MACFARLANE FERGUSON & MCMULLEN

ATTORNEYS & COUNSELORS AT LAW EST. 1884

One Tampa City Center, Suite 2000
201 N. Franklin Street
P.O. Box 1531 (33601)
Tampa, FL 33602
813.273.4200 Fax: 813.273.4396

WWW.MFMLEGAL.COM
EMAIL: INFO@MFMLEGAL.COM

625 Court Street, Suite 200
P.O. Box 1669 (33757)
Clearwater, FL 33756
727.441.8966 Fax: 727.442.8470

In Reply Refer to:
Tampa
ab@macfar.com

July 20, 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 electronic filing with the Commission on behalf of Peoples Gas System please find the rebuttal testimony for Jeff Chronister.

Sincerely,

Andrew M. Brown

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

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

REBUTTAL TESTIMONY

OF

JEFFREY S. CHRONISTER

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL 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 Vice President, Finance for Tampa Electric and Peoples Gas System ("Peoples Gas"), (collectively "the company").

Q. Are you the same Jeffrey S. Chronister who submitted prepared direct testimony in this docket?

A. Yes, I am.

Q. Have your duties and responsibilities changed since your direct testimony was submitted?

A. Yes. I was promoted to Vice President, Finance in July 2018. In addition to the responsibilities I had in my previous position as Controller, I now oversee Tampa Electric and TECO Energy corporate accounting and reporting, including consolidation and external reporting.

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

A. The purpose of my rebuttal testimony is to rebut certain statements made by Office of Public Counsel (“OPC”) witness Ralph Smith in his testimony submitted in this docket on June 29, 2018.

Q. To which of witness Smith’s findings or recommendations do you wish to respond?

A. I address two of Mr. Smith’s findings. The first is his statement that “net 2018 revenues of approximately $11.3 million should be refunded to customers,” at page 12 lines 15-16. Second, I respond to his recommendation that the company be required to seek a Private Letter Ruling (“PLR”) from the Internal Revenue Service (“IRS”) regarding the classification of the excess accumulated deferred income taxes for cost of removal/negative net salvage (“cost of removal”) as unprotected.

Q. What is the company’s position on Mr. Smith’s finding that

$11.3 million is the amount of 2018 revenues should be refunded to customers?

A. Peoples Gas disagrees with Mr. Smith’s position, because he seeks a refund of revenues from prior to the date the Commission ordered the company to begin holding revenues subject to refund and the amount of his proposed reduction does not take into account the company’s forecasted position within its allowed Return on Equity (“ROE”) range during this period.

Specifically, Mr. Smith used the annual revenue requirement impact for 2018 of approximately $11.6 million, net of the $326,000 rate base/overall rate of return impact, to arrive at the $11.3 million in revenues he believes should be refunded to customers. I believe Mr. Smith’s testimony reflects a misunderstanding, as the $11.6 million is already net of the $326,000 rate base/overall rate of return impact. However, as I stated in my prepared direct testimony, the 2018 tax reform impact must be adjusted for the effective date the Commission established, which is February 6, 2018[1].

[1] 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.

Once adjusted for the appropriate period, the maximum amount to reduce revenue to reflect the effects of the Tax Cuts and Jobs Act of 2017 ("TCJA") for February 6, 2018 through December 31, 2018 is no more than $9.9 million. The calculation of this amount is shown in my direct testimony on Document No. 6 of Exhibit No. ___ (JSC-1) and described at page 12, line 20, through page 13, line 11.

Q. Should the Commission order a refund to reflect the impacts of the TCJA during 2018?

A. No. The company believes that a refund to reflect the impacts of the TCJA from February 6, 2018 through December 31, 2018 is inappropriate at this time, since the calculation of a potential refund should be dependent on where the company is forecasted to end the year in its authorized rate of return range. Peoples Gas is operating within its allowed ROE range and is expected to continue operating within its allowed range even with the impacts of the TCJA; therefore, a refund for 2018 is unwarranted.

Q. Should the full $11.6 million annual revenue requirement impact for 2018 play a role in this docket?

A. Yes. Although the full $11.6 million revenue requirement impact for 2018 should not be refunded for 2018 as suggested by Mr. Smith, it does represent the absolute maximum revenue requirement reduction to be reflected in new base rates to be effective during the first billing cycle in January 2019, if the company was operating above its allowed ROE range. However, in light of the company’s forecasted financial results for future years and the impact that the loss of bonus tax depreciation is expected to have on the company’s capital structure, the company believes it would be in the best interests of customers for any revenue requirement reduction reflected in new 2019 base rates to be limited to $4.1 million, which is the revenue requirement reduction needed to reduce the company’s forecasted 2019 return on equity to the midpoint of its authorized range.

This kind of adjustment would be consistent with the Commission’s long-standing practice of setting base rates using the midpoint of an authorized range of returns on equity. It will also moderate the need to seek rate relief in the future as reductions in the amount of zero-cost accumulated deferred income taxes in the company’s capital structure put pressure on the company’s ability to earn within its authorized range.

Q. What process should the Commission use to implement any refund and base rate changes arising from this proceeding?

A. Given the timing of this docket, and the need for new base rates to be approved by the Commission to ensure that adequate notice to customers is provided, the company believes that if a refund for the impacts of the TCJA from February 6 to December 31, 2018 is ordered by the Commission, then it should be refunded to customers of record on December 31, 2018 as a one-time credit in March of 2019 to all customers utilizing the ECCR methodology to determine applied percentages and credited to all rate classes on a pro rata basis. If the Commission determines an annual revenue requirement reduction for tax reform is warranted because the company would be operating above the midpoint of its authorized range, it should direct the company to submit revised tariffs for approval that apply the revenue requirement reduction on a pro rata basis across all rate classes and rates, to be effective with the first billing cycle in January 2019.

Q. What is the company’s position on Mr. Smith’s recommendation regarding the PLR?

A. As stated in the rebuttal testimony of witness Valerie Strickland submitted on behalf of Tampa Electric in Docket

No. 20180045-EI on this date, while the company believes its proposed treatment of excess accumulated deferred income taxes related to cost of removal/net negative salvage is appropriate, it is not opposed to requesting a PLR as suggested by OPC. The company believes this can be accomplished through a single PLR submitted by Tampa Electric since the two companies are owned by the same parent company and request the same treatment.

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

A. The process generally involves retaining a tax attorney experienced with utility income tax issues and normalization requirements to assist in the process of filing a PLR request, working with the attorney to develop a draft PLR request, sharing the draft with the Commission’s staff and the other parties to this docket for their feedback, and submitting the request to the IRS. The process typically takes about seven months from start to receiving the ruling. Tampa Electric estimates the out of pocket costs to obtain a PLR to be between $70,000 and $90,000.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.