WRITE-OFF OF EXCESS DEFERRED TAXES BEFORE TAX REFORM		-
22	WRITE-OFF OF EXCESS DEFERRED TAXES RELATED TO TAX REFORM		-
23	TOTAL CURRENT INCOME TAX EXPENSE		$ 26,897

*DETAIL OF ADJUSTMENTS TO TAXABLE INCOME LINE 6	AMOUNT
1 TAX OVER BOOK DEPRECIATION	(45,460)
2 BONUS ACCRUAL	1,160
3 MEDICAL & LIFE BENEFITS-FAS 106	(304)
4 LONG TERM MEDICAL - FAS 112	100
5 LONG TERM INCENTIVE	1,516
6 PENSION	(1,574)
7 RESTORATION PLAN	47
8 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN	451
9 VACATION	(40)
10 AMORT. OF CAPITALIZED CUSTOMER ASSISTANT COSTS	6,672
11 BAD DEBT	135
12 CONTRACTOR DAMAGE RESERVE	(40)
13 ENERGY CONSERVATION REVENUE	303
14 ENVIRONMENTAL DISPOSAL COSTS	(2,000)
15 HEDGES	172
16 INSURANCE RESERVE	244
17 RESEARCH EXPENSE	55
18 STORM RESERVE	(46)
19 WHOLE PRICING INTEREST COMPONENT	524
20 WORKERS COMPENSATION	(1)
21 CI-BS REPLACEMENT	251
22 ACQUISTION ADJUSTMENT	149
23 AIAC	(400)
24 AMORT - LH IMPROVEMENTS AND LAND RIGHTS	1,993
25 CIAC	2,234
26 COST OF REMOVAL	(9,160)
27 GAIN/LOSS ON SALE OF ASSETS	(2,136)
28 LEASE - PLANT	530
29 REPAIRS	(31,062)
30 TAX INTEREST CAPITALIZED	1,760
31 INDIRECT COSTS	342
32 50% MEALS (PERMANENT DIFFERENCE)	140
33 CLUB DUES (PERMANENT DIFFERENCE)	20
34 POLITICAL CONTRIBUTIONS (PERMANENT DIFFERENCE)	76
TOTAL ADJUSTMENTS $	(73,349)

*DETAIL OF ADJUSTMENTS TO STATE TAXABLE INCOME LINE 11	
1 PRIOR YEAR INCOME TAX TRUE UP/MISC. ADJUSTMENTS	
2 IRS AUDIT ADJUSTMENTS	0
3 STATE TIMING DIFFERENCE	289
TOTAL ADJUSTMENTS $	289

*DETAIL OF ADJUSTMENTS TO FEDERAL TAXABLE INCOME LINE 16	
1 PRIOR YEAR INCOME TAX TRUE UP/MISC. ADJUSTMENTS	0
2 IRS AUDIT ADJUSTMENTS	0
3	0
TOTAL ADJUSTMENTS $	-

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
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Peoples Gas System
TOTAL Deferred Taxes Balance Report
*** 2017 Provision**

	Current Law	Proposed Rate	
offset	-0.01925	-0.01155	0.0077
state	0.055	0.055	0
fed	0.33075	0.19845	-0.1323
st + offset	0.03575	0.04345	**0.0077**
fed stat.	0.35	0.21	-0.14
Net Fed & State	0.38575	0.25345	**-0.1323**
Norm Gross Up	0.62800	0.339495	**-0.288506618**

	Schedule M Items			Deferred Taxes							
M Item	**"Beginning Balance"**	**"True-Up Activity"**	**Gross Timing Difference**	**"DIT Beginning Balance"**	**"Current Activity"**	**"True-Up Activity"**	**"Adjustment Activity"**	**After Tax Deferred Tax Liability**	**Rate**	**Normalization**	**Excess DIT**
401K - PERFORMANCE MATCH	-0.12	0.00	-0.12	-0.05	6,879.60	0.00	-6,879.59	-0.04	0.33	**Unprotected**	0.01
ABNORMAL RETIREMENTS	-8,879,987.00	0.00	-8,879,987.00	-3,425,454.99	0.00	0.00	1,174,822.28	-2,250,632.71	0.25	**Unprotected**	1,174,822.28
ACC DEF ITC - PGS	0.00	0.00	0.00	0.00	-0.63	0.00	0.63	0.00	0.00	**Unprotected**	0.00
ACCRUED BONUS	2,291,486.68	0.00	2,291,486.68	883,940.99	29,968.19	0.00	-333,131.88	580,777.30	0.25	**Unprotected**	-303,163.69
ACQUISITION ADJUSTMENT	4,775,964.90	0.00	4,775,964.90	1,842,328.47	-19,732.00	0.00	-612,128.16	1,210,468.31	0.25	**Unprotected**	-631,860.16
AIAC	11,943,516.21	0.00	11,943,516.21	4,607,211.37	401,214.51	0.00	-1,981,341.70	3,027,084.18	0.25	**Unprotected**	-1,580,127.19
ALTERNATIVE FUEL VEHICLE DEDUCTION	-1,419,951.00	0.00	-1,419,951.00	-547,746.10	0.00	0.00	187,859.51	-359,886.59	0.25	**Unprotected**	187,859.51
AMORT - CAPLIZED CUST ASSIST COSTS	64,480,004.21	0.00	64,480,004.21	24,873,161.62	-657,889.84	0.00	-7,872,814.72	16,342,457.06	0.25	**Unprotected**	-8,530,704.56
AMORT - LH IMPROVE AND LAND RIGHTS	7,169,624.96	0.00	7,169,624.96	2,765,682.83	-250,345.42	0.00	-698,195.97	1,817,141.44	0.25	**Unprotected**	-948,541.39
BAD DEBT	252,188.43	0.00	252,188.43	97,281.68	-24,974.05	0.00	-8,390.48	63,917.15	0.25	**Unprotected**	-33,364.53
CI - BS REPLACEMENT - C	-1,030,552.00	0.00	-1,030,552.00	-397,535.43	362,491.43	0.00	-226,149.40	-261,193.40	0.25	**Unprotected**	136,342.03
CIAC	58,928,358.26	0.00	58,928,358.26	22,731,614.19	-267,340.58	0.00	-7,528,881.22	14,935,392.39	0.25	**Unprotected**	-7,796,221.80
COMPETITIVE RATE ADJ - C	-2,885,478.39	0.00	-2,885,478.39	-1,113,073.29	20,999.28	0.00	360,749.52	-731,324.49	0.25	**Unprotected**	381,748.80
CONSTRUCTION OVERHEAD CAPITALIZED (263A)	-5,318,397.00	0.00	-5,318,397.00	-2,051,571.65	0.00	0.00	703,623.93	-1,347,947.72	0.25	**Unprotected**	703,623.93
CONTRACTOR DAMAGE RESERVE	47,680.43	0.00	47,680.43	18,392.72	0.00	0.00	-6,308.12	12,084.60	0.25	**Unprotected**	-6,308.12
COST OF REMOVAL	-78,237,000.85	0.00	-78,237,000.85	-30,179,923.08	855,370.51	0.00	9,495,384.70	-19,829,167.87	0.25	**Unprotected**	10,350,755.21
CURRENCY ADJ - UNREAL G/L	0.00	0.00	0.00	0.00	2.53	0.00	-2.53	0.00	0.00	**Unprotected**	0.00
DEF SEP CO - EMERA FED NOL-UNPROTECTED	9,500,474.34	0.00	9,500,474.34	3,325,166.02	0.00	0.00	-1,330,066.41	1,995,099.61	0.21	**Unprotected**	-1,330,066.41
DEF SEP CO - EMERA FL NOL-UNPROTECTED	4,625,015.23	0.00	4,625,015.23	165,344.30	0.00	0.00	35,612.61	200,956.91	0.04	**Unprotected**	35,612.61
DEFERRED FUEL	-2,834,666.00	0.00	-2,834,666.00	-1,093,472.41	375,026.32	0.00	-0.01	-718,446.10	0.25	**Unprotected**	375,026.31
DEPRECIATION - BOOK	441,491,283.88	0.00	441,491,283.88	170,305,262.76	-6,064,753.99	0.00	-52,344,542.88	111,895,965.89	0.25	**Protected**	-58,409,296.87
DEPRECIATION - BOOK TAX DIFF FED	-847,096,444.02	0.00	-847,096,444.02	-296,483,755.41	10,935,323.85	0.00	107,658,178.32	-177,890,253.24	0.21	**Protected**	118,593,502.17
DEPRECIATION - BOOK TAX DIFF STATE	-725,539,713.79	0.00	-725,539,713.79	-25,938,044.77	-665,555.26	0.00	-4,921,100.54	-31,524,700.57	0.04	**Protected**	-5,586,655.80
ENERGY CONSERVATION REV - C	-2,498,428.00	0.00	-2,498,428.00	-963,768.60	305,455.69	0.00	25,086.33	-633,226.58	0.25	**Unprotected**	330,542.02
ENVIROMNTAL DISP COSTS NET - C	-2,643,027.32	0.00	-2,643,027.32	-1,019,547.78	-362,934.32	0.00	712,606.83	-669,875.27	0.25	**Unprotected**	349,672.51
ENVIROMNTAL DISP COSTS NET - NC	0.06	0.00	0.06	0.02	-0.01	0.00	0.00	0.01	0.17	**Unprotected**	-0.01
FAS 106 - NC	15,742,627.19	0.00	15,742,627.19	6,072,718.45	-15,216.49	0.00	-2,067,533.09	3,989,968.87	0.25	**Unprotected**	-2,082,749.58
FAS 106 FAS 158 - C	825,877.00	0.00	825,877.00	318,582.06	-12,026.34	0.00	-97,237.19	209,318.53	0.25	**Unprotected**	-109,263.53
FAS 106 FAS 158 - C 283	-825,877.00	0.00	-825,877.00	-318,582.06	12,026.34	0.00	97,237.19	-209,318.53	0.25	**Unprotected**	109,263.53
FAS 106 FAS 158 - NC	-123,630.00	0.00	-123,630.00	-47,690.27	-279,581.65	0.00	295,937.90	-31,334.02	0.25	**Unprotected**	16,356.25
FAS 106 FAS 158 - NC 283	123,630.00	0.00	123,630.00	47,690.27	279,581.65	0.00	-295,937.90	31,334.02	0.25	**Unprotected**	-16,356.25
FAS 112	3,049,962.00	0.00	3,049,962.00	1,176,522.84	-80,298.81	0.00	-323,211.16	773,012.87	0.25	**Unprotected**	-403,509.97
FAS 158 - MED PT D NC	96,722.60	0.00	96,722.60	37,310.74	0.00	0.00	-12,796.40	24,514.34	0.25	**Unprotected**	-12,796.40
FAS 158 - MED PT D NC 283	-96,722.60	0.00	-96,722.60	-37,310.74	0.00	0.00	12,796.40	-24,514.34	0.25	**Unprotected**	12,796.40
G/L - SALE OF ASSETS	-16,807,003.67	0.00	-16,807,003.67	-6,483,301.66	283,199.45	0.00	1,940,367.13	-4,259,735.08	0.25	**Unprotected**	2,223,566.58
GENERAL BUSINESS CREDIT	-394,317.00	0.00	-394,317.00	394,317.00	0.00	0.00	0.00	394,317.00	0.00	**Unprotected**	0.00
HEDGES	-763,334.84	0.00	-763,334.84	-294,456.41	-55,372.41	0.00	156,361.60	-193,467.22	0.25	**Unprotected**	100,989.19
INSURANCE RESERVE - C	-621,882.00	0.00	-621,882.00	-239,890.98	29,956.81	0.00	52,318.18	-157,615.99	0.25	**Unprotected**	82,274.99
INSURANCE RESERVE - NC	2,777,927.00	0.00	2,777,927.00	1,071,585.35	71,413.15	0.00	-438,932.90	704,065.60	0.25	**Unprotected**	-367,519.75
LEASE-PLANT	858,625.00	0.00	858,625.00	331,214.60	-70,100.21	0.00	-43,495.88	217,618.51	0.25	**Unprotected**	-113,596.09
LONG TERM INCENTIVE	1,179,673.88	0.00	1,179,673.88	455,059.20	-118,140.72	0.00	-37,930.14	298,988.34	0.25	**Unprotected**	-156,070.86
OCI FAS 133 - C	181,065.00	0.00	181,065.00	69,845.83	203,841.22	0.00	-227,796.12	45,890.93	0.25	**Unprotected**	-23,954.90
OCI FAS 133 - C 283	-181,065.00	0.00	-181,065.00	-69,845.83	-203,841.22	0.00	227,796.12	-45,890.93	0.25	**Unprotected**	23,954.90
OCI FAS 133 - NC	0.00	0.00	0.00	0.00	35,380.34	0.00	-35,380.34	0.00	0.00	**Unprotected**	0.00
OCI FAS 133 - NC 283	0.00	0.00	0.00	0.00	-35,380.34	0.00	35,380.34	0.00	0.00	**Unprotected**	0.00
OCI FAS 133 INTEREST - NC	918,998.60	0.00	918,998.60	354,503.71	56,433.97	0.00	-178,017.48	232,920.20	0.25	**Unprotected**	-121,583.51
PENSION - NC	-22,276,366.22	0.00	-22,276,366.22	-8,593,108.27	-37,850.37	0.00	2,985,013.62	-5,645,945.02	0.25	**Unprotected**	2,947,163.25
PENSION FAS 158 - NC	22,299,756.00	0.00	22,299,756.00	8,602,130.88	718,458.72	0.00	-3,668,716.44	5,651,873.16	0.25	**Unprotected**	-2,950,257.72
PENSION FAS 158 - NC 283	-22,299,756.00	0.00	-22,299,756.00	-8,602,130.88	-718,458.72	0.00	3,668,716.44	-5,651,873.16	0.25	**Unprotected**	2,950,257.72

M Item	"Beginning Balance"	"True-Up Activity"	Gross Timing Difference	"DIT Beginning Balance"	"Current Activity"	"True-Up Activity"	"Adjustment Activity"	After Tax Deferred Tax Liability	Rate	Normalization	Excess DIT
RATE CASE EXPENSE - NC	0.08	0.00	0.08	0.03	0.00	0.00	-0.01	0.02	0.25	**Unprotected**	-0.01
REPAIRS CAPITALIZED ON BOOKS	-142,985,514.82	0.00	-142,985,514.82	-55,156,662.35	2,519,934.86	0.00	16,397,048.76	-36,239,678.73	0.25	**Unprotected**	18,916,983.62
RESEARCH EXPENSE - C	0.16	0.00	0.16	0.07	0.00	0.00	-0.03	0.04	0.25	**Unprotected**	-0.03
RESEARCH EXPENSE - NC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**Unprotected**	0.00
RESTORATION PLAN	41,592.00	0.00	41,592.00	16,044.11	-5,237.75	0.00	-264.87	10,541.49	0.25	**Unprotected**	-5,502.62
RESTORATION PLAN FAS 158 - NC	281,817.00	0.00	281,817.00	108,710.91	-36,007.70	0.00	-1,276.69	71,426.52	0.25	**Unprotected**	-37,284.39
RESTORATION PLAN FAS 158 - NC 283	-281,817.00	0.00	-281,817.00	-108,710.91	36,007.70	0.00	1,276.69	-71,426.52	0.25	**Unprotected**	37,284.39
RETIREMENT OVERHEAD COSTS	-1,917,294.00	0.00	-1,917,294.00	-739,596.16	0.00	0.00	253,658.00	-485,938.16	0.25	**Unprotected**	253,658.00
SEC 263A INDIRECT COSTS	2,235,573.96	0.00	2,235,573.96	862,372.66	-19,641.53	0.00	-276,124.91	566,606.22	0.25	**Unprotected**	-295,766.44
SEC 263A INTEREST CAP	20,987,130.13	0.00	20,987,130.13	8,095,785.45	-57,978.22	0.00	-2,718,619.09	5,319,188.14	0.25	**Unprotected**	-2,776,597.31
SERP - NC	899,342.42	0.00	899,342.42	346,921.34	-53,449.10	0.00	-65,533.90	227,938.34	0.25	**Unprotected**	-118,983.00
SERP FAS 158 - C	388,457.00	0.00	388,457.00	149,847.29	0.00	0.00	-51,392.86	98,454.43	0.25	**Unprotected**	-51,392.86
SERP FAS 158 - C 283	-388,457.00	0.00	-388,457.00	-149,847.29	0.00	0.00	51,392.86	-98,454.43	0.25	**Unprotected**	51,392.86
SERP FAS 158 - NC	1,219,014.00	0.00	1,219,014.00	470,234.65	64,068.00	0.00	-225,343.55	308,959.10	0.25	**Unprotected**	-161,275.55
SERP FAS 158 - NC 283	-1,219,014.00	0.00	-1,219,014.00	-470,234.65	-64,068.00	0.00	225,343.55	-308,959.10	0.25	**Unprotected**	161,275.55
SOFTWARE DEVELOPED INTERNALLY	-9,462,526.00	0.00	-9,462,526.00	-3,650,169.40	0.00	0.00	1,251,892.19	-2,398,277.21	0.25	**Unprotected**	1,251,892.19
STORM RESERVE	35,999.49	0.00	35,999.49	13,886.80	39,295.69	0.00	-44,058.42	9,124.07	0.25	**Unprotected**	-4,762.73
VACATION ACCRUAL	2,310,351.34	0.00	2,310,351.34	891,218.03	-8,631.02	0.00	-297,028.47	585,558.54	0.25	**Unprotected**	-305,659.49
WHOLE PRICING INTEREST COMPONENT	-1,833,177.00	0.00	-1,833,177.00	-707,148.03	-69,293.98	0.00	311,823.29	-464,618.72	0.25	**Unprotected**	242,529.31
WORKERS COMPENSATION - NC	528,155.00	0.00	528,155.00	203,735.80	-70,517.05	0.00	642.14	133,860.89	0.25	**Unprotected**	-69,874.91
	-1,218,373,505.20	0.00	-1,218,373,505.20	-187,176,954.41	7,317,712.08	0.00	59,342,365.61	-120,516,876.72			66,660,077.69

Summary

Row Labels	Original
Protected	54,597,549.50
Unprotected	12,062,528.19
Grand Total	66,660,077.69

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
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Peoples Gas System
TOTAL Deferred Taxes Balance Report
*** 2017 Provision**

Summary	Original	Reclass	Revised
Protected	54,597,549.5	32,370,782.9	86,968,332.4
Unprotected	12,062,528.2	(29,948,568.7)	(17,886,040.5)
Grand Total	66,660,077.7	2,422,214.2	69,082,291.9

	Current Law	Proposed Rate	
offset	-0.01925	-0.01155	0.0077
state	0.055	0.055	0
fed	0.33075	0.19845	-0.1323
st + offset	0.03575	0.04345	**0.0077**
fed stat.	0.35	0.21	-0.14
Net Fed & State	0.38575	0.25345	**-0.1323**
Norm Gross Up	0.62800	0.339495	**-0.288506618**

	Schedule M Items			**Deferred Taxes**							
M Item	**"Beginning Balance"**	**"True-Up Activity"**	**Gross Timing Difference**	**"DIT Beginning Balance"**	**"Current Activity"**	**"True-Up Activity"**	**"Adjustment Activity"**	**After Tax Deferred Tax Liability**	**Rate**	**Normalization**	**Excess DIT**
401K - PERFORMANCE MATCH	-0.12	0.00	-0.12	-0.05	6,879.60	0.00	-6,879.59	-0.04	0.33	**Unprotected**	0.01
ABNORMAL RETIREMENTS	-8,879,987.00	8,879,987.00	0.00	-3,425,454.99	0.00	-1,174,822.28	1,174,822.28	-3,425,454.99	0.25	**Unprotected**	0.00
ACC DEF ITC - PGS	0.00	0.00	0.00	0.00	-0.63	0.00	0.63	0.00	0.00	**Unprotected**	0.00
ACCRUED BONUS	2,291,486.68	0.00	2,291,486.68	883,940.99	29,968.19	0.00	-333,131.88	580,777.30	0.25	**Unprotected**	-303,163.69
ACQUISITION ADJUSTMENT	4,775,964.90	0.00	4,775,964.90	1,842,328.47	-19,732.00	0.00	-612,128.16	1,210,468.31	0.25	**Unprotected**	-631,860.16
AIAC	11,943,516.21	0.00	11,943,516.21	4,607,211.37	401,214.51	0.00	-1,981,341.70	3,027,084.18	0.25	**Unprotected**	-1,580,127.19
ALTERNATIVE FUEL VEHICLE DEDUCTION	-1,419,951.00	0.00	-1,419,951.00	-547,746.10	0.00	0.00	187,859.51	-359,886.59	0.25	**Unprotected**	187,859.51
AMORT - CAPLIZED CUST ASSIST COSTS	64,480,004.21	0.00	64,480,004.21	24,873,161.62	-657,889.84	0.00	-7,872,814.72	16,342,457.06	0.25	**Unprotected**	-8,530,704.56
AMORT - LH IMPROVE AND LAND RIGHTS	7,169,624.96	0.00	7,169,624.96	2,765,682.83	-250,345.42	0.00	-698,195.97	1,817,141.44	0.25	**Unprotected**	-948,541.39
BAD DEBT	252,188.43	0.00	252,188.43	97,281.68	-24,974.05	0.00	-8,390.48	63,917.15	0.25	**Unprotected**	-33,364.53
CI - BS REPLACEMENT - C	-1,030,552.00	0.00	-1,030,552.00	-397,535.43	362,491.43	0.00	-226,149.40	-261,193.40	0.25	**Unprotected**	136,342.03
CIAC	58,928,358.26	-40,591,304.26	18,337,054.00	22,731,614.19	-267,340.58	5,370,229.55	-7,528,881.22	20,305,621.94	0.25	**Unprotected**	-2,425,992.25
COMPETITIVE RATE ADJ - C	-2,885,478.39	0.00	-2,885,478.39	-1,113,073.29	20,999.28	0.00	360,749.52	-731,324.49	0.25	**Unprotected**	381,748.80
CONSTRUCTION OVERHEAD CAPITALIZED (263A)	-5,318,397.00	5,318,397.00	0.00	-2,051,571.65	0.00	-703,623.92	703,623.93	-2,051,571.64	0.25	**Unprotected**	0.01
CONTRACTOR DAMAGE RESERVE	47,680.43	0.00	47,680.43	18,392.72	0.00	0.00	-6,308.12	12,084.60	0.25	**Unprotected**	-6,308.12
COST OF REMOVAL	-78,237,000.85	253,849,976.85	175,612,976.00	-30,179,923.08	855,370.51	-33,584,351.94	9,495,384.70	-53,413,519.81	0.25	**Unprotected**	-23,233,596.73
CURRENCY ADJ - UNREAL G/L	0.00	0.00	0.00	0.00	2.53	0.00	-2.53	0.00	0.00	**Unprotected**	0.00
DEF SEP CO - EMERA FED NOL-UNPROTECTED	9,500,474.34	0.00	9,500,474.34	3,325,166.02	0.00	0.00	-1,330,066.41	1,995,099.61	0.21	**Unprotected**	-1,330,066.41
DEF SEP CO - EMERA FL NOL-UNPROTECTED	4,625,015.23	0.00	4,625,015.23	165,344.30	0.00	0.00	35,612.61	200,956.91	0.04	**Unprotected**	35,612.61
DEFERRED FUEL	-2,834,666.00	0.00	-2,834,666.00	-1,093,472.41	375,026.32	0.00	-0.01	-718,446.10	0.25	**Unprotected**	375,026.31
DEPRECIATION - BOOK	441,491,283.88	-1,381,224,892.88	-939,733,609.00	170,305,262.76	-6,064,753.99	182,736,053.33	-52,344,542.88	294,632,019.22	0.25	**Protected**	124,326,756.46
DEPRECIATION - BOOK TAX DIFF FED	-847,096,444.02	1,137,085,042.02	289,988,598.00	-296,483,755.41	10,935,323.85	-159,191,905.88	107,658,178.32	-337,082,159.12	0.21	**Protected**	-40,598,403.71
DEPRECIATION - BOOK TAX DIFF STATE	-725,539,713.79	1,146,316,286.79	420,776,573.00	-25,938,044.77	-665,555.26	8,826,635.41	-4,921,100.54	-22,698,065.16	0.04	**Protected**	3,239,979.61
ENERGY CONSERVATION REV - C	-2,498,428.00	0.00	-2,498,428.00	-963,768.60	305,455.69	0.00	25,086.33	-633,226.58	0.25	**Unprotected**	330,542.02
ENVIROMNTAL DISP COSTS NET - C	-2,643,027.32	0.00	-2,643,027.32	-1,019,547.78	-362,934.32	0.00	712,606.83	-669,875.27	0.25	**Unprotected**	349,672.51
ENVIROMNTAL DISP COSTS NET - NC	0.06	0.00	0.06	0.02	-0.01	0.00	0.00	0.01	0.17	**Unprotected**	-0.01
FAS 106 - NC	15,742,627.19	0.00	15,742,627.19	6,072,718.45	-15,216.49	0.00	-2,067,533.09	3,989,968.87	0.25	**Unprotected**	-2,082,749.58
FAS 106 FAS 158 - C	825,877.00	0.00	825,877.00	318,582.06	-12,026.34	0.00	-97,237.19	209,318.53	0.25	**Unprotected**	-109,263.53
FAS 106 FAS 158 - C 283	-825,877.00	0.00	-825,877.00	-318,582.06	12,026.34	0.00	97,237.19	-209,318.53	0.25	**Unprotected**	109,263.53
FAS 106 FAS 158 - NC	-123,630.00	0.00	-123,630.00	-47,690.27	-279,581.65	0.00	295,937.90	-31,334.02	0.25	**Unprotected**	16,356.25
FAS 106 FAS 158 - NC 283	123,630.00	0.00	123,630.00	47,690.27	279,581.65	0.00	-295,937.90	31,334.02	0.25	**Unprotected**	-16,356.25
FAS 112	3,049,962.00	0.00	3,049,962.00	1,176,522.84	-80,298.81	0.00	-323,211.16	773,012.87	0.25	**Unprotected**	-403,509.97
FAS 158 - MED PT D NC	96,722.60	0.00	96,722.60	37,310.74	0.00	0.00	-12,796.40	24,514.34	0.25	**Unprotected**	-12,796.40
FAS 158 - MED PT D NC 283	-96,722.60	0.00	-96,722.60	-37,310.74	0.00	0.00	12,796.40	-24,514.34	0.25	**Unprotected**	12,796.40
G/L - SALE OF ASSETS	-16,807,003.67	0.00	-16,807,003.67	-6,483,301.66	283,199.45	0.00	1,940,367.13	-4,259,735.08	0.25	**Unprotected**	2,223,566.58
GENERAL BUSINESS CREDIT	-394,317.00	0.00	-394,317.00	394,317.00	0.00	0.00	0.00	394,317.00	0.00	**Unprotected**	0.00
HEDGES	-763,334.84	0.00	-763,334.84	-294,456.41	-55,372.41	0.00	156,361.60	-193,467.22	0.25	**Unprotected**	100,989.19
INSURANCE RESERVE - C	-621,882.00	0.00	-621,882.00	-239,890.98	29,956.81	0.00	52,318.18	-157,615.99	0.25	**Unprotected**	82,274.99
INSURANCE RESERVE - NC	2,777,927.00	0.00	2,777,927.00	1,071,585.35	71,413.15	0.00	-438,932.90	704,065.60	0.25	**Unprotected**	-367,519.75
LEASE-PLANT	858,625.00	0.00	858,625.00	331,214.60	-70,100.21	0.00	-43,495.88	217,618.51	0.25	**Unprotected**	-113,596.09
LONG TERM INCENTIVE	1,179,673.88	0.00	1,179,673.88	455,059.20	-118,140.72	0.00	-37,930.14	298,988.34	0.25	**Unprotected**	-156,070.86
OCI FAS 133 - C	181,065.00	0.00	181,065.00	69,845.83	203,841.22	0.00	-227,796.12	45,890.93	0.25	**Unprotected**	-23,954.90
OCI FAS 133 - C 283	-181,065.00	0.00	-181,065.00	-69,845.83	-203,841.22	0.00	227,796.12	-45,890.93	0.25	**Unprotected**	23,954.90
OCI FAS 133 - NC	0.00	0.00	0.00	0.00	35,380.34	0.00	-35,380.34	0.00	0.00	**Unprotected**	0.00
OCI FAS 133 - NC 283	0.00	0.00	0.00	0.00	-35,380.34	0.00	35,380.34	0.00	0.00	**Unprotected**	0.00
OCI FAS 133 INTEREST - NC	918,998.60	0.00	918,998.60	354,503.71	56,433.97	0.00	-178,017.48	232,920.20	0.25	**Unprotected**	-121,583.51
PENSION - NC	-22,276,366.22	0.00	-22,276,366.22	-8,593,108.27	-37,850.37	0.00	2,985,013.62	-5,645,945.02	0.25	**Unprotected**	2,947,163.25
PENSION FAS 158 - NC	22,299,756.00	0.00	22,299,756.00	8,602,130.88	718,458.72	0.00	-3,668,716.44	5,651,873.16	0.25	**Unprotected**	-2,950,257.72
PENSION FAS 158 - NC 283	-22,299,756.00	0.00	-22,299,756.00	-8,602,130.88	-718,458.72	0.00	3,668,716.44	-5,651,873.16	0.25	**Unprotected**	2,950,257.72

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
EXHIBIT NO. ___ (VS-1)
WITNESS: STRICKLAND
DOCUMENT NO. 3
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FILED: 05/31/2018

M Item	"Beginning Balance"	"True-Up Activity"	Gross Timing Difference	"DIT Beginning Balance"	"Current Activity"	"True-Up Activity"	"Adjustment Activity"	After Tax Deferred Tax Liability	Rate	Normalization	Excess DIT
RATE CASE EXPENSE - NC	0.08	0.00	0.08	0.03	0.00	0.00	-0.01	0.02	0.25	Unprotected	-0.01
REPAIRS CAPITALIZED ON BOOKS	-142,985,514.82	10,408,585.82	-132,576,929.00	-55,156,662.35	2,519,934.86	-1,377,055.90	16,397,048.76	-37,616,734.63	0.25	Unprotected	17,539,927.72
RESEARCH EXPENSE - C	0.16	0.00	0.16	0.07	0.00	0.00	-0.03	0.04	0.25	Unprotected	-0.03
RESEARCH EXPENSE - NC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Unprotected	0.00
RESTORATION PLAN	41,592.00	0.00	41,592.00	16,044.11	-5,237.75	0.00	-264.87	10,541.49	0.25	Unprotected	-5,502.62
RESTORATION PLAN FAS 158 - NC	281,817.00	0.00	281,817.00	108,710.91	-36,007.70	0.00	-1,276.69	71,426.52	0.25	Unprotected	-37,284.39
RESTORATION PLAN FAS 158 - NC 283	-281,817.00	0.00	-281,817.00	-108,710.91	36,007.70	0.00	1,276.69	-71,426.52	0.25	Unprotected	37,284.39
RETIREMENT OVERHEAD COSTS	-1,917,294.00	1,917,294.00	0.00	-739,596.16	0.00	-253,658.00	253,658.00	-739,596.16	0.25	Unprotected	0.00
SEC 263A INDIRECT COSTS	2,235,573.96	2,530,945.64	4,766,519.60	862,372.66	-19,641.53	-334,844.11	-276,124.91	231,762.11	0.25	Unprotected	-630,610.55
SEC 263A INTEREST CAP	20,987,130.13	-15,945,260.13	5,041,870.00	8,095,785.45	-57,978.22	2,109,557.92	-2,718,619.09	7,428,746.06	0.25	Unprotected	-667,039.39
SERP - NC	899,342.42	0.00	899,342.42	346,921.34	-53,449.10	0.00	-65,533.90	227,938.34	0.25	Unprotected	-118,983.00
SERP FAS 158 - C	388,457.00	0.00	388,457.00	149,847.29	0.00	0.00	-51,392.86	98,454.43	0.25	Unprotected	-51,392.86
SERP FAS 158 - C 283	-388,457.00	0.00	-388,457.00	-149,847.29	0.00	0.00	51,392.86	-98,454.43	0.25	Unprotected	51,392.86
SERP FAS 158 - NC	1,219,014.00	0.00	1,219,014.00	470,234.65	64,068.00	0.00	-225,343.55	308,959.10	0.25	Unprotected	-161,275.55
SERP FAS 158 - NC 283	-1,219,014.00	0.00	-1,219,014.00	-470,234.65	-64,068.00	0.00	225,343.55	-308,959.10	0.25	Unprotected	161,275.55
SOFTWARE DEVELOPED INTERNALLY	-9,462,526.00	0.00	-9,462,526.00	-3,650,169.40	0.00	0.00	1,251,892.19	-2,398,277.21	0.25	Unprotected	1,251,892.19
STORM RESERVE	35,999.49	0.00	35,999.49	13,886.80	39,295.69	0.00	-44,058.42	9,124.07	0.25	Unprotected	-4,762.73
VACATION ACCRUAL	2,310,351.34	0.00	2,310,351.34	891,218.03	-8,631.02	0.00	-297,028.47	585,558.54	0.25	Unprotected	-305,659.49
WHOLE PRICING INTEREST COMPONENT	-1,833,177.00	0.00	-1,833,177.00	-707,148.03	-69,293.98	0.00	311,823.29	-464,618.72	0.25	Unprotected	242,529.31
WORKERS COMPENSATION - NC	528,155.00	0.00	528,155.00	203,735.80	-70,517.05	0.00	642.14	133,860.89	0.25	Unprotected	-69,874.91
	-1,218,373,505.20	1,128,545,057.85	-89,828,447.35	-187,176,954.41	7,317,712.08	2,422,214.17	59,342,365.61	-118,094,662.55	0.10		69,082,291.86

Summary

Row Labels	Original	Reclass	Revised
Protected	54,597,549.50	32,370,782.85	86,968,332.35
Unprotected	12,062,528.19	(29,948,568.68)	(17,886,040.49)
Grand Total	66,660,077.69	2,422,214.17	69,082,291.86

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
EXHIBIT NO. ___ (VS-1)
WITNESS: STRICKLAND
DOCUMENT NO. 4
PAGE 1 OF 1
FILED: 05/31/2018

2018 TAX EXPENSE UNDER THE TCJA

Peoples Gas System

2018 Budget Tax Budget Total	**Tax Reform**	**Without Tax Reform- corp budget**	**Difference**
==			
Book Income Before Tax Total	$69,351,352	$69,492,006	($140,654)
==			
Permanent Differences			
P100 MEALS & ENTERTAINMENT 50%	$140,000	$140,000	$0
P130 CLUB DUES	$19,892	$19,892	$0
P200 POLITICAL CONTRIBUTIONS	$76,595	$76,595	$0
P220 LOBBYING	$79,793	$79,793	$0
Total Permanent Differences	$316,280	$316,280	$0
==			
Taxable Income	$69,667,632	$69,808,286	($140,654)
Statutory Tax Rate	0.25345	0.38575	
	17,657,261	26,928,546	(9,271,285)
Excess DIT	(334,344)	-	(334,344)
Total Income Tax	17,322,917	26,928,546	(9,605,629)

Peoples Gas System

2018 Budget Tax Budget Utility	**Tax Reform**	**Corp Budget**	**Difference**
==			
Book Income Before Tax Utility	$69,351,352	$69,492,006	($140,654)
==			
Permanent Differences			
P100 MEALS & ENTERTAINMENT 50%	$140,000	$140,000	$0
P130 CLUB DUES	$19,892	$19,892	$0
P200 POLITICAL CONTRIBUTIONS	$76,595	$76,595	$0
Total Permanent Differences	$236,487	$236,487	$0
==			
Taxable Income	$69,587,839	$69,728,493	($140,654)
Statutory Tax Rate	0.25345	0.38575	
	17,637,038	26,897,766	(9,260,728)
Excess DIT	(334,344)	-	(334,344)
Total Income Tax	17,302,694	26,897,766	(9,595,072)

TECO PEOPLES GAS
AN EMERA COMPANY

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20180044-GU

IN RE: CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FOR PEOPLES GAS SYSTEM

DIRECT TESTIMONY AND EXHIBIT
OF
JEFFREY S. CHRONISTER

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 as Controller, Tampa Electric and Peoples Gas System ("Peoples Gas") (collectively "the company").

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 Peoples Gas. 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 the company in 1986. I started in Tampa Electric's Accounting department, moved to TECO Energy's Internal Audit department in 1987, and returned to the 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 and Peoples Gas 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, 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, Tampa Electric’s environmental compliance activities for purposes of cost recovery, and most recently Docket No. 20170271-EI 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 amount associated with the recent changes in the Internal Revenue Code (“IRC”), (2) sponsor the calculation of the annual revenue requirement amount, 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 testimony of Peoples Gas witnesses Alan Felsenthal and Valerie Strickland?

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 Peoples Gas' calculation of the impact of the TCJA on the Peoples Gas' 2018 forecasted income tax expense.

Ms. Strickland sponsors the company's calculation of the Peoples Gas' forecasted income tax expense for 2018 as originally prepared in November 2017 in conjunction with the company's approved 2018 operating budget and as adjusted to reflect the impact of the TCJA.

The calculation of the revenue requirements associated with the TCJA in my direct testimony uses Ms. Strickland's calculations of income tax expense before and after the TCJA as verified by Mr. Felsenthal.

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	2018 Forecasted Earnings Surveillance Report as filed on March 15, 2018
Document No. 2	2018 Forecasted Earnings Surveillance Report updated for Effect of TCJA
Document No. 3	Calculation of Annual Revenue Requirement Amount
Document No. 4	Calculation of 2018 Rate Base Change
Document No. 5	Calculation of 2018 Overall Rate of Return Change
Document No. 6	Calculation of February 6, 2018 through December 31, 2018 TCJA Amount

Q. Please provide a summary of your direct testimony.

A. My direct testimony quantifies the amount of Peoples Gas' annual revenue requirement TCJA impact. My direct testimony also includes a discussion of the future impacts of the TCJA on Peoples Gas. The TCJA decreases future operating cash flows and reduces zero cost of capital accumulated deferred income taxes. This adversely impacts Peoples Gas' earned Return on Equity ("ROE") and overall financial integrity.

Background Information

Q. Has the Commission approved any agreements that address the impact of the TCJA on Peoples Gas' revenue requirement?

A. Yes. On February 26, 2018 the Commission issued Order No. PSC-2018-0104-PCO-PU in Docket No. 20180013-PU whereby the Commission asserted jurisdiction as of February 6, 2018 over the potential significant revenue requirement impacts that the TCJA could produce for Florida utilities regulated by the Commission that did not have a settlement agreement in place addressing the treatment of tax reform benefits.

Tax Reform Annual Revenue Requirement Calculation

Q. What procedures and principles were utilized to guide the company after Congress passed the TCJA?

A. As explained in the prepared direct testimony of Mr. 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 Ms. Strickland, Peoples Gas calculated protected excess deferred taxes in the amount of $87.0 million as of December

31, 2017 and has used the ARAM to calculate the “flow-back” of protected excess deferred taxes in its calculation of the revenue requirement amount for tax reform. With respect to deferred taxes not governed by a transition rule (“unprotected deferred taxes”), Peoples Gas used a flow-back period of ten years. As explained in the prepared direct testimony of Ms. Strickland, Peoples Gas calculated an unprotected deficient deferred taxes balance in the amount of $17.9 million as of December 31, 2017.

Also, as explained in the prepared direct testimony of Ms. Strickland, Peoples Gas estimated the total excess accumulated deferred income taxes recorded in its accounting books and records as of December 31, 2017 in the amount of $69.1 million to account for the revaluation of Peoples Gas’ deferred income tax at the lower income tax rate.

The change in the tax rate from 35 percent to 21 percent for net operating income (“NOI”) was the final calculation component. The provisions of the TCJA became effective January 1, 2018, so Peoples Gas used its forecasted earnings surveillance report (“ESR”)for 2018, reflected in Document No. 1 and Document No. 2 of my exhibit, to compute the impact of the TCJA on Peoples Gas’ revenue requirement.

Q. Based on these principles and procedures, what is the initial NOI impact to account for the effects of TCJA?

A. The initial NOI impact to account for the effects of TCJA, considering the first-year income tax expense, is $8,902,629.

Q. How was this impact amount calculated?

A. The impact amount was calculated by comparing the 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 ESR, filed with the Commission on March 15, 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 impact amount was calculated.

A. The calculation began with the company's 2018 forecasted ESR filed with the Commission on March 15, 2018. This ESR was prepared based on the company's 2018 operating budget adjusted for year-end 2017 balance sheet amounts, which was approved by the company's management in November 2017 and reflects income tax expense calculated on a pre-TCJA basis. Peoples Gas' forecasted FPSC adjusted year-end NOI in the ESR is $52,955,009, a number I will refer to as the "Benchmark NOI".

The next step was to adjust Peoples Gas' forecasted 2018 ESR to reflect the impact of the TCJA. Document No. 2 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. Peoples Gas' forecasted FPSC adjusted NOI per the 2018 forecasted ESR as adjusted for tax reform is $61,857,638, 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. 2 of my exhibit to the Benchmark NOI amount in Document No. 1 of my exhibit to determine the TCJA impact on NOI resulting from the change in income tax expense. The NOI impact due to the TCJA change in income tax expense of $8,902,629 is reflected in Document No. 3 of my exhibit.

Q. Does TCJA impact rate base?

A. Yes. As you can see in Document No. 4 of my exhibit, there is a decrease in rate base because there is an increase in current year taxes payable, which is a component of working capital. Current taxes payable increases due to the increase in taxable income that results from the elimination of bonus depreciation. In addition, there is an increase in interest accrued due to the decrease in operating cash flows.

Q. Does TCJA impact overall rate of return?

A. Yes. As shown in Document No. 5 of my exhibit there is a decrease in zero cost of capital Accumulated Deferred Income Taxes ("ADIT") due to the TCJA elimination of bonus depreciation. The reduction in zero cost of capital ADIT must be replaced by equity and debt in the capital structure.

Q. What was the next step in the calculation process?

A. The next step was to determine the required 2018 NOI resulting from changes in rate base and the overall rate of return. In order to determine those impacts I have prepared a couple of documents that reflect the change in rate base and the change in the overall rate of return. Document No. 4 of my exhibit shows the decrease in 2018 rate base resulting from TCJA. Document No. 5 of my exhibit reflects the changes to the overall rate of return. The rate base change and overall rate of return change due to the TCJA are both reflected in Document No. 3 of my exhibit. The overall capital structure impact from the post-TCJA change in rate base and overall rate of return is an offsetting $243,367 against the $8,902,629 NOI impact mentioned above in the third step.

Lastly, the total NOI difference considering all elements described above is then grossed up for state and federal income taxes to arrive at the annual revenue requirement amount. Using the state income tax rate of 5.5 percent and the new federal income tax rate of 21 percent, the new

Peoples Gas effective tax rate is 25.345 percent. The new tax gross up factor equals 1 / (1 - 25.345%), which equals 1.3395. The annual revenue requirement calculated amount is the difference between the Post-TCJA NOI amount and the Benchmark NOI less the offsetting impact of the change in rate base and overall return, the sum of which is multiplied by the tax gross up factor. This calculation, which reflects the overall effects of TCJA considering the first-year income tax expense and capital structure impacts, is shown in Document No. 3 of my exhibit.

Q. So, with that explanation, what is the annual revenue requirement impact of the TCJA?

A. Peoples Gas calculated a first-year annual revenue requirement impact from tax reform of $11,599,038. A document summarizing the calculation of this amount is included as Document No. 3 of my exhibit.

Q. How was the TCJA revenue requirement amount associated with the period February 6, 2018 to December 31, 2018 determined?

A. To determine the TCJA revenue requirement amount for the period February 6, 2018 through December 31, 2018, Peoples Gas subtracted from the annual revenue requirement the portion related to the period January 1, 2018 through February 5, 2018. To determine the January 1 through February 5, 2018 impact on the annual revenue requirements, Peoples Gas removed the TCJA impacts for the full month of January and the respective prorated portion of February, or 5 out of 28 days of February. Excluding the January 1 through February 5, 2018 amount from Peoples Gas' annual revenue requirement calculation results in a February 6, 2018 through December 31, 2018 TCJA amount of $9,920,560. A document summarizing the calculation of the amount is included as Document No. 6 of my exhibit.

Future Impacts of TCJA

Q. In his prepared direct testimony, Mr. Felsenthal describes the general effects the TCJA will have on regulated utilities like Peoples Gas. 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 flow back 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 Peoples Gas' 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 Peoples Gas 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. Peoples Gas 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. 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 Peoples Gas' 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 Peoples Gas.

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 I previously stated, 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 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. Due to the higher cost of capital and projected growth in Peoples Gas' distribution system, Peoples Gas' 2019 ROE is expected to fall below the 9.25 percent bottom of the company's allowed ROE range agreed to in the 2016 Settlement Agreement.

Q. Due to the general effects of the TCJA on Peoples Gas' financial integrity, when should the adjustments for the TCJA be implemented?

A. Peoples Gas has provided the calculations of impacts associated with the TCJA but believes discussions with stakeholders on when and how to flow back the tax reform benefits to customers when considering the general effects on the company’s financial integrity are necessary. As noted by the Commission in Order No. PSC-2018-0104-PCO-PU in Docket No. 20180013-PU, the TCJA is complex with many moving parts some of which will increase revenue requirements and some of which will reduce revenue requirements. Peoples Gas believes a limited proceeding where detailed information on the overall impacts of the TCJA as well as discussions with stakeholders are necessary to ensure that the impact of the TCJA does not result in an outcome where the company is earning below its authorized rate of return.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

EXHIBIT

OF

JEFFREY S. CHRONISTER

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TECO
PEOPLES GAS
AN EMERA COMPANY

March 15, 2018

Mr. Andrew L. Maurey, Director
Florida Public Service Commission
Division of Accounting and Finance
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Maurey:

In accordance with Rule 25-7.1353, enclosed is the Forecasted Earnings Surveillance Report of Peoples Gas System for the year ending December 31, 2018.

Please let me know if you have any questions.

Respectfully,

Jeffrey S. Chronister
Controller

Enclosures

cc: Office of Public Counsel – J.R. Kelly

SCHEDULE 1

PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
2018 Budget

I. AVERAGE RATE OF RETURN (JURISDICTIONAL)	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
NET OPERATING INCOME	$ 57,975	$ (5,020)	$ 52,955	$ 0	$ 52,955
AVERAGE RATE BASE	$ 990,358	$ (96,929)	$ 893,429	$ 0	$ 893,429
AVERAGE RATE OF RETURN	5.85 %		5.93 %		5.93 %

II. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS)

LOW	5.43 %
MIDPOINT	6.05 %
HIGH	6.47 %

III. EARNED RETURN ON EQUITY

	FPSC ADJUSTED	PRO FORMA ADJUSTED
A. INCLUDING FLEX RATE REVENUES	10.46 %	10.46 %
B. EXCLUDING FLEX RATE REVENUES	10.10 %	10.10 %

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his or her official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083.

Jeffrey S. Chronister, Controller
(Name and Title)

(Signature)

3/14/18
(Date)

PSC/AFA13

SCHEDULE 2

PEOPLES GAS SYSTEM
AVERAGE RATE BASE
2018 Budget

	(1) Plant in Service	(2) Plant Acquisition Adjustment	(3) Accumulated Depreciation & Amortization	(4) Customer Advances for Construction	(5) Net Plant in Service	(7) Property Held for Future Use	(8) Construction Work in Progress	(9) Net Utility Plant	(10) Working Capital	(11) Total Rate Base
PER BOOKS	1,667,427	5,032	733,935	8,405	930,119	1,940	46,805	978,864	11,494	990,358
FPSC ADJUSTMENTS:										
Property for Future Use						(1,940)		(1,940)		(1,940)
Temporary Cash Investment									-	-
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									-	-
Merchandise Inventory									-	-
Other Accounts Receivable									(4,739)	(4,739)
Non-Utility Allocation	(513)		(143)		(371)			(371)		(371)
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense									(1,450)	(1,450)
Remove Unrecovered Gas Cost PGA									(2,851)	(2,851)
Remove Dividends Declared									-	-
Remove Unrec. Conservation Costs									(708)	(708)
Remove Unrec. CIBSR Costs									(831)	(831)
Remove Competitive Rate Adjustment									(2,549)	(2,549)
Remove Unamortized Rate Case Expense									-	-
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,701)		(246)			(246)		(246)
Remove MSEA Adjustment							-	-		-
Cast Iron/Bare Steel Rider (CIBSR)	(81,059)		(3,950)		(77,109)		(2,882)	(79,991)		(79,991)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,139)	(1,139)
TOTAL FPSC ADJUSTMENTS	(81,573)	(2,947)	(6,794)	-	(77,725)	(1,940)	(2,997)	(82,662)	(14,267)	(96,929)
FPSC ADJUSTED	1,585,854	2,085	727,141	8,405	852,394	-	43,808	896,202	(2,773)	893,429
FLEX RATE REVENUES										
ADJUSTED FOR FLEX RATE REVENUES	1,585,854	2,085	727,141	8,405	852,394	-	43,808	896,202	(2,773)	893,429
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										-
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	1,585,854	2,085	727,141	8,405	852,394	-	43,808	896,202	(2,773)	893,429

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
EXHIBIT NO. ___ (JSC-1)
WITNESS: CHRONISTER
DOCUMENT NO. 1
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FILED: 05/31/2018

SCHEDULE 3

PEOPLES GAS SYSTEM
NET OPERATING INCOME
2018 Budget

	(1) Operating Revenues	(2) O & M Gas Expense	(3) O & M Other	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes Current	(7) Deferred Income Taxes (Net)	(8) Investment Tax Credit (Net)	(9) Gain/Loss on Disposition	(10) Total Operating Expenses	(11) Net Operating Income
PER BOOKS	442,539	153,294	114,276	52,657	39,549	(1,269)	28,198	-	(2,140)	384,564	57,975
FPSC ADJUSTMENTS:											
Remove Conservation Charges	(16,573)		(16,573)			-				(16,573)	-
Non-Utility Allocation				(19)	-	7				(12)	12
Interest Synchronization						683				683	(683)
Parent Debt Adjustment						-				-	-
Remove Fuel Revenues	(153,843)	(153,294)			(549)	-				(153,843)	-
Economic Development Adjustment			(16)			6				(10)	10
Employee Activities			(83)			32				(51)	51
Intercompany Adjustment			(8)			3				(5)	5
Maintenance of General Plant			(34)			13				(21)	21
Maint. of Structures and Improvements			(11)			4				(7)	7
Lobbying included in Dues (AGA, FNGA)			(33)			13				(20)	20
Civic/Social Club Dues			-			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		31				(49)	49
Gain on Sale of Property						-			-	-	-
Lease of PHFFU	(60)					(23)				(23)	(37)
Remove ITC Amortization						-		-		-	-
Cast Iron/Bare Steel Rider (CIBSR)	(2,902)		-	(1,810)	(1,091)	-				(2,902)	(0)
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(7,285)					(2,810)				(2,810)	(4,475)
OSS Adjustment	-					-				-	-
TOTAL FPSC ADJUSTMENTS	(180,662)	(153,294)	(16,757)	(1,909)	(1,640)	(2,041)	-	-	-	(175,642)	(5,020)
FPSC ADJUSTED	261,877	-	97,518	50,748	37,909	(3,310)	28,198	-	(2,140)	208,922	52,955
FLEX RATE REVENUES	(2,129)					(821)				(821)	(1,308)
ADJUSTED FOR FLEX RATE REVENUES	259,748	-	97,518	50,748	37,909	(4,131)	28,198	-	(2,140)	208,101	51,647
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
Deferred Tax True-up						-				-	-
TOTAL PRO FORMA ADJUSTMENTS	-		-			-			-	-	-
PRO FORMA ADJUSTED	261,877	-	97,518	50,748	37,909	(3,310)	28,198	-	(2,140)	208,922	52,955
PER BOOKS CURRENT MONTH AMOUNT	39,723	12,927	9,518	4,535	3,573	(47)	3,147	-	-	33,653	6,070

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
EXHIBIT NO. ___ (JSC-1)
WITNESS: CHRONISTER
DOCUMENT NO. 1

FILED: 05/31/2018

SCHEDULE 4

PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
2018 Budget

		ADJUSTMENTS				LOW POINT		MIDPOINT		HIGH POINT	
AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	RATIO (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	276,773	(2,679)	(32,857)	241,237	27.00%	5.03	1.36	5.03	1.36	5.03	1.36
SHORT TERM DEBT	62,538		(7,497)	55,041	6.16%	2.36	0.15	2.36	0.15	2.36	0.15
RESIDENTIAL DEPOSITS	6,555		-	6,555	0.73%	2.00	0.01	2.00	0.01	2.00	0.01
COMMERCIAL DEPOSITS	18,150		-	18,150	2.03%	3.00	0.06	3.00	0.06	3.00	0.06
INACTIVE DEPOSITS	375		-	375	0.04%						
COMMON EQUITY	424,639	(2,552)	(50,598)	371,490	41.58%	9.25	3.85	10.75	4.47	11.75	4.89
DEFERRED INCOME TAX	201,328	(747)	-	200,581	22.45%						
TAX CREDITS - ZERO COST		-	-	-	0.00%						
TOTAL	990,358	(5,978)	(90,951)	893,429	100.00%		5.43		6.05		6.47

SCHEDULE 5

PEOPLES GAS SYSTEM
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
2018 Budget

A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY INCLUDING FLEX RATE REVENUES

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	5.93 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.36) %	
SHORT TERM DEBT	(0.15) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.07) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	(1.58) %	
TOTAL	4.35 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	41.58 %	
JURISDICTIONAL RETURN ON COMMON EQUITY	10.46 %	

B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	$ 51,647	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	$ 893,429	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	5.78 %	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.36) %	
SHORT TERM DEBT	(0.15) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.07) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	(1.58) %	
TOTAL	4.20 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	41.58 %	
JURISDICTIONAL RETURN ON COMMON EQUITY	10.10 %	

SCHEDULE 1

PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
12&0 Based 2018 Budget With Revised Tax Reform

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
NET OPERATING INCOME	$ 67,581	$ (5,723)	$ 61,858	$ 0	$ 61,858
AVERAGE RATE BASE	$ 988,486	$ (96,929)	$ 891,557	$ 0	$ 891,557
AVERAGE RATE OF RETURN	6.84 %		6.94 %		6.94 %

II. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS)	
LOW	5.46 %
MIDPOINT	6.09 %
HIGH	6.51 %

III. EARNED RETURN ON EQUITY

	FPSC ADJUSTED	PRO FORMA ADJUSTED
A. INCLUDING FLEX RATE REVENUES	12.77 %	12.77 %
B. EXCLUDING FLEX RATE REVENUES	12.34 %	12.34 %

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his or her official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083.

Jeffrey S. Chronister, Controller		
(Name and Title)	(Signature)	(Date)

PSC/AFA13

PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
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SCHEDULE 2

PEOPLES GAS SYSTEM
AVERAGE RATE BASE
12&0 Based 2018 Budget With Revised Tax Reform

	(1) Plant in Service	(2) Plant Acquisition Adjustment	(3) Accumulated Depreciation & Amortization	(4) Customer Advances for Construction	(5) Net Plant in Service	(7) Property Held for Future Use	(8) Construction Work in Progress	(9) Net Utility Plant	(10) Working Capital	(11) Total Rate Base
PER BOOKS	1,667,427	5,032	733,935	8,405	930,119	1,940	46,805	978,864	9,622	988,486
FPSC ADJUSTMENTS:										
Property for Future Use						(1,940)		(1,940)		(1,940)
Temporary Cash Investment									-	-
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									-	-
Merchandise Inventory									-	-
Other Accounts Receivable									(4,739)	(4,739)
Non-Utility Allocation	(513)		(143)		(371)			(371)		(371)
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense									(1,450)	(1,450)
Remove Unrecovered Gas Cost PGA									(2,851)	(2,851)
Remove Dividends Declared									-	-
Remove Unrec. Conservation Costs									(708)	(708)
Remove Unrec. CIBSR Costs									(831)	(831)
Remove Competitve Rate Adjustment									(2,549)	(2,549)
Remove Unamortized Rate Case Expense									-	-
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,701)		(246)			(246)		(246)
Remove MSEA Adjustment							-	-		-
Cast Iron/Bare Steel Rider (CIBSR)	(81,059)		(3,950)		(77,109)		(2,882)	(79,991)		(79,991)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,139)	(1,139)
TOTAL FPSC ADJUSTMENTS	(81,573)	(2,947)	(6,794)	-	(77,725)	(1,940)	(2,997)	(82,662)	(14,267)	(96,929)
FPSC ADJUSTED	1,585,854	2,085	727,141	8,405	852,394	-	43,808	896,202	(4,645)	891,557
FLEX RATE REVENUES										
ADJUSTED FOR										
FLEX RATE REVENUES	1,585,854	2,085	727,141	8,405	852,394	-	43,808	896,202	(4,645)	891,557
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										
										-
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	1,585,854	2,085	727,141	8,405	852,394	-	43,808	896,202	(4,645)	891,557

SCHEDULE 3

PEOPLES GAS SYSTEM
NET OPERATING INCOME
12&0 Based 2018 Budget With Revised Tax Reform

	(1) Operating Revenues	(2) O & M Gas Expense	(3) O & M Other	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes Current	(7) Deferred Income Taxes (Net)	(8) Investment Tax Credit (Net)	(9) Gain/Loss on Disposition	(10) Total Operating Expenses	(11) Net Operating Income
PER BOOKS	442,539	153,294	114,276	52,657	39,549	7,541	9,782	-	(2,140)	374,958	67,581
FPSC ADJUSTMENTS:											
Remove Conservation Charges	(16,573)		(16,573)			-				(16,573)	-
Non-Utility Allocation				(19)	-	5				(14)	14
Interest Synchronization						451				451	(451)
Parent Debt Adjustment						-				-	-
Remove Fuel Revenues	(153,843)	(153,294)			(549)	-				(153,843)	-
Economic Development Adjustment			(16)			4				(12)	12
Employee Activities			(83)			21				(62)	62
Intercompany Adjustment			(8)			2				(6)	6
Maintenance of General Plant			(34)			9				(25)	25
Maint. of Structures and Improvements			(11)			3				(8)	8
Lobbying included in Dues (AGA, FNGA)			(33)			8				(25)	25
Civic/Social Club Dues			-			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		20				(60)	60
Gain on Sale of Property						-			-	-	-
Lease of PHFFU	(60)					(15)				(15)	(45)
Remove ITC Amortization						-		-		-	-
Cast Iron/Bare Steel Rider (CIBSR)	(2,902)		-	(1,810)	(1,091)	-				(2,902)	(0)
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(7,285)					(1,846)				(1,846)	(5,439)
OSS Adjustment	-					-				-	-
TOTAL FPSC ADJUSTMENTS	(180,662)	(153,294)	(16,757)	(1,909)	(1,640)	(1,338)	-	-	-	(174,939)	(5,723)
FPSC ADJUSTED	261,877	-	97,518	50,748	37,909	6,203	9,782	-	(2,140)	200,020	61,858
FLEX RATE REVENUES	(2,129)					(540)				(540)	(1,589)
ADJUSTED FOR FLEX RATE REVENUES	259,748	-	97,518	50,748	37,909	5,663	9,782	-	(2,140)	199,480	60,269
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
Deferred Tax True-up						-				-	-
TOTAL PRO FORMA ADJUSTMENTS	-		-			-			-	-	-
PRO FORMA ADJUSTED	261,877	-	97,518	50,748	37,909	6,203	9,782	-	(2,140)	200,020	61,858
PER BOOKS CURRENT MONTH AMOUNT	39,723	12,927	9,518	4,535	3,573	663	1,338	-	-	32,554	7,169

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SCHEDULE 4

PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
12&0 Based 2018 Budget With Revised Tax Reform

		ADJUSTMENTS				LOW POINT		MIDPOINT		HIGH POINT	
AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	RATIO (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	276,773	(2,472)	(32,689)	241,612	27.10%	5.03	1.36	5.03	1.36	5.03	1.36
SHORT TERM DEBT	67,958		(8,099)	59,859	6.71%	2.36	0.16	2.36	0.16	2.36	0.16
RESIDENTIAL DEPOSITS	6,555		-	6,555	0.74%	2.00	0.01	2.00	0.01	2.00	0.01
COMMERCIAL DEPOSITS	18,150		-	18,150	2.04%	3.00	0.06	3.00	0.06	3.00	0.06
INACTIVE DEPOSITS	375		-	375	0.04%						
COMMON EQUITY	426,627	(2,601)	(50,532)	373,494	41.89%	9.25	3.87	**10.75**	4.50	11.75	4.92
DEFERRED INCOME TAX	192,047	(535)	-	191,512	21.48%						
TAX CREDITS - ZERO COST		-	-	-	0.00%						
TOTAL	988,485	(5,608)	(91,320)	891,557	100.00%		5.46		6.09		6.51

PEOPLES GAS SYSTEM
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
12&0 Based 2018 Budget With Revised Tax Reform

A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY
INCLUDING FLEX RATE REVENUES

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	6.94	%	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:			
LONG TERM DEBT	(1.36)	%	
SHORT TERM DEBT	(0.16)	%	
PREFERRED STOCK	0.00	%	
CUSTOMER DEPOSITS	(0.07)	%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00	%	
SUBTOTAL	(1.59)	%	
TOTAL	5.35	%	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	41.89	%	
JURISDICTIONAL RETURN ON COMMON EQUITY	12.77	%	

B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY
EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	$ 60,269		(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	$ 891,557		(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	6.76	%	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:			
LONG TERM DEBT	(1.36)	%	
SHORT TERM DEBT	(0.16)	%	
PREFERRED STOCK	0.00	%	
CUSTOMER DEPOSITS	(0.07)	%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00	%	
SUBTOTAL	(1.59)	%	
TOTAL	5.17	%	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	41.89	%	
JURISDICTIONAL RETURN ON COMMON EQUITY	12.34	%	

Calculation of Annual Revenue Requirement Amount

PGS ESR Based on 2018 Budget With TCJA

		Rev Req Calc	NOI	
1 Rate Base	(A)	891,557,145		
2 Overall Rate of Return	(A)	6.09%		
3 Required Net Operating Income (1)x(2)		54,295,830		
4 Achieved Net Operating Income	(A)	61,857,638	61,857,638	"Post-TCJA NOI"
5 Net Operating Income Deficiency (3)-(4)		(7,561,808)		
6 Net Operating Income Multiplier		1.3395	1.3395	
7 Revenue Requirement (5)x(6)		(10,129,004)	82,857,997	

PGS ESR Based on 2018 Budget Without TCJA (as filed)

		Rev Req Calc	NOI	
1 Rate Base	(B)	893,429,145		
2 Overall Rate of Return	(B)	6.05%		
3 Required Net Operating Income (1)x(2)		54,052,463		
4 Achieved Net Operating Income	(B)	52,955,009	52,955,009	"Benchmark NOI"
5 Net Operating Income Deficiency (3)-(4)		1,097,454		
6 Net Operating Income Multiplier		1.3395	1.3395	
7 Revenue Requirement (5)x(6)		1,470,035	70,932,970	

Annual Revenue Requirement Amount Calculation - TCJA Impact[C]

	Rev Req Calc	Tax Expense Change Impact on NOI	Rate Base and Overall Rate of Return Impact
1 Rate Base	(1,872,000) [D]		
2 Overall Rate of Return	0.04% [E]		
3 Required Net Operating Income	243,367		
4 Achieved Net Operating Income	(8,902,629)	(8,902,629)	
5 Net Operating Income Deficiency	(8,659,262)	(8,902,629)	243,367
6 Net Operating Income Multiplier	1.3395	1.3395	1.3395
7 Revenue Requirement (5)x(6)	(11,599,038) [F]	(11,925,027)	325,989

(A) See calculation of amount in Document No. 2 of my exhibit.
(B) See calculation of amount in Document No. 1 of my exhibit.
(C) Amounts in each line item reflect differences between amounts with and without TCJA.
(D) See calculation of amount in Document No. 4 of my exhibit.
(E) See calculation of amount in Document No. 5 of my exhibit.
(F) Reflected in Document No. 6 of my exhibit.

Calculation of 2018 Rate Base Change

In $ Thousands	[1] PGS ESR Based on 2018 Budget With TCJA	[2] PGS ESR Based on 2018 Budget Without TCJA (as filed)	[1] - [2] Calculation of 2018 Rate Base Change - TCJA Impact
Income Tax Payable	3,041	1,180	1,861
Interest Accrued	3,690	3,679	11
Total Income Tax Payable & Interest Accrued	6,731	4,859	1,872 [A]

(A) Change in rate base reflected in Document No. 3 of my exhibit. Note: An increase in payables results in a decrease in rate base.

Calculation of 2018 Overall Rate of Return Change

PGS ESR Based on 2018 Budget With TCJA [A]

In $ Millions

		ADJUSTMENTS				LOW POINT		MIDPOINT		HIGH POINT	
					RATIO	COST RATE	WEIGHTED COST	COST RATE	WEIGHTED COST	COST RATE	WEIGHTED COST
AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	(%)	(%)	(%)	(%)	(%)	(%)	(%)
LONG TERM DEBT	276,773	(2,472)	(32,689)	241,612	27.10%	5.03	1.36	5.03	1.36	5.03	1.36
SHORT TERM DEBT	67,958		(8,099)	59,859	6.71%	2.36	0.16	2.36	0.16	2.36	0.16
RESIDENTIAL DEPOSITS	6,555		-	6,555	0.74%	2.00	0.01	2.00	0.01	2.00	0.01
COMMERCIAL DEPOSITS	18,150		-	18,150	2.04%	3.00	0.06	3.00	0.06	3.00	0.06
INACTIVE DEPOSITS	375		-	375	0.04%						
COMMON EQUITY	426,627	(2,601)	(50,532)	373,494	41.89%	9.25	3.87	**10.75**	4.50	11.75	4.92
DEFERRED INCOME TAX	192,047	(535)	-	191,512	21.48%						
TAX CREDITS - ZERO COST		-	-	-	0.00%						
TOTAL	988,485	(5,608)	(91,320)	891,557	100.00%		5.46		**6.09** [B]		6.51

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Calculation of 2018 Overall Rate of Return Change

PGS ESR Based on 2018 Budget Without TCJA (as filed) [C]

In $ Millions

		ADJUSTMENTS			RATIO	LOW POINT		MIDPOINT		HIGH POINT	
						COST RATE	WEIGHTED COST	COST RATE	WEIGHTED COST	COST RATE	WEIGHTED COST
AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	(%)	(%)	(%)	(%)	(%)	(%)	(%)
LONG TERM DEBT	276,773	(2,679)	(32,857)	241,237	27.00%	5.03	1.36	5.03	1.36	5.03	1.36
SHORT TERM DEBT	62,538		(7,497)	55,041	6.16%	2.36	0.15	2.36	0.15	2.36	0.15
RESIDENTIAL DEPOSITS	6,555		-	6,555	0.73%	2.00	0.01	2.00	0.01	2.00	0.01
COMMERCIAL DEPOSITS	18,150		-	18,150	2.03%	3.00	0.06	3.00	0.06	3.00	0.06
INACTIVE DEPOSITS	375		-	375	0.04%						
COMMON EQUITY	424,639	(2,552)	(50,598)	371,490	41.58%	9.25	3.85	**10.75**	4.47	11.75	4.89
DEFERRED INCOME TAX	201,328	(747)	-	200,581	22.45%						
TAX CREDITS - ZERO COST		-	-	-	0.00%						
TOTAL	990,358	(5,978)	(90,951)	893,429	100.00%		5.43		**6.05** [D]		6.47

Calculation of 2018 Overall Rate of Return Change

Calculation of 2018 Overall Rate of Return Change - TCJA Impact [E]

In $ Millions

		ADJUSTMENTS				LOW POINT		MIDPOINT		HIGH POINT	
					RATIO	COST RATE	WEIGHTED COST	COST RATE	WEIGHTED COST	COST RATE	WEIGHTED COST
AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	(%)	(%)	(%)	(%)	(%)	(%)	(%)
LONG TERM DEBT	-	207	168	374	0.10%	0.00	0.00	0.00	0.00	0.00	0.00
SHORT TERM DEBT	5,420	-	(602)	4,818	0.55%	0.00	0.01	0.00	0.01	0.00	0.01
RESIDENTIAL DEPOSITS	-	-	-	-	0.01%	0.00	0.00	0.00	0.00	0.00	0.00
COMMERCIAL DEPOSITS	-	-	-	-	0.01%	0.00	0.00	0.00	0.00	0.00	0.00
INACTIVE DEPOSITS	-	-	-	-	0.00%	0.00	0.00	0.00	0.00	0.00	0.00
COMMON EQUITY	1,988	(49)	65	2,004	0.31%	0.00	0.02	**0.00**	0.03	0.00	0.03
DEFERRED INCOME TAX	(9,281)	212	-	(9,069)	-0.97%		0.00		0.00		0.00
TAX CREDITS - ZERO COST											
TOTAL	(1,873)	370	(369)	(1,872) [F]	0.00%		0.03		**0.04** [G]		0.04

(A) As shown in Document No. 2 of my exhibit.
(B) Reflected in Document No. 3 of my exhibit.
(C) As shown in Document No. 1 of my exhibit.
(D) Reflected in Document No. 3 of my exhibit.
(E) Amounts in each line item reflect differences between amounts with and without TCJA.
(F) As shown in Documents No. 3 and No. 4 of my exhibit.
(G) Change in weighted cost reflected in Document No. 3 of my exhibit.

Calculation of February 6, 2018 through December 31, 2018 TCJA Amount

	Jan	Feb	Mar-Dec	Total
1 Income Tax Expense [A]	2,133,000	2,094,000	13,097,000	17,324,000
2 Percentage of Total Income Tax Expense	12.31%	12.09%	75.60%	100.00%
3 Number of Days Retained	31 of 31	5 of 28		
4 Percentage of Time Period Retained	100.00%	17.86%	-	
5 Percentage of Tax Reform Amount Retained (2)x(4)	12.31%	2.16%	-	14.47%
6 Annual Revenue Requirement			[B]	11,599,038
7 January 1, 2018 through February 5, 2018 TCJA Amount (5)x(6)				1,678,478
8 February 6, 2018 through December 31, 2018 TCJA Amount (6)-(7)				9,920,560

(A) Per 2018 Budget updated for effect of TCJA.
(B) Reflected in Document No. 3 of my exhibit.