BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 Peoples Gas System.

DOCKET NO. 20180044-GU

FILED: July 25, 2018

PEOPLES GAS SYSTEM
PREHEARING STATEMENT

A. APPEARANCES:

ANDREW M. BROWN
ANSLEY WATSON, JR.
MacFarlane Law Firm
Post Office Box 1531
Tampa, Florida 33601

On behalf of Peoples Gas System

B. WITNESSES:

Witness	Subject Matter	Issues Numbers
Alan D. Felsenthal (Direct)	Accounting for income taxes for public utilities; description of changes caused by the Tax Cuts and Jobs Act of 2017 (TCJA) and their impact on regulated utilities; explain the ratemaking requirement in the TCJA for "protected excess deferred taxes" and description of work performed to test Peoples Gas' calculation of the impact of the TCJA on the company's 2018 income tax expense	2, 3, 4, 5, 9, 10
Valerie Strickland (Direct)	Accounting for the impacts of TCJA and sponsorship of Peoples Gas' calculation of forecasted income tax expense for 2018 based on its 2018 Forecasted Earnings Surveillance Report, as adjusted to reflect the impact of the TCJA	1, 2, 3, 4, 5, 8, 9, 10

Jeffrey S. Chronister (Direct and Rebuttal)	Revenue requirement reduction to reflect the effects of TCJA; calculation of revenue requirement reduction, presentation of information about how recent federal income tax law changes will impact Peoples Gas' financial condition going forward	1, 6, 7, 8 and 11 - 20

C. **EXHIBITS**:

Witness	**Proffered By**	**Exhibit #**	**Description**
Direct			
Alan D. Felsenthal	Peoples Gas System	ADF-1, filed May 31, 2018	Document No. 1 - Depreciation Timing Difference Example, Document No. 2 - ARAM Illustration
Valerie Strickland	Peoples Gas System	VS-1, filed May 31, 2018 and revised VS-1 Document No. 2 filed June 7, 2018	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
Jeffrey S. Chronister	Peoples Gas System	JSC-1, filed May 31, 2018	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

D. STATEMENT OF BASIC POSITION

Peoples Gas' Statement of Basic Position:

The Commission should not require a refund to reflect the impacts of the TCJA from February 6, 2018 through December 31, 2018. Even with the impacts of the TCJA, Peoples Gas is expected to operate within its allowed ROE range for 2018; therefore, a refund for 2018 is unwarranted. For 2019, 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 Peoples Gas capital structure, the company believes the Commission should approve an annual revenue requirement reduction to reflect the TCJA tax rate reduction, from 35 percent to 21 percent of $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 rate change should be effective concurrent with the first billing cycle in January 2019.

The amount of protected excess accumulated deferred income taxes ("ADIT") as of December 31, 2017 to be reflected in the calculation of income tax expense for 2018 using the average rate assumption method as required by the Internal Revenue Code is approximately $2.1 million. The amount of unprotected excess ADIT as of December 31, 2017 should be adjusted ratably over a ten-year period and the amount to be reflected in the calculation of income tax expense for 2018 is approximately a $1.8 million expense. If PGS or its affiliate, Tampa Electric, receives a private letter ruling ("PLR") from the IRS ruling that the excess ADIT relating to cost of removal/negative net salvage is to be treated as protected, then a reclassification should be made in the company's books and records and flow back amounts should be trued-up based on the ruling. In addition, the company should further adjust base rates to reflect the 2018 revenue requirement impact (b) by filing a petition for a limited scope proceeding (or stipulated among all parties in lieu thereof) to adjust base rates within 60 days of the determination in the PLR; and to the extent that the amount would cause the company to earn below its authorized range, the company should adjust base rates for the associated 2018 revenue requirement difference from February 6, 2018 to the effective date of the further rate change through a cost recovery clause.

E. STATEMENT OF ISSUES AND POSITIONS

ISSUE 1: In the absence of an approved agreement addressing the impact of federal tax reform, was it reasonable for Peoples Gas System ("PGS") to use its 2018 forecasted earnings surveillance report filed on March 15, 2018 to calculate the impact of the Tax Cuts and Jobs Act of 2017 ("TCJA")?

PGS: Yes. The 2018 Forecasted Earnings Surveillance Report as filed on March 15, 2018 should be used to calculate the annual impact of the TCJA on income tax expense and the company's revenue requirement. (Strickland and Chronister)

ISSUE 2: Were "protected excess deferred taxes" for 2018 using a 21 percent corporate tax rate appropriately calculated and flowed back?

PGS Yes. The amount of protected ADIT as of December 31, 2017 is $87.0 million. Excess protected ADIT amounts were properly reflected in the calculation of 2018 income tax expense using the average rate assumption method in accordance with the Internal Revenue Code. (Strickland and Felsenthal)

ISSUE 3: Were "unprotected excess deferred taxes" for 2018 using a 21 percent corporate tax rate appropriately calculated and flowed back?

PGS Yes. The amount of unprotected excess ADIT as of December 31, 2017 is an excess tax deficiency of $ 17.9 million and should be reduced ratably over a ten-year period. The amount to be reflected in the calculation of income tax expense for 2018 is approximately $1.8 million. (Strickland and Felsenthal)

ISSUE 4: Were Accumulated Deferred Income Taxes (ADIT) appropriately calculated?

PGS: Yes. Peoples Gas identified the book-tax differences that would be impacted by the TCJA, then calculated income tax expense to remeasure ADIT balances at the new applicable corporate rate, 21 percent. All excess deferred taxes, the difference between the new rate and 35 percent, were reclassified as a regulatory asset or liability which will be included in FPSC adjusted capital structure. (Strickland and Felsenthal)

ISSUE 5: Are PGS's classifications of the excess ADIT between "protected" and "unprotected" appropriate?

PGS: Yes. As described in witness Felsenthal's testimony, PriceWaterhouseCoopers has tested and verified the company's classification of excess ADIT and its calculation of the impact of the TCJA. (Strickland and Felsenthal)

ISSUE 6: Should PGS seek a private letter ruling from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as "unprotected"?

PGS: Peoples Gas does not object to, and through its affiliate Tampa Electric, is willing to seek a PLR from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as unprotected. (Chronister)

ISSUE 7: If PGS seeks a private letter ruling and the IRS rules therein (or in another private letter ruling) that the excess ADIT relating to cost of removal/negative net salvage is to be treated as "protected", what process should be followed for the reclassification?

PGS: If PGS or its affiliate, Tampa Electric, receives a private letter ruling ("PLR") from the IRS ruling that the excess ADIT relating to cost of removal/negative net salvage is to be treated as protected, then a reclassification should be made in the company's books and records and flow back amounts should be trued-up based on the ruling. In addition, the company should further adjust base rates to reflect the 2018 revenue requirement impact (b) by filing a petition for a limited scope proceeding (or stipulated among all parties in lieu thereof) to adjust base rates within 60 days of the determination in the PLR; and to the extent that the amount would cause the company to earn below its authorized range, the company should adjust base rates for any associated 2018 revenue requirement difference from February 6, 2018 to the effective date of the further rate change through a cost recovery clause. (Chronister)

ISSUE 8: Were appropriate adjustments made to PGS's cast iron/bare steel replacement rider for the impact of the TCJA for the tax year 2018?

PGS: Yes. Adjustments to the cast iron/bare steel replacement rider were made to consider the impact of the TCJA for the tax year 2018. (Strickland and Chronister)

ISSUE 9: What is the forecasted tax expense for PGS for the tax year 2018 at a 21 percent corporate tax rate?

PGS The forecasted tax expense under the TCJA, for the tax year 2018 at a corporate tax rate of 21 percent for Peoples Gas is $17.3 million, a reduction in forecasted tax expense of $9.6 million when compared to tax expense without tax reform. (Strickland and Felsenthal)

ISSUE 10: What is the forecasted tax expense for PGS for the tax year 2018 at a 35 percent corporate tax rate?

PGS: The forecasted tax expense without tax reform for the tax year 2018 at a corporate tax rate of 35 percent for Peoples Gas is $26.9 million. (Strickland and Felsenthal)

ISSUE 11: What is the forecasted NOI for the tax year 2018 at a 21 percent corporate tax rate?

PGS: The forecasted FPSC adjusted 13-month average NOI for 2018 adjusted for the effects of the TCJA (21 percent tax rate) is $61.9 million. (Chronister)

ISSUE 12: What is the forecasted NOI for the tax year 2018 at a 35 percent corporate tax rate?

PGS: The forecasted FPSC adjusted 13-month average NOI for 2018 using the normal budget process on a pre-TCJA basis (35 percent tax rate) is $53.0 million. (Chronister)

ISSUE 13: What is the forecasted capital structure for the tax year 2018 at a 21 percent corporate tax rate?

PGS: The average, mid-range, forecasted capital structure for the tax year 2018, under the TCJA at a 21 percent corporate tax rate on an FPSC adjusted basis is as follows:

	Adjusted Retail ($000)	Ratio (%) (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	241,612	27.10	5.03	1.36
Short Term Debt	59,859	6.71	2.36	0.16
Residential Deposits	6,555	0.74	2.00	0.01
Commercial Deposits	18,150	2.04	3.00	0.06
Inactive Deposits	375	0.04	-	-
Common Equity	373,494	41.89	10.75	4.50
Deferred Income Taxes	191,512	21.48	-	-
Total	891,557	100.00		6.09

(Chronister)

ISSUE 14: What is the annual forecasted capital structure for the tax year 2018 at a 35 percent corporate tax rate?

PGS: The average, mid-range, forecasted capital structure for the tax year 2018, under the TCJA at a 35 percent corporate tax rate on an FPSC adjusted basis is as follows:

	Adjusted Retail ($000)	Ratio (%) (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	241,237	27.00	5.03	1.36
Short Term Debt	55,041	6.16	2.36	0.15
Residential Deposits	6,555	0.73	2.00	0.01
Commercial Deposits	18,150	2.03	3.00	0.06
Inactive Deposits	375	0.04	-	-
Common Equity	371,490	41.58	10.75	4.47
Deferred Income Taxes	200,581	22.45	-	-
Total	893,429	100.00		6.05

(Chronister)

ISSUE 15: What is the forecasted annual revenue requirement for PGS for the tax year 2018 using a 21 percent corporate tax rate?

PGS: The forecasted 13-month average NOI for PGS for the tax year 2018 using a 21 percent corporate tax rate is $61.9 million, and the application of the 0.74655 tax gross-up factor results in a revenue requirement of $82.9 million. (Chronister)

ISSUE 16: What is the forecasted annual revenue requirement for PGS for the tax year 2018 using a 35 percent corporate tax rate?

PGS: The forecasted 13-month average NOI for PGS for the tax year 2018 using a 35 percent corporate tax rate is $53.0 million, and the application of the 0.74655 tax gross-up factor results in a revenue requirement of $70.9 million. (Chronister)

ISSUE 17: What is the forecasted annual revenue requirement decrease attributable to the TCJA for 2018?

PGS: The full year annual revenue requirement decrease attributable to the TCJA for 2018, net of the rate base and overall rate of return impact is $11,599,038. (Chronister)

ISSUE 18: What amount of the 2018 forecasted annual revenue requirement decrease attributable to the TCJA should be used to make a permanent base rate adjustment and when should those new base rates become effective?

PGS: The Commission should not require a refund to reflect the impacts of the TCJA from February 6, 2018 through December 31, 2018. Even with the impacts of the TCJA, Peoples Gas is expected to operate within its allowed ROE range for 2018; therefore, a refund for 2018 is unwarranted. For 2019, 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 Peoples Gas capital structure, the company believes the Commission should approve an annual revenue requirement reduction to reflect the TCJA tax rate reduction, from 35 percent to 21 percent of $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. (Chronister)

ISSUE 19: What process should the Commission use to approve the revised tariffs necessary to make the permanent base rate adjustment specified above?

PGS: The Commission should direct Peoples Gas to submit proposed 2019 revised tariff sheets reflecting the approved revenue requirement decrease for administrative approval by Staff. (Chronister)

ISSUE 20: What amount of 2018 revenues held subject to refund should be refunded to customers to reflect the impact of TCJA, in what manner and on what time schedule?

PGS: No revenues should be refunded to customers for 2018. (Chronister)

ISSUE 21: Should this docket be closed?

PGS: The docket should remain open to consider feedback from the IRS through the PLR to ensure that the determination as to the treatment of certain excess deferred tax balances is proper.

F. STIPULATED ISSUES

Peoples Gas is not aware of any stipulated issues as of this date.

G. PENDING MOTIONS

Peoples Gas is not aware of any pending motions as of this date.

H. PENDING CONFIDENTIALITY CLAIMS OR REQUESTS

Peoples Gas has no pending confidentiality claims or requests at this time.

I. OBJECTIONS TO WITNESS QUALIFICATIONS AS AN EXPERT

Peoples Gas has no objections to any witness' qualifications as an expert in this proceeding.

J. REQUEST FOR SEQUESTRATION OF WITNESSES

Peoples Gas has not requested a sequestration of witnesses.

K. COMPLIANCE WITH ORDER NO. PSC-2018-0208-PCO-EI

Peoples Gas has complied with all requirements of the Order Establishing Procedure entered in this docket.

DATED this 25th day of July 2018.

Respectfully submitted,

ANDREW M. BROWN
ANSLEY WATSON, JR.
Macfarlane Law Firm
Post Office Box 1531
Tampa, Florida 33601
(813) 273-4200

ATTORNEYS FOR PEOPLES GAS SYSTEM

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Prehearing Statement, filed on behalf of Peoples Gas System, has been furnished by electronic mail on this 25th day of July 2018 to the following:

Suzanne Brownless Senior Attorney Office of the General Counsel Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850 sbrownle@psc.state.fl.us J. R. Kelly/Virginia Ponder/Charles Rehwinkel Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, Room 812 Tallahassee, FL 32399-1400 kelly.jr@leg.state.fl.us ponder.virginia@leg.state.fl.us rehwinkel.charles@leg.state.fl.us	ATTORNEY