

<b>Docket No. 20180047-EI</b>					
<b>Comprehensive Exhibit List for Entry into Hearing Record</b>					
<b>January 8, 2019</b>					
<b>EXH #</b>	<b>Witness</b>	<b>I.D. # As Filed</b>	<b>Exhibit Description</b>	<b>Issue Nos.</b>	<b>Entered</b>
<b>STAFF</b>					
1		Exhibit List	Comprehensive Exhibit List		
<b>DUKE ENERGY FLORIDA, LLC – (DIRECT)</b>					
2	Matt Gordon	MG-1 <sup>1</sup>	Protected and Unprotected Detail of Deferred Accounts	1b, 1d, 1f, 1g	
3	Marcia J. Olivier	MJO-1 <sup>2</sup>	Calculation of Tax Flow Back	1, 1a, 2, 3, 4, 5, 6, 7, 8, 9, 10	
<b>OFFICE OF PUBLIC COUNSEL – (DIRECT)</b>					
4	Ralph Smith, CPA	RCS-1	Summary of Experience and Qualifications	1, 1a, 1b, 1c, 1d, 1e, 1f, 1g, 1h, 1i, 2, 3, 4, 5, 6, 7, 8, 9	

<sup>1</sup> Pages 1 and 2 of exhibit MG-1 were revised on December 27, 2018.

<sup>2</sup> Page 3 of exhibit MJO-1 was revised on December 27, 2018.

<b>STAFF HEARING EXHIBITS</b>					
5	Matt Gordon (1-4, 6)  Marcia Oliver (5, 7, 9)		DEF's responses to OPC's 1 <sup>st</sup> Set of Interrogatories Nos. 1-7, 9 <i>[Bates Nos. 00001-00024]</i>	1, 1b 1c, 1d, 1e, 1f, 1g, 2, 3, 4, 8, 9, 10	
6	Matt Gordon (12-13, 14d, 14f, 15a-e, 16, 19-21)  Marcia Oliver (14a-c, 14e-f, 15f, 17, 18, 22, 23)		DEF's responses to OPC's 2nd Set of Interrogatories Nos. 12, 13, 14a-f, 15a-f, 16-23  <b>Additional files contained on Staff's Hearing Exhibits CD for Nos. 14, 15a, 15c, 16, 17, 19, 20, 21.</b>  <i>[Bates Nos. 00025-00043]</i>	1b, 1c, 1d, 1e, 1f, 1g, 2, 3, 4, 8, 10	
7	Matt Gordon (11)  Marcia Oliver (24)		DEF's supplemental responses to OPC's 2nd Set of Interrogatories Nos. 11, 24  <i>[Bates Nos. 00044-00052]</i>	1, 1a 1b, 1c, 1d, 1e, 1f, 1g, 2, 3, 4, 5, 6, 7, 8, 9, 10	
8	Matt Gordon		DEF's responses to OPC's 3rd Set of Interrogatories Nos. 25- 28  <b>Additional files contained on Staff's Hearing Exhibits CD for No. 25-28.</b>  <i>[Bates Nos. 00053-00059]</i>	1b, 1c, 1d, 1e, 1f, 1g, 2	
9	Matt Gordon		DEF's responses to OPC's 4th Set of Interrogatories No. 29  <i>[Bates Nos. 00060-00120]</i>	1g, 1h, 1i	
10	Matt Gordon		DEF's responses to OPC's 5th Set of Interrogatories Nos. 30- 31  <i>[Bates Nos. 00121-00126]</i>	1g, 1h, 1i	
11	Marcia Oliver		DEF's responses to OPC's 6th Set of Interrogatories No. 32  <i>[Bates Nos. 00127-00130]</i>	1,1f, 1h, 1i, 8, 10	

COMPREHENSIVE EXHIBIT LIST

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12	Matt Gordon		DEF's responses to OPC's 1 <sup>st</sup> Request for Production of Documents Nos. 1-5  <i>[Bates Nos. 00131-00177]</i>	1, 1b, 1c, 1d, 1e, 1f, 1g, 2, 3, 7	
13	Marcia Oliver (6, 8)  Matt Gordon (7)		DEF's responses to OPC's 2nd Request for Production of Documents No. 6-8	1, 1b, 1c, 1d, 1e, 1f, 1g, 1j, 2, 6, 7	
14	Matt Gordon		DEF's responses to OPC's 3rd Request for Production of Documents No. 9  <i>[Bates Nos. 00181-00182]</i>	1b, 1c, 1d, 1e, 1f, 1g, 2	
15	Matt Gordon		DEF's responses to OPC's 4 <sup>th</sup> Request for Production of Documents No. 10  <i>[Bates Nos. 00183-00201]</i>	1b, 1f	
16	Matt Gordon		DEF's responses to OPC's 5 <sup>th</sup> Request for Production of Documents Nos. 11-15  <i>[Bates Nos. 00202-00204]</i>	1g, 1h, 1i	
17	Matt Gordon		DEF's responses to OPC's 6 <sup>th</sup> Request for Production of Documents No. 16  <i>[Bates Nos. 00205-00249]</i>	1g, 1h, 1i	
18	Joint Parties		Joint Motion by Duke Energy Florida, LLC, and Citizens of Florida through Office of Public Counsel to Approve Stipulated Positions and Suspend Procedural Dates		

## DEF Summary of Excess Deferred Income Taxes (EDIT)

Line		12/31/2017 and 2018 TrueUp EDIT	12/31/2017 and 2018 TrueUp EDIT	12/31/2017 and 2018 TrueUp EDIT	
		Protected	Not Protected	Total	
4	Total Non PP&E (0190,0283) **1	75,302,240	(173,300,615)	(97,998,375)	See Page 2 of 2
5	Total PP&E (0282)	(694,432,638)	1,532,416	(692,900,222)	See below
6	Total	(619,130,398)	(171,768,199)	(790,898,597)	

\*\*1 The protected component of the Non PP&E EDIT is from the NOL

## 1. PP&amp;E Protected EDIT from Method / Life Differences:

Book Tax Difference	EDIT	Protected/Unprotected
PP&E Method/Life Differences	(694,432,638)	Protected

## 2. PP&amp;E Unprotected Deferred Taxes from Book Tax Basis Differences:

Below is a summary report from our PowerTax System of every book vs. tax basis difference for PPE on all existing assets. These differences have accumulated over many years and many assets.

Book Tax Basis Difference	EDIT	Protected/Unprotected
AFUDC Debt	(7,829,021)	Unprotected
AFUDC Debt Contra - WS	62,768	Unprotected
ARO	1,101,827	Unprotected
CAPITALIZED SPARES	8,374	Unprotected
Casualty Loss	(4,945,427)	Unprotected
Casualty Restoration Addback	17,132,477	Unprotected
CIAC	39,583,275	Unprotected
Depr Cap Trans Equip	(164,982)	Unprotected
FL Bonus Basis Reduce Auto Calc	5,822,948	Unprotected
FL Bonus Basis Reduction PY/481a	4,324,853	Unprotected
FL Bonus To Amortize	(6,266,333)	Unprotected
Hardware Capitalized	76,171	Unprotected
Impairment Adjustment	84,610,866	Unprotected
Load Mgmt Devices	(2,605)	Unprotected
Method/Life/State Offset	28,029,493	Unprotected
Misc Diffs	(410,790)	Unprotected
NONTAX CIAC/HIWAY REIMB	262,527	Unprotected
Other Adj	(305,782)	Unprotected
PGN Benefits	7,709,365	Unprotected
PGN Conversion Adjs	(35,907)	Unprotected
PGN FL Adjustment	(8,631,357)	Unprotected
PGN FL Adjustment FL Addback	(6,760)	Unprotected
PGN FPC Basis	6,383,932	Unprotected
PGN Tax Expense T&D	(31,886,468)	Unprotected
RAR Adjustment	(67,767)	Unprotected
Salvage Artificial Loss	4,274,003	Unprotected
Salvaged Inventory Proceeds	(14,679,633)	Unprotected
Sect. 174 Adjust	(1,459,896)	Unprotected
Software Capitalized	156,846	Unprotected
TAX ADJ FED	2,537,992	Unprotected
Tax Expensing	(164,882,104)	Unprotected
Tax Repair Retirements	1,447,594	Unprotected
TIC	32,206,634	Unprotected
TIC Tax Adj	(174,998)	Unprotected
CWIP Basis Diffs	7,550,307	Unprotected
<b>Total PP&amp;E Book/Tax Basis Diffs</b>	<b>1,532,416</b>	Unprotected
Total PP&E EDIT (Acct 0282)	<b>(692,900,222)</b>	

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 2  
PARTY: DUKE ENERGY FLORIDA, LLC –  
(DIRECT)  
DESCRIPTION: Matt Gordon MG-1

Docket No. 20180047  
 Protected and Unprotected Detail of Deferred Accounts  
 Exhibit No. \_\_\_(MG-1), page 2 of 2 (Supplemental 12/27/18)

DEF Tax Reform - Non PP&E Protected/Unprotected Details

Line	Code	Name	Excess ADIT	Protected/Unprotected
1	190001/2	ADIT: Prepaid: Taxes		
2	T11A02	Bad Debts - Tax over Book	623,930	Unprotected
3	T11A18	Imputed Interest Income	-	Unprotected
4	T11B06	Surplus Materials Write-off Liab	1,338	Unprotected
5	T11B08	Surplus Materials Write-Off Asset	19,113	Unprotected
6	T13B08	ASSET RETIREMENT OBLIGATION	88,169,906	Unprotected
7	T13B28	LT Cap Lease Oblig-Tax Oper	(106,988)	Unprotected
8	T13B45	Asset Retirement Obligation - Coal Ash	2,379,262	Unprotected
9	T13B47	L TSA - O&M Cost	(3,342,212)	Unprotected
10	T15A22	Mark to Market - LT	1,168,938	Unprotected
11	T15A23	Mark to Market Reg - LT	(972,639)	Unprotected
12	T15A45	Amort Int Inc Tax Deficiency	134,290	Unprotected
13	T15A62	OCI Book Addback	(860,356)	Unprotected
14	T15B07	Cash Flow Hedge - Reg Asset/Liab	(564,085)	Unprotected
15	T15B58	Storm Cost Deferral- Liab	989,461	Unprotected
16	T15B65	Storm Reserve	-	Unprotected
17	T16A01	Joint Owner Settlement - NC	-	Unprotected
18	T17A02	Accrued Vacation	3,835,634	Unprotected
19	T17A30	Property Tax Reserves	-	Unprotected
20	T17A40	SEVERANCE RESERVE - LT	209,386	Unprotected
21	T17A54	MGP Sites	1,142,014	Unprotected
22	T19A02	Deferred Compensation	152,431	Unprotected
23	T19A55	Workers Com Reserve	1,498,841	Unprotected
24	T19A94	UNBILLED REVENUE - FUEL	10,728,552	Unprotected
25	T19A95	Reserve for Claims	49,180	Unprotected
26	T19A96	Lawsuit Contingency	112,515	Unprotected
27	T19A98	Rate Settlement - LT	-	Unprotected
28	T19B01	FAS 5 Non-income Tax Reserves	7,211,063	Unprotected
29	T20A41	Rate Refunds	4,725	Unprotected
30	T22A01	Emission Allowance Expense	(378,169)	Unprotected
31	T22A03	Gain on Emission Allowances	95	Unprotected
32	T22A07	Charitable Contribution Carryover	116,927	Unprotected
33	T22A28	Retirement Plan Expense - Underfunded	6,107,191	Unprotected
34	T22A29	Non-qualified Pension - Accrual	5,507,867	Unprotected
35	T22A30	Retirement Plan Funding - Underfunded	142,198	Unprotected
36	T22A39	Unbilled Revenue	648,248	Unprotected
37	T22A56	Environmental Reserve	19,447	Unprotected
38	T22B13	ANNUAL INCENTIVE PLAN COMP	3,549,108	Unprotected
39	T22B15	PAYABLE 401 (K) MATCH	203,557	Unprotected
40	T22B29	Tax Int Accrual - Non-cur Liab	301,851	Unprotected
41	T22B37	Nuclear Refueling Outage Reserve Current	-	Unprotected
42	T22B40	Generating Performance Incentive Factor	(32,039)	Unprotected
43	T22B42	Claim Reserve LT	4,887,427	Unprotected
44	T22E02	OPEB Expense Accrual	19,106,055	Unprotected
45	T22E06	FAS 112 Medical Expenses Accrual	1,177,555	Unprotected
46	T22H09	Decommissioning Liability	11,365,842	Unprotected
47	T22H16	Nuclear Decommissioning Funds - Gross Income	-	Unprotected
48	TFL050	FL Charitable Contribution Carryover	(46,585)	Unprotected
49	AT_OTH_190_FL_STATE_N	Other FL State NOLs	(4,928,257)	Unprotected
50	Total 190001/2		<b>160,332,618</b>	Unprotected
51				
52	283100/1	ADIT: Other		
53	T11A23	Deferred Regulatory Cost - Non Current	(10,211,296)	Unprotected
54	T15A24	Loss on Reacquired Debt-Amort	(1,308,303)	Unprotected
55	T15A58	2004 Ivan Storm Cleanup	(207,911)	Unprotected
56	T15B04	Reg Asset - Accr Pension FAS158 - FAS87Qual	37	Unprotected
57	T15B17	Reg Liab RSLI & Other Misc Dfd Costs	122,144	Unprotected
58	T15B29	Reg Asset-Pension Post Retirement PAA-FAS87Qual and Oth	(48,762,424)	Unprotected
59	T15B37	Reg Asset-Pension Post Retirement PAA-FAS87NQ and Oth	(1,307,005)	Unprotected
60	T15B38	Reg Asset-Pension Post Retirement PAA-FAS 106 and Oth	(5,893,946)	Unprotected
61	T15B40	Reg Asset - Accr Pension FAS158 - FAS87NQ	(59,918)	Unprotected
62	T15B45	Reg Asset - Plant Related Retirements	24,427	Unprotected
63	T15B52	Storm Cost Deferral- Asset	(53,580,145)	Unprotected
64	T15B62	Reg Asset - COR	(58,747,835)	Unprotected
65	T15B63	Reg Asset - Depreciation	3,740,573	Unprotected
66	T19A59	Dfd CR3 Dry Cask Storage Reg Asset	(13,455,765)	Unprotected
67	T19A86	Deferred Fuel Asset - LT	(26,440,500)	Unprotected
68	T20A38	Regulatory Asset - Deferred Plant Costs	(427,650)	Unprotected
69	T22A23	Retirement Plan Expense - Overfunded	(13,596,246)	Unprotected
70	T22H05	Non-Qualified Fund MTM Earnings	108,548	Unprotected
71	T22H07	Decommissioning Qualified Fund	(89,855,754)	Unprotected
72	T22H12	ARO Regulatory Asset	(12,697,148)	Unprotected
73	T22H46	ARO Regulatory Asset - Coal Ash	(1,077,114)	Unprotected
74	Reclass between protected/unprotected		-	Unprotected
75	Total 283100/1		<b>(333,633,233)</b>	
76				
77	190155	Deferred Tax - NOL		
78	AT_OTH_190_NC_Federal N	190155_Other NC Federal NOLs	75,302,240	Protected
79	Reclass between protected/unprotected		-	
80	Total 190155		<b>75,302,240</b>	
81				
82		Total Reg. Liability	<b>(97,998,375)</b>	
83				
84		Non PP&E Protected	75,302,240	
85		Non PP&E Unprotected	(173,300,615)	
86			<b>(97,998,375)</b>	

Calculation of Tax Act Savings based of DEF's Second Revised and Restated Settlement Exhibit 6 (\$000s)

Methodology of Income Tax Change (\$000's)

<b>INCOME TAX INPUTS AND ASSUMPTIONS</b>				<b>Note</b>
1				
2	New federal statutory tax rate	Input	21.000%	
3	Current federal statutory tax rate	Given	35.000%	
4	Current State statutory tax rate	Given	5.500%	
5	New combined federal & state statutory tax rate	Line 2 + Line 4 - (Line 2 x Line 4)	25.345%	
6	Current combined federal & state statutory tax rate	Line 3 + Line 4 - (Line 3 x Line 4)	38.575%	
7	Disallowed Interest (or other) expense deduction	Input	n/a	
8				
9	<b>PARAGRAPH 12 - MULTIYEAR INCREASE</b>			
10	Base rate revenue increase	Given	n/a	
11	Income tax at current statutory tax rate	Line 6 x Line 10	n/a	
12	FPSC Adjusted NOI impact	Line 10 - Line 11	n/a	
13	Gross up factor at new statutory tax rate	1 - Line 5	74.655%	
14	Revenue requirement at new statutory tax rate	Line 12 / Line 13	n/a	
15				
16	<b>PARAGRAPH 16 - TAX REFORM SHARING</b>			
17	<b>Step 1 - Calculate income tax expense BEFORE tax reform</b>			
18	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	\$1,032,712	(a)
19	Less interest expense	Input	(222,966)	(b)
20	Permanent differences	Input	(1,300)	(c)
21	FPSC adjusted taxable income	Sum of Lines 18 through 20	808,447	
22	Current combined statutory tax rate	Line 6	38.575%	
23	Income tax expense	Line 21 x Line 22	\$311,858	
24				
25	<b>Step 2 - Calculate income tax expense AFTER tax reform</b>			
26	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	\$1,032,712	
27	Less interest expense	Input	(222,966)	
28	Permanent differences	Input	(1,300)	
29	FPSC adjusted taxable income	Sum of Lines 26 through 28	808,447	
30	New combined statutory tax rate	Line 5	25.345%	
31	Income tax expense	Line 29 x Line 30	\$204,901	
32				
33	<b>Step 3 - Calculate impact on FPSC Adjusted NOI</b>			
34	Income tax expense BEFORE tax reform - Step 1	Line 23	\$311,858	
34a	Parent debt adjustment to income tax expense	Line 35a / Line 5 x Line 6	(15,742)	(d)
35	Income tax expense AFTER tax reform - Step 2	Line 31	204,901	
35a	Parent debt adjustment to income tax expense	Surveillance Sch. 2, pg. 2	(10,343)	(d)
36	Difference - FPSC Adjusted NOI increase/(decrease) from tax reform	Line 34 - Line 35	\$101,558	
37				
38	<b>Step 4 - Calculate adjustment for base rate increases implemented at new combined statutory tax rate</b>			
39	Multi-year increase	Line 14	n/a	
40	Solar base rate adjustment	Input	n/a	
41	GBRA	Input	11,157	(e)
42	Subtotal	Sum Lines 39 through 41	11,157	
43	Change in combined statutory tax rate	Line 5 - Line 6	-13.230%	
44	Adj. for base rate increases at new combined statutory tax rate	Line 42 x Line 43	(\$1,476)	
45				
46	<b>Step 5 - Calculate net favorable/(unfavorable) FPSC adjusted NOI impact</b>			
47	Impact on NOI - Step 3	Line 36	\$101,558	
48	Impact on NOI - Step 4	Line 44	(1,476)	
49	Net favorable/(unfavorable) FPSC adjusted NOI impact - after tax	Line 47 + Line 48	100,082	
50	Divide by one minus new combined statutory tax rate	1 - Line 5	74.655%	
51	Net favorable/(unfavorable) FPSC adjusted NOI impact - pretax	Line 49 / Line 50	\$134,060	
52				
53	<b>Step 6 - Calculate annual pretax impacts</b>			
54	Annual CR4&5 accelerated depreciation	If Line 51 > 0, then Line 51x40%, up to \$50m	\$50,000	
55	Annual flowback to customers	If Line 51 > 0, then Line 51 - Line 54	84,060	
56	Annual deferral to Regulatory Asset	If Line 51 < 0, then Line 51	-	
57	Total	Sum Lines 54 through 56, ties to Line 51	\$134,060	

**Calculation of Tax Act Savings based of DEF's Second Revised and Restated Settlement Exhibit 6 (\$000s)**

**Notes:**

- (a) FPSC adjusted net operating income before tax from 2018 Forecasted Earnings Surveillance Report Sch. 2, pg. 2 of \$822,729 plus add back of storm amortization of \$159,984 and CR4&5 accelerated depreciation of \$50,000.
- (b) Interest Expense is FPSC adjusted rate base of \$11,859,874 (Sch. 2, pg. 1) multiplied by weighted average cost of debt of 1.88% (Sch. 3).
- (c) Permanent difference is made up of non-deductible portion of meals.
- (d) The parent debt income tax adjustment on Sch. 2, pg. 2 decreased as a result of the reduction in the statutory tax rate; therefore, an adjustment must be included in order to reflect the correct impact of tax reform on FPSC adjusted net operating income.
- (e) Citrus GBRA income tax rate was adjusted in revenue requirement calculation. Pretax earnings impact for 2018 is calculated as follows:

Revenue	\$36,174
O&M	(7,120)
Depreciation	(7,248)
Property Tax	(4,354)
Interest Expense *	(6,296)
Net Oper. Income before Tax	<u><u>\$11,157</u></u>

\* Interest Expense Calculation:

EPIS (13 mo avg retail)	\$336,451
A/D (13 mo avg retail)	(1,557)
Net Plant (13 mo avg retail)	<u>334,895</u>
WACD (Sch. 3)	1.88%
Interest Expense	<u><u>\$6,296</u></u>

Calculation of Annual Retail Flow Back  
(\$000s)

1	Excess ADIT - Protected	\$619,130
2	ARAM 2018 Amortization Percentage	3.30%
3	Excess ADIT - Protected Amortization 2018	<u>20,431</u>
4		
5	Excess ADIT - Unprotected	171,768
6	Amortization Years - per Settlement	<u>5</u>
7	Excess ADIT - Unprotected Amortization 2018	34,354
8		
9	Total Excess ADIT 2018 Amortization (line 3 + line 7)	54,785
10	OATT Portion	3.73%
11	Less OATT Excess ADIT Amortization	<u>2,043</u>
12	Retail Excess ADIT Amortization (line 9 - line 11)	52,741
13		
14	Retail gross up to pretax amount (line 12 divided by 1 - 25.345%)	70,647
15	Add Annual Retail Impact per Exhibit B, Line 55	<u>84,060</u>
16	Retail Annual Projected Flow Back	<u><u>\$154,707</u></u>

## QUALIFICATIONS OF RALPH C. SMITH

### Accomplishments

Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a Certified Rate of Return Analyst, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed were the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.

Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company's projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm's testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company's gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company's ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company's tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosecutorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as U S West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB's proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company's Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company's Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company's offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.

Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

### Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

### Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP® certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.

Partial list of utility cases participated in:

79-228-EL-FAC	Cincinnati Gas & Electric Company (Ohio PUC)
79-231-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
79-535-EL-AIR	East Ohio Gas Company (Ohio PUC)
80-235-EL-FAC	Ohio Edison Company (Ohio PUC)
80-240-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
U-1933	Tucson Electric Power Company (Arizona Corp. Commission)
U-6794	Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
81-0035TP	Southern Bell Telephone Company (Florida PSC)
81-0095TP	General Telephone Company of Florida (Florida PSC)
81-308-EL-EFC	Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
810136-EU	Gulf Power Company (Florida PSC)
GR-81-342	Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
Tr-81-208	Southwestern Bell Telephone Company (Missouri PSC))
U-6949	Detroit Edison Company (Michigan PSC)
8400	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
18328	Alabama Gas Corporation (Alabama PSC)
18416	Alabama Power Company (Alabama PSC)
820100-EU	Florida Power Corporation (Florida PSC)
8624	Kentucky Utilities (Kentucky PSC)
8648	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan PSC)
U6633-R	Detroit Edison - MRCS Program (Michigan PSC)
U-6797-R	Consumers Power Company -MRCS Program (Michigan PSC)
U-5510-R	Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
82-240E	South Carolina Electric & Gas Company (South Carolina PSC)
7350	Generic Working Capital Hearing (Michigan PSC)
RH-1-83	Westcoast Transmission Co., (National Energy Board of Canada)
820294-TP	Southern Bell Telephone & Telegraph Co. (Florida PSC)
82-165-EL-EFC (Subfile A)	Toledo Edison Company(Ohio PUC)
82-168-EL-EFC	Cleveland Electric Illuminating Company (Ohio PUC)
830012-EU	Tampa Electric Company (Florida PSC)
U-7065	The Detroit Edison Company - Fermi II (Michigan PSC)
8738	Columbia Gas of Kentucky, Inc. (Kentucky PSC)
ER-83-206	Arkansas Power & Light Company (Missouri PSC)
U-4758	The Detroit Edison Company – Refunds (Michigan PSC)
8836	Kentucky American Water Company (Kentucky PSC)
8839	Western Kentucky Gas Company (Kentucky PSC)
83-07-15	Connecticut Light & Power Co. (Connecticut DPU)
81-0485-WS	Palm Coast Utility Corporation (Florida PSC)
U-7650	Consumers Power Co. (Michigan PSC)
83-662	Continental Telephone Company of California, (Nevada PSC)
U-6488-R	Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
U-15684	Louisiana Power & Light Company (Louisiana PSC)
7395 & U-7397	Campaign Ballot Proposals (Michigan PSC)
820013-WS	Seacoast Utilities (Florida PSC)
U-7660	Detroit Edison Company (Michigan PSC)
83-1039	CP National Corporation (Nevada PSC)
U-7802	Michigan Gas Utilities Company (Michigan PSC)
83-1226	Sierra Pacific Power Company (Nevada PSC)
830465-EI	Florida Power & Light Company (Florida PSC)
U-7777	Michigan Consolidated Gas Company (Michigan PSC)
U-7779	Consumers Power Company (Michigan PSC)

U-7480-R	Michigan Consolidated Gas Company (Michigan PSC)
U-7488-R	Consumers Power Company – Gas (Michigan PSC)
U-7484-R	Michigan Gas Utilities Company (Michigan PSC)
U-7550-R	Detroit Edison Company (Michigan PSC)
U-7477-R**	Indiana & Michigan Electric Company (Michigan PSC)
18978	Continental Telephone Co. of the South Alabama (Alabama PSC)
R-842583	Duquesne Light Company (Pennsylvania PUC)
R-842740	Pennsylvania Power Company (Pennsylvania PUC)
850050-EI	Tampa Electric Company (Florida PSC)
16091	Louisiana Power & Light Company (Louisiana PSC)
19297	Continental Telephone Co. of the South Alabama (Alabama PSC)
76-18788AA	
&76-18793AA	Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
85-53476AA	
& 85-534785AA	Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
U-8091/U-8239	Consumers Power Company - Gas Refunds (Michigan PSC)
TR-85-179**	United Telephone Company of Missouri (Missouri PSC)
85-212	Central Maine Power Company (Maine PSC)
ER-85646001	
& ER-85647001	New England Power Company (FERC)
850782-EI &	
850783-EI	Florida Power & Light Company (Florida PSC)
R-860378	Duquesne Light Company (Pennsylvania PUC)
R-850267	Pennsylvania Power Company (Pennsylvania PUC)
851007-WU	
& 840419-SU	Florida Cities Water Company (Florida PSC)
G-002/GR-86-160	Northern States Power Company (Minnesota PSC)
7195 (Interim)	Gulf States Utilities Company (Texas PUC)
87-01-03	Connecticut Natural Gas Company (Connecticut PUC))
87-01-02	Southern New England Telephone Company (Connecticut Department of Public Utility Control)
3673-	Georgia Power Company (Georgia PSC)
29484	Long Island Lighting Co. (New York Dept. of Public Service)
U-8924	Consumers Power Company – Gas (Michigan PSC)
Docket No. 1	Austin Electric Utility (City of Austin, Texas)
Docket E-2, Sub 527	Carolina Power & Light Company (North Carolina PUC)
870853	Pennsylvania Gas and Water Company (Pennsylvania PUC)
880069**	Southern Bell Telephone Company (Florida PSC)
U-1954-88-102	Citizens Utilities Rural Company, Inc. & Citizens Utilities
T E-1032-88-102	Company, Kingman Telephone Division (Arizona CC)
89-0033	Illinois Bell Telephone Company (Illinois CC)
U-89-2688-T	Puget Sound Power & Light Company (Washington UTC))
R-891364	Philadelphia Electric Company (Pennsylvania PUC)
F.C. 889	Potomac Electric Power Company (District of Columbia PSC)
Case No. 88/546	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (Supreme Court County of Onondaga, State of New York)
87-11628	Duquesne Light Company, et al, plaintiffs, against Gulf+Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
890319-EI	Florida Power & Light Company (Florida PSC)
891345-EI	Gulf Power Company (Florida PSC)
ER 8811 0912J	Jersey Central Power & Light Company (BPU)
6531	Hawaiian Electric Company (Hawaii PUCs)

R0901595	Equitable Gas Company (Pennsylvania Consumer Counsel)
90-10	Artesian Water Company (Delaware PSC)
89-12-05	Southern New England Telephone Company (Connecticut PUC)
900329-WS	Southern States Utilities, Inc. (Florida PSC)
90-12-018	Southern California Edison Company (California PUC)
90-E-1185	Long Island Lighting Company (New York DPS)
R-911966	Pennsylvania Gas & Water Company (Pennsylvania PUC)
I.90-07-037, Phase II	(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
U-1551-90-322	Southwest Gas Corporation (Arizona CC)
U-1656-91-134	Sun City Water Company (Arizona RUCO)
U-2013-91-133	Havasu Water Company (Arizona RUCO)
91-174***	Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
U-1551-89-102	Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona Corporation Commission)
& U-1551-89-103	
Docket No. 6998	Hawaiian Electric Company (Hawaii PUC)
TC-91-040A and	Intrastate Access Charge Methodology, Pool and Rates
TC-91-040B	Local Exchange Carriers Association and South Dakota Independent Telephone Coalition
9911030-WS &	General Development Utilities - Port Malabar and
911-67-WS	West Coast Divisions (Florida PSC)
922180	The Peoples Natural Gas Company (Pennsylvania PUC)
7233 and 7243	Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
R-00922314	
& M-920313C006	Metropolitan Edison Company (Pennsylvania PUC)
R00922428	Pennsylvania American Water Company (Pennsylvania PUC)
E-1032-92-083 &	
U-1656-92-183	Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
92-09-19	Southern New England Telephone Company (Connecticut PUC)
E-1032-92-073	Citizens Utilities Company (Electric Division), (Arizona CC)
UE-92-1262	Puget Sound Power and Light Company (Washington UTC)
92-345	Central Maine Power Company (Maine PUC)
R-932667	Pennsylvania Gas & Water Company (Pennsylvania PUC)
U-93-60**	Matanuska Telephone Association, Inc. (Alaska PUC)
U-93-50**	Anchorage Telephone Utility (Alaska PUC)
U-93-64	PTI Communications (Alaska PUC)
7700	Hawaiian Electric Company, Inc. (Hawaii PUC)
E-1032-93-111 &	Citizens Utilities Company - Gas Division
U-1032-93-193	(Arizona Corporation Commission)
R-00932670	Pennsylvania American Water Company (Pennsylvania PUC)
U-1514-93-169/	Sale of Assets CC&N from Contel of the West, Inc. to
E-1032-93-169	Citizens Utilities Company (Arizona Corporation Commission)
7766	Hawaiian Electric Company, Inc. (Hawaii PUC)
93-2006- GA-AIR	The East Ohio Gas Company (Ohio PUC)
94-E-0334	Consolidated Edison Company (New York DPS)
94-0270	Inter-State Water Company (Illinois Commerce Commission)
94-0097	Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
PU-314-94-688	Application for Transfer of Local Exchanges (North Dakota PSC)
94-12-005-Phase I	Pacific Gas & Electric Company (California PUC)
R-953297	UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
95-03-01	Southern New England Telephone Company (Connecticut PUC)
95-0342	Consumer Illinois Water, Kankakee Water District (Illinois CC)
94-996-EL-AIR	Ohio Power Company (Ohio PUC)
95-1000-E	South Carolina Electric & Gas Company (South Carolina PSC)

Non-Docketed Staff Investigation E-1032-95-473 E-1032-95-433	Citizens Utility Company - Arizona Telephone Operations (Arizona Corporation Commission) Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC) Citizens Utility Co. - Arizona Electric Division (Arizona CC) Collaborative Ratemaking Process Columbia Gas of Pennsylvania (Pennsylvania PUC)
GR-96-285 94-10-45 A.96-08-001 et al.	Missouri Gas Energy (Missouri PSC) Southern New England Telephone Company (Connecticut PUC) California Utilities' Applications to Identify Sunk Costs of Non- Nuclear Generation Assets, & Transition Costs for Electric Utility Restructuring, & Consolidated Proceedings (California PUC)
96-324 96-08-070, et al.	Bell Atlantic - Delaware, Inc. (Delaware PSC) Pacific Gas & Electric Co., Southern California Edison Co. and San Diego Gas & Electric Company (California PUC)
97-05-12 R-00973953	Connecticut Light & Power (Connecticut PUC) Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code (Pennsylvania PUC)
97-65	Application of Delmarva Power & Light Co. for Application of a Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705 E-1072-97-067 Non-Docketed Staff Investigation PU-314-97-12 97-0351 97-8001	Entergy Gulf States, Inc. (Cities Steering Committee) Southwestern Telephone Co. (Arizona Corporation Commission) Delaware - Estimate Impact of Universal Services Issues (Delaware PSC) US West Communications, Inc. Cost Studies (North Dakota PSC) Consumer Illinois Water Company (Illinois CC) Investigation of Issues to be Considered as a Result of Restructuring of Electric Industry (Nevada PSC)
U-0000-94-165	Generic Docket to Consider Competition in the Provision of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I 9355-U 97-12-020 - Phase I U-98-56, U-98-60, U-98-65, U-98-67 (U-99-66, U-99-65, U-99-56, U-99-52) Phase II of 97-SCCC-149-GIT PU-314-97-465 Non-docketed Assistance Contract Dispute	San Diego Gas & Electric Co., Section 386 costs (California PUC) Georgia Power Company Rate Case (Georgia PUC) Pacific Gas & Electric Company (California PUC) Investigation of 1998 Intrastate Access charge filings (Alaska PUC) Investigation of 1999 Intrastate Access Charge filing (Alaska PUC) Southwestern Bell Telephone Company Cost Studies (Kansas CC) US West Universal Service Cost Model (North Dakota PSC) Bell Atlantic - Delaware, Inc., Review of New Telecomm. and Tariff Filings (Delaware PSC) City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project Non-docketed Project	City of Danville, IL - Valuation of Water System (Danville, IL) Village of University Park, IL - Valuation of Water and Sewer System (Village of University Park, Illinois)

E-1032-95-417	Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)
T-1051B-99-0497	Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)
T-01051B-99-0105	US West Communications, Inc. Rate Case (Arizona CC)
A00-07-043	Pacific Gas & Electric - 2001 Attrition (California PUC)
T-01051B-99-0499	US West/Quest Broadband Asset Transfer (Arizona CC)
99-419/420	US West, Inc. Toll and Access Rebalancing (North Dakota PSC)
PU314-99-119	US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC)
98-0252	Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)
00-108	Delmarva Billing System Investigation (Delaware PSC)
U-00-28	Matanuska Telephone Association (Alaska PUC)
Non-Docketed	Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)
00-11-038	Southern California Edison (California PUC)
00-11-056	Pacific Gas & Electric (California PUC)
00-10-028	The Utility Reform Network for Modification of Resolution E-3527 (California PUC)
98-479	Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)
99-457	Delaware Electric Cooperative Restructuring Filing (Delaware PSC)
99-582	Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)
99-03-04	United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)
99-03-36	Connecticut Light & Power (Connecticut OCC)
Civil Action No.	
98-1117	West Penn Power Company vs. PA PUC (Pennsylvania PSC)
Case No. 12604	Upper Peninsula Power Company (Michigan AG)
Case No. 12613	Wisconsin Public Service Commission (Michigan AG)
41651	Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)
13605-U	Savannah Electric & Power Company – FCR (Georgia PSC)
14000-U	Georgia Power Company Rate Case/M&S Review (Georgia PSC)
13196-U	Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)
Non-Docketed	Georgia Power Company & Savannah Electric & Power FPR Company Fuel Procurement Audit (Georgia PSC)
Non-Docketed	Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)
Application No.	Post-Transition Ratemaking Mechanisms for the Electric Industry
99-01-016,	Restructuring (US Department of Navy)
Phase I	
99-02-05	Connecticut Light & Power (Connecticut OCC)
01-05-19-RE03	Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)
G-01551A-00-0309	Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)
00-07-043	Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)

97-12-020	
Phase II	Pacific Gas & Electric Company Rate Case (California PUC)
01-10-10	United Illuminating Company (Connecticut OCC)
13711-U	Georgia Power FCR (Georgia PSC)
02-001	Verizon Delaware § 271(Delaware DPA)
02-BLVT-377-AUD	Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
02-S&TT-390-AUD	S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD	Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD	Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413 426, 427, 430, 421/ CI-00-712	Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85	ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-34	ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83	ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87	ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II	Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD	Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD	Golden Belt Telephone Association (Kansas CC)
Docket 6914	Shoreham Telephone Company, Inc. (Vermont BPU)
Docket No. E-01345A-06-009	Arizona Public Service Company (Arizona Corporation Commission)
Case No. 05-1278-E-PC-PW-42T	Appalachian Power Company and Wheeling Power Company both d/b/a American Electric Power (West Virginia PSC)
Docket No. 04-0113	Hawaiian Electric Company (Hawaii PUC)
Case No. U-14347	Consumers Energy Company (Michigan PSC)
Case No. 05-725-EL-UNC	Cincinnati Gas & Electric Company (PUC of Ohio)
Docket No. 21229-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 19142-U	Georgia Power Company (Georgia PSC)
Docket No. 03-07-01RE01	Connecticut Light & Power Company (CT DPUC)
Docket No. 19042-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 2004-178-E	South Carolina Electric & Gas Company (South Carolina PSC)
Docket No. 03-07-02	Connecticut Light & Power Company (CT DPUC)
Docket No. EX02060363, Phases I&II	Rockland Electric Company (NJ BPU)
Docket No. U-00-88	ENSTAR Natural Gas Company and Alaska Pipeline Company (Regulatory Commission of Alaska)
Phase 1-2002 IERM, Docket No. U-02-075	Interior Telephone Company, Inc. (Regulatory Commission of Alaska)
Docket No. 05-SCNT- 1048-AUD	South Central Telephone Company (Kansas CC)
Docket No. 05-TRCT- 607-KSF	Tri-County Telephone Company (Kansas CC)
Docket No. 05-KOKT- 060-AUD	Kan Okla Telephone Company (Kansas CC)
Docket No. 2002-747	Northland Telephone Company of Maine (Maine PUC)

Docket No. 2003-34	Sidney Telephone Company (Maine PUC)
Docket No. 2003-35	Maine Telephone Company (Maine PUC)
Docket No. 2003-36	China Telephone Company (Maine PUC)
Docket No. 2003-37	Standish Telephone Company (Maine PUC)
Docket Nos. U-04-022, U-04-023	Anchorage Water and Wastewater Utility (Regulatory Commission of Alaska)
Case 05-116-U/06-055-U	Entergy Arkansas, Inc. EFC (Arkansas Public Service Commission)
Case 04-137-U	Southwest Power Pool RTO (Arkansas Public Service Commission)
Case No. 7109/7160	Vermont Gas Systems (Department of Public Service)
Case No. ER-2006-0315	Empire District Electric Company (Missouri PSC)
Case No. ER-2006-0314	Kansas City Power & Light Company (Missouri PSC)
Docket No. U-05-043,44	Golden Heart Utilities/College Park Utilities (Regulatory Commission of Alaska)
A-122250F5000	Equitable Resources, Inc. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
E-01345A-05-0816	Arizona Public Service Company (Arizona CC)
Docket No. 05-304	Delmarva Power & Light Company (Delaware PSC)
05-806-EL-UNC	Cincinnati Gas & Electric Company (Ohio PUC)
U-06-45	Anchorage Water Utility (Regulatory Commission of Alaska)
03-93-EL-ATA, 06-1068-EL-UNC	Duke Energy Ohio (Ohio PUC)
PUE-2006-00065	Appalachian Power Company (Virginia Corporation Commission)
G-04204A-06-0463 et. al	UNS Gas, Inc. (Arizona CC)
U-06-134	Chugach Electric Association, Inc. (Regulatory Commission of Alaska)
Docket No. 2006-0386	Hawaiian Electric Company, Inc (Hawaii PUC)
E-01933A-07-0402	Tucson Electric Power Company (Arizona CC)
G-01551A-07-0504	Southwest Gas Corporation (Arizona CC)
Docket No.UE-072300	Puget Sound Energy, Inc. (Washington UTC)
PUE-2008-00009	Virginia-American Water Company (Virginia SCC)
PUE-2008-00046	Appalachian Power Company (Virginia SCC)
E-01345A-08-0172	Arizona Public Service Company (Arizona CC)
A-2008-2063737	Babcock & Brown Infrastructure Fund North America, LP. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
08-1783-G-42T	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC)
08-1761-G-PC	Hope Gas, Inc., dba Dominion Hope, Dominion Resources, Inc., and Peoples Hope Gas Companies (West Virginia PSC)
Docket No. 2008-0083	Hawaiian Electric Company, Inc. (Hawaii PUC)
Docket No. 2008-0266	Young Brothers, Limited (Hawaii PUC)
G-04024A-08-0571	UNS Gas, Inc. (Arizona CC)
Docket No. 09-29	Tidewater Utilities, Inc. (Delaware PSC)
Docket No. UE-090704	Puget Sound Energy, Inc. (Washington UTC)
09-0878-G-42T	Mountaineer Gas Company (West Virginia PSC)
2009-UA-0014	Mississippi Power Company (Mississippi PSC)
Docket No. 09-0319	Illinois-American Water Company (Illinois CC)
Docket No. 09-414	Delmarva Power & Light Company (Delaware PSC)
R-2009-2132019	Aqua Pennsylvania, Inc. (Pennsylvania PUC)
Docket Nos. U-09-069, U-09-070	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
Docket Nos. U-04-023, U-04-024	Anchorage Water and Wastewater Utility - Remand (Regulatory Commission of Alaska)
W-01303A-09-0343 & SW-01303A-09-0343	Arizona-American Water Company (Arizona CC)
09-872-EL-FAC & 09-873-EL-FAC	Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company - Audit I (Ohio PUC)

2010-00036	Kentucky-American Water Company (Kentucky PSC)
E-04100A-09-0496	Southwest Transmission Cooperative, IHnc. (Arizona CC)
E-01773A-09-0472	Arizona Electric Power Cooperative, Inc. (Arizona CC)
R-2010-2166208,	
R-2010-2166210,	
R-2010-2166212, &	
R-2010-2166214	Pennsylvania-American Water Company (Pennsylvania PUC)
PSC Docket No. 09-0602	Central Illinois Light Company D/B/A AmerenCILCO; Central Illinois Public Service Company D/B/A AmerenCIPS; Illinois Power Company D/B/A AmerenIP (Illinois CC)
10-0713-E-PC	Allegheny Power and FirstEnergy Corp. (West Virginia PSC)
Docket No. 31958	Georgia Power Company (Georgia PSC)
Docket No. 10-0467	Commonwealth Edison Company (Illinois CC)
PSC Docket No. 10-237	Delmarva Power & Light Company (Delaware PSC)
U-10-51	Cook Inlet Natural Gas Storage Alaska, LLC (Regulatory Commission of Alaska)
10-0699-E-42T	Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
10-0920-W-42T	West Virginia-American Water Company (West Virginia PSC)
A.10-07-007	California-American Water Company (California PUC)
A-2010-2210326	TWP Acquisition (Pennsylvania PUC)
09-1012-EL-FAC	Financial, Management, and Performance Audit of the FAC for Dayton Power and Light – Audit 1 (Ohio PUC)
10-268-EL FAC et al.	Financial Audit of the FAC of the Columbus Southern Power Company and the Ohio Power Company – Audit II (Ohio PUC)
Docket No. 2010-0080	Hawaiian Electric Company, Inc. (Hawaii PUC)
G-01551A-10-0458	Southwest Gas Corporation (Arizona CC)
10-KCPE-415-RTS	Kansas City Power & Light Company – Remand (Kansas CC)
PUE-2011-00037	Virginia Appalachian Power Company (Commonwealth of Virginia SCC)
R-2011-2232243	Pennsylvania-American Water (Pennsylvania PUC)
U-11-100	Power Purchase Agreement between Chugach Association, Inc. and Fire Island Wind, LLC (Regulatory Commission of Alaska)
A.10-12-005	San Diego Gas & Electric Company (California PUC)
PSC Docket No. 11-207	Artesian Water Company, Inc. (Delaware PSC)
Cause No. 44022	Indiana-American Water Company, Inc. (Indiana Utility Regulatory Commission)
PSC Docket No. 10-247	Management Audit of Tidewater Utilities, Inc. Affiliate Transactions (Delaware Public Service Commission)
G-04204A-11-0158	UNS Gas, Inc. (Arizona Corporation Commission)
E-01345A-11-0224	Arizona Public Service Company (Arizona CC)
UE-111048 & UE-111049	Puget Sound Energy, Inc. (Washington Utilities and Transportation Commission)
Docket No. 11-0721	Commonwealth Edison Company (Illinois CC)
11AL-947E	Public Service Company of Colorado (Colorado PSC)
U-11-77 & U-11-78	Golden Heart Utilities, Inc. and College Utilities Corporation (The Regulatory Commission of Alaska)
Docket No. 11-0767	Illinois-American Water Company (Illinois CC)
PSC Docket No. 11-397	Tidewater Utilities, Inc. (Delaware PSC)
Cause No. 44075	Indiana Michigan Power Company (Indiana Utility Regulatory Commission)
Docket No. 12-0001	Ameren Illinois Company (Illinois CC)
11-5730-EL-FAC	Financial, Management, and Performance Audit of the FAC for Dayton Power and Light – Audit 2 (Ohio PUC)
PSC Docket No. 11-528	Delmarva Power & Light Company (Delaware PSC)
11-281-EL-FAC et al.	Financial Audit of the FAC of the Columbus Southern Power Company and the Ohio Power Company – Audit III (Ohio PUC)

Cause No. 43114-IGCC-4S1	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
Docket No. 12-0293	Ameren Illinois Company (Illinois CC)
Docket No. 12-0321	Commonwealth Edison Company (Illinois CC)
12-02019 & 12-04005	Southwest Gas Corporation (Public Utilities Commission of Nevada)
Docket No. 2012-218-E	South Carolina Electric & Gas (South Carolina PSC)
Docket No. E-72, Sub 479	Dominion North Carolina Power (North Carolina Utilities Commission)
12-0511 & 12-0512	North Shore Gas Company and The Peoples Gas Light and Coke Company (Illinois CC)
E-01933A-12-0291	Tucson Electric Power Company (Arizona CC)
Case No. 9311	Potomac Electric Power Company (Maryland PSC)
Cause No. 43114-IGCC-10	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
Docket No. 36498	Georgia Power Company (Georgia PSC)
Case No. 9316	Columbia Gas of Maryland, Inc. (Maryland PSC)
Docket No. 13-0192	Ameren Illinois Company (Illinois CC)
12-1649-W-42T	West Virginia-American Water Company (West Virginia PSC)
E-04204A-12-0504	UNS Electric, Inc. (Arizona CC)
PUE-2013-00020	Virginia and Electric Power Company (Virginia SCC)
R-2013-2355276	Pennsylvania-American Water Company (Pennsylvania PUC)
Formal Case No. 1103	Potomac Electric Power Company (District of Columbia PSC)
U-13-007	Chugach Electric Association, Inc. (The Regulatory Commission of Alaska)
12-2881-EL-FAC	Financial, Management, and Performance Audit of the FAC for Dayton Power and Light – Audit 3 (Ohio PUC)
Docket No. 36989	Georgia Power Company (Georgia PSC)
Cause No. 43114-IGCC-11	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
UM 1633	Investigation into Treatment of Pension Costs in Utility Rates (Oregon PUC)
13-1892-EL FAC	Financial Audit of the FAC and AER of the Ohio Power Company – Audit I (Ohio PUC)
E-04230A-14-0011 & E-01933A-14-0011	Reorganization of UNS Energy Corporation with Fortis, Inc. (Arizona CC)
14-255-EL RDR	Regulatory Compliance Audit of the 2013 DIR of Ohio Power Company (Ohio PUC)
U-14-001	Chugach Electric Association, Inc. (The Regulatory Commission of Alaska)
U-14-002	Alaska Power Company (The Regulatory Commission of Alaska)
PUE-2014-00026	Virginia Appalachian Power Company (Commonwealth of Virginia SCC)
14-0117-EL-FAC	Financial, Management, and Performance Audit of the FAC and Purchased Power Rider for Dayton Power and Light – Audit 1 (Ohio PUC)
14-0702-E-42T	Monongahela Power Company and The Potomac Edison Company (West Virginia PSC)
Formal Case No. 1119	Merger of Exelon Corporation, Pepco Holdings, Inc., Potomac Electric Power Company, Exelon Energy Delivery Company, LLC, and New Special Purpose Entity, LLC (District of Columbia PSC)
R-2014-2428742	West Penn Power Company (Pennsylvania PUC)
R-2014-2428743	Pennsylvania Electric Company (Pennsylvania PUC)
R-2014-2428744	Pennsylvania Power Company (Pennsylvania PUC)
R-2014-2428745	Metropolitan Edison Company (Pennsylvania PUC)
Cause No. 43114-IGCC-12/13	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
14-1152-E-42T	Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
WS-01303A-14-0010	EPCOR Water Arizona, Inc. (Arizona CC)
2014-000396	Kentucky Power Company (Kentucky PSC)
15-03-45 <sup>^</sup>	Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Connecticut PURA)
A.14-11-003	San Diego Gas & Electric Company (California PUC)
U-14-111	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)

2015-UN-049	Atmos Energy Corporation (Mississippi PSC)
15-0003-G-42T	Mountaineer Gas Company (West Virginia PSC)
PUE-2015-00027	Virginia Electric and Power Company (Commonwealth of Virginia SCC)
Docket No. 2015-0022	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., Maui Electric Company Limited, and NextEra Energy, Inc. (Hawaii PUC)
15-0676-W-42T	West Virginia-American Water Company (West Virginia PSC)
15-07-38 <sup>^^</sup>	Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Connecticut PURA)
15-26 <sup>^^</sup>	Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Massachusetts DPU)
15-042-EL-FAC	Management/Performance and Financial Audit of the FAC and Purchased Power Rider for Dayton Power and Light (Ohio PUC)
2015-UN-0080	Mississippi Power Company (Mississippi PSC)
Docket No. 15-00042	B&W Pipeline, LLC (Tennessee Regulatory Authority)
WR-2015-0301/SR-2015-0302	Missouri American Water Company (Missouri PSC)
U-15-089, U-15-091, & U-15-092	Golden Heart Utilities, Inc. and College Utilities Corporation (The Regulatory Commission of Alaska)
Docket No. 16-00001	Kingsport Power Company d/b/a AEP Appalachian Power (Tennessee Regulatory Authority)
PUE-2015-00097	Virginia-American Water Company (Commonwealth of Virginia SCC)
15-1854-EL-RDR	Management/Performance and Financial Audit of the Alternative Energy Recovery Rider of Duke Energy Ohio, Inc. (Ohio PUC)
P-15-014	PTE Pipeline LLC (Regulatory Commission of Alaska)
P-15-020	Swanson River Oil Pipeline, LLC (Regulatory Commission of Alaska)
Docket No. 40161	Georgia Power Company – Integrated Resource Plan (Georgia PSC)
Formal Case No. 1137	Washington Gas Light Company (District of Columbia PSC)
160021-EI, et al.	Florida Power Company (Florida PSC)
R-2016-2537349	Metropolitan Edison Company (Pennsylvania PUC)
R-2016-2537352	Pennsylvania Electric Company (Pennsylvania PUC)
R-2016-2537355	Pennsylvania Power Company (Pennsylvania PUC)
R-2016-2537359	West Penn Power Company (Pennsylvania PUC)
16-0717-G-390P	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC)
15-1256-G-390P	
(Reopening)/16-0922-G-390P	Mountaineer Gas Company (West Virginia PSC)
16-0550-W-P	West Virginia-American Water Company (West Virginia PSC)
CEPR-AP-2015-0001	Puerto Rico Electric Power Authority (Puerto Rico Energy Commission)
E-01345A-16-0036	Arizona Public Service Company (Arizona CC)
Docket No. 4618	Providence Water Supply Board (Rhode Island PUC)
Docket No. 46238	Joint Report and Application of Oncor Electric Delivery Company LLC and NextEra Energy Inc. (Texas State Office of Administrative Hearings; Texas PUC)
U-16-066	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
Case No. 2016-00370	Kentucky Utilities Company (Kentucky PSC)
Case No. 2016-00371	Louisville Gas and Electric Company (Kentucky PSC)
P-2015-2508942	Metropolitan Edison Company (Pennsylvania PUC)
P-2015-2508936	Pennsylvania Electric Company (Pennsylvania PUC)
P-2015-2508931	Pennsylvania Power Company (Pennsylvania PUC)
P-2015-2508948	West Penn Power Company (Pennsylvania PUC)
E-04204A-15-0142*	UNS Electric, Inc. (Arizona CC)
E-01933A-15-0322*	Tucson Electric Power Company (Arizona CC)
UE-170033 & UG-170034*	Puget Sound Energy, Inc. (Washington UTC)
Case No. U-18239	Consumers Energy Company (Michigan PSC)
Case No. U-18248	DTE Electric Company (Michigan PSC)

Case No. 9449	Merger of AltaGas Ltd. and WGL Holdings (Maryland PSC)
Formal Case No. 1142	Merger of AltaGas Ltd. and WGL Holdings (District of Columbia PSC)
Case No. 2017-00179	Kentucky Power Company (Kentucky PSC)
Docket No. 29849	Georgia Power Plant Vogtle Units 3 and 4, VCM 17 (Georgia PSC)
Docket No. 2017-AD-112	Mississippi Power Company (Mississippi PSC)
Docket No. D2017.9.79	Montana-Dakota Utilities Co. (Montana PSC)
SW-01428A-17-0058 et al	Liberty Utilities (Litchfield Park Water & Sewer) Corp. (Arizona CC)

\* Testimony filed, examination not completed

\*\* Issues stipulated

\*\*\* Company withdrew case

^ Testimony filed, case withdrawn after proposed decision issued

^^ Issues stipulated before testimony was filed

# 5

## DEF's responses to OPC's 1<sup>st</sup> Set of Interrogatories Nos. 1-7, 9.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 5  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
1st Set of Interrogatories Nos. 1-7, 9[Bates  
Nos. 00001-00024]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: April 23, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' FIRST SET OF INTERROGATORIES (NOS. 1-10)**

Duke Energy Florida, LLC ("DEF"), subject to and without waiving the contemporaneously served objections to these requests, responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") First Set of Interrogatories to DEF (Nos. 1-10) as follows:

1. Identify the amounts recorded in each of the following accumulated deferred income tax (ADIT) accounts as of December 31, 2017 and provide a break out of such amounts between federal and state ADIT. If the amounts have been restated to account for the change from the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017 and provide a side by side comparison of the before and after amounts:
  - a. Account 190
  - b. Account 282
  - c. Account 283
  - d. any other accounts (identify and explain) in which the Company recorded ADIT.

**Answer:**

Please see the attached work-paper for a comparison of the before & after TCJA by federal & state ADIT accounts bearing bates numbers 20180047-DEF-00051 through 20180047-DEF-00052.

2. Identify, quantify and explain each book-tax difference for which ADIT has been recorded as of December 31, 2017 in each of the following accounts, and identify the related amounts of federal and state ADIT, and identify the state and federal income tax rate(s) that were used to quantify the state and federal ADIT. If the amounts have been restated to account for the change from the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017 provide a side by side comparison of the before and after amounts:
  - a. Account 190
  - b. Account 282
  - c. Account 283
  - d. any other accounts (identify and explain) in which the Company recorded ADIT.

**Answer:**

Please see the attached work-paper for each book-tax difference before TCJA and after TCJA journal entry recorded in 2017, bearing bates numbers 20180047-DEF-00053 through 20180047-DEF-00062. The amounts shown in the attachment represent ADIT by book-tax difference. For items of deferred tax that have an underlying pretax basis difference, that amount can be determined by dividing the ADIT by tax rate shown.

3. Is the Company is still evaluating the net effect of the Tax Act, and if so please explain what is still being evaluated and identify any issues that are of concern?

**Answer:**

Duke Energy is not still evaluating the estimated effects of the Tax Act based on the data available at this time. The amounts of EDIT calculated at this time are estimates and based upon tax provision calculations as of December 31, 2017.

4. Please explain any nuances the Company believes exist that will affect how the impact of the repair deduction will be factored in or taken into consideration in the determination of the excess deferred tax balances.

**Answer:**

DEF uses PowerTax and there are no known nuances for the treatment of repair deductions.

5. Please explain in detail how the Company plans on returning the excess unprotected deferred income taxes to customers.

**Answer:**

Paragraph 16.c. of DEF's 2017 Second Revised and Restated Settlement Agreement approved in Order No. PSC-2017-0451-AS-EU provides that; "(1) if the cumulative regulatory liability is less than \$200 million, the flow-back period will be five years; or (2) if the cumulative regulatory liability is greater than \$200 million, the flow-back period will be ten years." DEF will return both the protected and unprotected excess deferred income taxes in accordance with the Implementation Stipulation approved in Order No. PSC-2018-0103-PCO-EI.

6. Please provide a detailed summary of: (1) any Net Operating Loss (NOL) deferred tax balance, (2) identify any excess amount resulting from the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017, (3) show how that excess was calculated, and (4) explain how the Company proposes to recover the excess NOL from customers.

**Answer:**

- (1) and (3) Please see the attached work-paper for NOL deferred tax balance and the calculation of excess NOL due to the TCJA, bearing bates numbers 20180047-DEF-00063 through 20180047-DEF-00064.
- (2) \$60,873,085.
- (4) This is a component of the unprotected excess deferred tax regulatory liability and will be amortized consistent with DEF's 2017 Second Revised and Restated Settlement Agreement approved in Order No. PSC-0451-AS-EU.

7. Please provide a detailed explanation on how the Company has provided for the flowback of the income tax expense currently in base rates.

**Answer:**

Paragraph 16.b. of DEF's 2017 Second Revised and Restated Settlement Agreement approved in Order No. PSC-2017-0451-AS-EU states:

If Tax Reform is enacted before DEF's next general base rate proceeding, DEF will quantify the impact of Tax Reform on its Florida Jurisdictional base revenue requirement as projected in DEF's forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective. DEF will also adjust base rate adjustments that have not yet gone into effect to specifically account for Tax Reform. The impacts of Tax Reform on base revenue requirements will be flowed back to retail customers, except that each year throughout the term of this 2017 Second Revised and Restated Settlement Agreement 40% of such impacts, up to \$50 million pre-tax, would be recorded as an acceleration of depreciation expense associated with Crystal River Units 4 and 5, thereby reducing the FPSC-adjusted net operating income impact of Tax Reform by up to the after-tax impact of this accelerated depreciation. All remaining base rate impacts of Tax Reform will be flowed back to customers, within 120 days of when the Tax Reform becomes law, through a one-time adjustment to base rates upon a thorough review of the effects of the tax reform on base revenue requirements. This one-time adjustment shall be accomplished through a uniform percentage decrease to customer, demand and energy base rate charges, excluding delivery voltage credits, for all retail customer classes. Any effects of tax reform on retail revenue requirements from the effective date through the date of the one-time base rate adjustment shall be flowed back to customers through the CCR Clause on the same basis as used in any base rate adjustment. An illustration is included as Exhibit 6. If Tax Reform results in an increase in base revenue requirements, DEF will utilize deferral accounting as permitted by the Commission, thereby neutralizing the FPSC adjusted net operating income impact of the Tax Reform to a net zero, through the Term of this 2017 Second Revised and Restated Settlement Agreement. In this situation, DEF shall defer the revenue requirement impacts to a regulatory asset to be considered for prospective recovery in a change to base rates to be addressed in DEF's next base rate proceeding or in a limited scope proceeding before the Commission no sooner than the expiration of this 2017 Second Revised and Restated Settlement Agreement.

Further DEF will flow the savings back to customers in accordance with the Implementation Stipulation approved in Order No. PSC-2018-0103-PCO-EI.

9. In the Company's last rate filing application, did the Company reflect any impact on income tax expense associated with the domestic production activities deduction under what had been section 199 of the Internal Revenue Code?
  - a. If so, please identify, quantify and explain the amount of such domestic production activities deduction, the impact it had on federal income tax expense, and whether there is a proposal for handling this?

**Answer:**

In DEF's last rate case with a test period of 2010, a \$26 million credit was reflected for the Section 199 manufacturing deduction as reflected in MFR C-22 filed in that case. It should be noted that the scenario used to negotiate DEF's 2017 Second Revised and Restated Settlement Agreement did not include this deduction for 2018 because DEF had not come out of its stand-alone net operating loss. Therefore, no proposal for handling this issue is necessary.

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**Duke Energy Business**  
SubConsolidated Deferred

	Before TCJA	After TCJA
<b>Federal Tax Rate (net of FBOS)</b>	<b>33.08%</b>	<b>19.85%</b>
<b>State Tax Rate</b>	<b>5.50%</b>	<b>5.50%</b>

Code	Name	ADIT Balance before TCJA	Rate Change	Activity relates to 2017 FAS 158	Activity rel 2017 FAS
190001/2	ADIT: Prepaid: Taxes				
Total 190001/2		473,035,962	33,735,360	-1,181,110	
190155	Deferred Tax - NOL				
Total 190155		152,182,712	(60,873,085)	0	
190156	Deferred Tax_State NOLs				
Total 190156		(13,340,525)	5,336,210	0	
219046/7	OCI-Interest Rate Hdgs Tax				
Total 219046/7		2,328,938	(931,575)	0	
281200/1	Deferred Income Tax				
Total 281200/1		(102,550,112)	41,020,045	0	
282100/1	ADIT: PP&E				
Total 282100/1		(2,023,566,775)	806,736,926	0	
283100/1	ADIT: Other				
Total 283100/1		(1,267,248,069)	529,524,346	(1,181,110)	
<b>Total</b>		<b>(2,779,157,869)</b>	<b>1,354,548,227</b>	<b>0</b>	

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**Duke Energy Business**  
 SubConsolidated Deferred  
 2018.01Base Tax Reform,

<b>Code</b>	<b>Name</b>	<b>ADIT Balance before TCJA</b>	<b>Rate Change</b>	<b>Activity relates to 2017 FAS 158</b>	<b>Activity relates 2017 FAS 158</b>
190001/2	ADIT: Prepaid: Taxes				
Total 190001/2		75,349,936	59,469,534	327,342	
190156	Deferred Tax_State NOLs				
Total 190156		38,115,786	0	0	
219046/7	OCI-Interest Rate Hdgs Tax				
Total 219046/7		387,276	0	0	
281200/1	Deferred Income Tax				
Total 281200/1		(17,052,929)	0	0	
282100/1	ADIT: PP&E				
Total 282100/1		(286,043,860)	(588,015)	0	
283100/1	ADIT: Other				
Total 283100/1		(210,727,503)	6,264,446	(327,343)	238
<b>Total</b>		<b>(399,971,294)</b>	<b>65,145,965</b>	<b>(1)</b>	<b>238</b>

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**Duke Energy Business Services, LLC**  
 SubConsolidated Deferred Balances Report - Fed/FBOS  
 2017.12SEC, CSC4\_FL

**Federal Tax Rate (net of FBOS)** 33.08%  
**State Tax Rate** 5.50%

Code	Name	Beginning Balance	Rate Change	Current Activity
190001/2	ADIT: Prepaid: Taxes			
AT_OTH_190_NC_EPRI_Credit	Other Noncurrent After-tax DTA for EPRI Credit	3,746,114	0	266,694
AT_OTH_190_NC_R&D_CREDIT	Other Noncurrent After-Tax DTA for R&D Credit	1,423,725	0	0
AT_OTH_190_NC_Solar_ITC	Other Noncurrent After-tax DTA for Solar ITC	4,972,345	0	4,137,632
F_RGAL_190001-254100	FERC - FIT Adj Offset to Regulatory Asset (254100)	750,981	0	0
F_RGAL_190001-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	1,328,505	0	0
F_RGAL_ARAM_GROSSUP_190001-254100	FERC-FIT Adj Offset to Reg Liab-ARAM Gross-up	2,715,198	0	0
T11A02	Bad Debts - Tax over Book	1,563,464	0	125,482
T11A18	Imputed Interest Income	7,123	0	(7,124)
T11A20	LTD - Cur	223,907	0	0
T11B06	Surplus Materials Write-off Liab	0	0	3,622
T11B08	Surplus Materials Write-Off Asset	265,861	0	51,737
T13A20	IRU Indemnifications-NonCurrent	216,280	0	(66,150)
T13A32	Impairment	(310,660,915)	0	0
T13B08	ASSET RETIREMENT OBLIGATION	251,301,747	0	(12,543,809)
T13B28	LT Cap Lease Oblig-Tax Oper	(285,359)	0	(4,252)
T13B45	Asset Retirement Obligation - Coal Ash	6,132,699	0	307,837
T13B47	L TSA - O&M Cost	(11,239,766)	0	(2,624,869)
T15A22	Mark to Market - LT	(9,145,193)	0	12,216,968
T15A23	Mark to Market Reg - LT	8,404,023	0	(11,510,082)
T15A45	Amort Int Inc Tax Deficiency	742,508	0	(378,993)
T15A62	OCI Book Addback	(371,041)	0	(1,957,897)
T15B07	Cash Flow Hedge - Reg Asset/Liab	175,515	0	(706,886)
T15B58	Storm Cost Deferral- Liab	2,853,662	0	(175,243)
T15B65	Storm Reserve	0	0	0
T16A01	Joint Owner Settlement - NC	164,051	0	0
T17A02	Accrued Vacation	8,624,784	0	1,758,071
T17A30	Property Tax Reserves	0	0	0
T17A31	Sales and Use Tax Reserve	198,065	0	0
T17A40	SEVERANCE RESERVE - LT	3,021,776	0	(2,454,979)
T17A54	MGP Sites	3,173,596	0	(82,226)
T19A02	Deferred Compensation	615,212	0	(202,589)
T19A55	Workers Com Reserve	4,591,028	0	(533,745)
T19A94	UNBILLED REVENUE - FUEL	24,672,167	0	4,369,444
T19A95	Reserve for Claims	66,315	0	66,812
T19A96	Lawsuit Contingency	(479,507)	0	122,581
T19A98	Rate Settlement - LT	0	0	0
T19B01	FAS 5 Non-Income Tax Reserves	40,500,424	0	(20,583,568)
T20A41	Rate Refunds	12,789	0	0
T22A01	Emission Allowance Expense	(1,083,100)	0	38,940
T22A03	Gain on Emission Allowances	1,428	0	(1,171)
T22A07	Charitable Contribution Carryover	0	0	(128,369)
T22A28	Retirement Plan Expense - Underfunded	20,427,748	0	654,090
T22A29	Non-qualified Pension - Accrual	15,378,169	0	(468,670)
T22A30	Retirement Plan Funding - Underfunded	0	0	(6,613,639)
T22A39	Unbilled Revenue	1,594,622	0	0
T22A56	Environmental Reserve	(1,017,105)	0	1,069,748
T22B13	ANNUAL INCENTIVE PLAN COMP	10,287,819	0	(680,576)
T22B15	PAYABLE 401 (K) MATCH	574,380	0	(23,362)
T22B29	Tax Int Accrual - Non-cur Liab	(5,160)	0	(582)
T22B37	Nuclear Refueling Outage Reserve Current	0	0	0
T22B40	Generating Performance Incentive Factor	(745,980)	0	659,253

281200/1	Deferred Income Tax			
T13A80	Pollution Control	(99,597,396)	0	(2,970,297)
Total 281200/1		(99,597,396)	0	(2,970,297)
282100/1	ADIT: PP&E			
AT_OTH_282_NC_Solar	Other Noncurrent After-tax DTA for Solar Basis Reduction	(431,755)	0	0
AT_OTH_282_NC_TBBS	Other Non-Current After-Tax DTL for TBBS	0	0	0
F_ARAM_282100-410100	FERC - FIT Plant Adj (Util - 410)	3,801,000	0	0
F_RGAL_282100-182320	FERC - FIT Adj Offset to Regulatory Liability (182320)	(11,084,025)	0	0
F_RGAL_ARAM_EXCESSADIT_282100-254100	FERC-FIT Adj Offset to Reg Liab-ARAM Excess ADIT	(1,267,000)	0	0
F_RGAL_EQUITY_AFUDC_EXCESSADIT_282100-182320	FERC-FIT Offset to Reg Liab (182) Equity-AFUDC-Excess-ADIT	11,375,973	0	0
F_RGAL_SOLAR_ITC_BASIS_RED_282100-182320	FERC-FIT Offset to Reg Liab (182) Solar Basis Reduction	17,270	0	0
T13A04	AFUDC Interest	(7,446,492)	0	(8,011,167)
T13A08	Book Depreciation/Amortization	498,926,620	0	142,388,028
T13A10	Adjustment To Book Depreciation	0	0	28,052,387
T13A12	Book Gain/Loss on Property	(126,325)	0	323,776
T13A14	Contributions in Aid (CIAC's)	38,002,933	0	10,285,246
T13A16	Cost of Removal	(16,315,719)	0	0
T13A18	Capitalized Hardware/Software	652,553	0	0
T13A19	After Tax ADC, M&E, ITC Temporary	0	0	(3,432,049)
T13A26	Tax Interest Capitalized	25,221,678	0	20,074,048
T13A28	Tax Depreciation/Amortization	(1,614,007,068)	0	(287,360,784)
T13A30	Tax Gains/Losses	(357,215,078)	0	(5,348,596)
T13A51	Nuclear Fuel Book Burned	6,673,360	0	0
T13A54	Free Basis ITC Federal Only	438,405	0	0
T13A75	Section 174 R&E Deduction	(13,283,364)	0	0
T13A77	Repairs 481(a) (Pursuant to 3115)	(88,810,369)	0	0
T13B01	Long Term Service Agreement	(8,514,160)	0	0
T13B04	Capital Improvement Addback	15,534,014	0	0
T13B09	Book Depreciation Charged to Other Accounts	7,416,639	0	1,728,265
T13B22	Amort of Interco Gain	(5,397,987)	0	(3,134,709)
T13B23	Non-Cash Overhead Basis Adj	16,090,702	0	3,637,995
T13B26	Equipment Repairs - Annual Adj	(105,408,381)	0	(38,036,250)
T13B31	Impairment of Plant Assets	21,931,499	0	12,587,616
T13B32	T & D Repairs 481(a) (pursuant to 3115)	(9,480,738)	0	0
T13B33	T & D Repairs - Annual Adj.	(48,274,898)	0	(56,889,000)
T13B36	Internal Labor Costs	(1,041,510)	0	0
T13B42	Smart Grid Deferred Costs	(9,147,564)	0	0
T13B43	Section 481(a) Casualty Losses	39,371,435	0	0
T13B44	Capitalized OH - Transportation	(517,057)	0	0
T15B62	Reg Asset - COR	(159,035,827)	0	0
T15B63	Reg Asset - Depreciation	11,095,174	0	(969,097)
T22H11	Asset Retirement Costs - ARO	5,046,637	0	83,288
T22H45	Asset Retirement Costs - Coal Ash	(3,672,527)	0	139,367
TFL010	FL - Bonus Depreciation Adj.	(14,355,036)	0	(3,875,396)
TFL080	FL - Depreciation Adj - ACRS VTGs	11,339	0	0
Total 282100/1		(1,773,225,647)	0	(187,757,031)
283100/1	ADIT: Other			
F_RGAL_EQUITY_AFUDC_GROSSUP_283100-182320	FERC-FIT Adj Offset to Reg Liab Equity-AFUDC-Gross-up	(80,045,385)	0	0
F_RGAL_GROSSUP_283100-182320-Solar	OTH NC After-tax DTA for Solar Basis Reduction Grossup	(232,483)	0	0
F_RGAL_SOLAR_ITC_BASIS_RED_GROSSUP_283100-182320	FERC-FIT Adj Offset to Reg Liab Solar ITC Basis Red Gross-up	9,299	0	0
T11A23	Deferred Regulatory Cost - Non Current	(67,523,055)	0	44,998,078
T12A04	Reverse Book Passthrough Earnings	13,335	0	0
T13A22	After Tax ADC, M&E, ITC Temporary - Progress	(8,652,854)	0	0
T15A24	Loss on Reacquired Debt-Amort	(3,960,628)	0	419,123
T15A58	2004 Ivan Storm Cleanup	(583,575)	0	20,770
T15B04	Reg Asset - Accr Pension FAS158 - FAS87Qual	(1,402)	0	1,503
T15B17	Reg Liab RSLI & Other Misc Dfd Costs	0	0	0

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**Duke Energy Business Services, LLC**  
 SubConsolidated Deferred Balances Report - Fed/FBOS (Reporting)

**Federal Tax Rate (net of FBOS)**  
**State Tax Rate**

<b>Before TCJA</b>	<b>After TCJA</b>
<b>33.08%</b>	<b>19.85%</b>
<b>5.50%</b>	<b>5.50%</b>

Code	Name	ADIT Balance before	Rate Change	Activ to 201
		TCJA		
190001/2	ADIT: Prepaid: Taxes			
AT_OTH_190_NC_EPRI_Credit	Other Noncurrent After-tax DTA for EPRI Credit	4,012,808	0	
AT_OTH_190_NC_R&D_CREDIT	Other Noncurrent After-Tax DTA for R&D Credit	6,219,673	0	
AT_OTH_190_NC_Solar_ITC	Other Noncurrent After-tax DTA for Solar ITC	11,365,340	0	
F_RGAL_190001-254100	FERC - FIT Adj Offset to Regulatory Asset (254100)	16	0	
F_RGAL_190001-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	5,019,858	(2,541,715)	
F_RGAL_ARAM_GROSSUP_190001-254100	FERC-FIT Adj Offset to Reg Liab-ARAM Gross-up	1,703,818	(893,856)	
F_RGAL_Fed_Rate_Chng_Gross_Up_190001-254036	FIT Gross-Up on Excess Federal Tax	0	215,056,713	
T11A02	Bad Debts - Tax over Book	1,688,945	(675,578)	
T11A18	Imputed Interest Income	0	0	
T11B06	Surplus Materials Write-off Liab	3,622	(1,449)	
T11B08	Surplus Materials Write-Off Asset	51,737	(20,695)	
T13B08	ASSET RETIREMENT OBLIGATION	238,757,938	(95,503,175)	
T13B28	LT Cap Lease Oblig-Tax Oper	(289,611)	115,844	
T13B45	Asset Retirement Obligation - Coal Ash	6,440,536	(2,576,214)	
T13B47	LTSA - O&M Cost	(9,047,189)	3,618,875	
T15A22	Mark to Market - LT	3,164,253	(1,265,701)	
T15A23	Mark to Market Reg - LT	(2,632,881)	1,053,153	
T15A45	Amort Int Inc Tax Deficiency	363,515	(145,406)	
T15A62	OCI Book Addback	(2,328,938)	931,575	
T15B07	Cash Flow Hedge - Reg Asset/Liab	(531,371)	212,548	
T15B58	Storm Cost Deferral- Liab	2,678,418	(1,071,367)	
T15B65	Storm Reserve	0	0	
T16A01	Joint Owner Settlement - NC	0	0	
T17A02	Accrued Vacation	10,382,855	(4,153,142)	
T17A30	Property Tax Reserves	0	0	
T17A40	SEVERANCE RESERVE - LT	566,797	(226,719)	
T17A54	MGP Sites	3,091,369	(1,236,548)	
T19A02	Deferred Compensation	412,623	(165,049)	
T19A55	Workers Com Reserve	4,057,283	(1,622,913)	
T19A94	UNBILLED REVENUE - FUEL	29,041,611	(11,616,644)	
T19A95	Reserve for Claims	133,127	(53,251)	
T19A96	Lawsuit Contingency	304,573	(121,829)	
T19A98	Rate Settlement - LT	0	0	
T19B01	FAS 5 Non-Income Tax Reserves	19,519,957	(7,807,983)	
T20A41	Rate Refunds	12,789	(5,116)	
T22A01	Emission Allowance Expense	(1,023,683)	409,473	
T22A03	Gain on Emission Allowances	257	(103)	
T22A28	Retirement Plan Expense - Underfunded	21,081,837	(8,432,735)	
T22A29	Non-qualified Pension - Accrual	14,909,499	(5,963,800)	
T22A30	Retirement Plan Funding - Underfunded	(6,613,639)	2,645,455	
T22A39	Unbilled Revenue	1,622,532	(649,013)	
T22A56	Environmental Reserve	52,643	(21,057)	
T22B13	ANNUAL INCENTIVE PLAN COMP	9,607,243	(3,842,897)	
T22B15	PAYABLE 401 (K) MATCH	551,018	(220,407)	
T22B29	Tax Int Accrual - Non-cur Liab	(5,742)	2,297	
T22B37	Nuclear Refueling Outage Reserve Current	0	0	
T22B40	Generating Performance Incentive Factor	(86,728)	34,691	
T22B42	Claim Reserve LT	13,230,000	(5,292,000)	
T22E02	OPEB Expense Accrual	51,719,061	(20,687,624)	
T22E06	FAS 112 Medical Expenses Accrual	3,187,576	(1,275,031)	
T22H09	Decommissioning Liability	30,766,720	(12,306,688)	
T22H16	Nuclear Decommissioning Funds - Gross Income	(1)	0	
TFL050	FL Charitable Contribution Carryover	(126,102)	50,441	

F_ARAM_282100-410100	FERC - FIT Plant Adj (Util - 410)	(3,047,000)	0
F_RGAL_ARAM_EXCESSADIT_282100-254100	FERC-FIT Adj Offset to Reg Liab-ARAM Excess ADIT	3,047,000	0
F_RGAL_EQUITY_AFUDC_EXCESSADIT_282100-182320	FERC-FIT Offset to Reg Liab (182) Equity-AFUDC-Excess-ADIT	(132,486,264)	50,872,840
F_RGAL_SOLAR_ITC_BASIS_RED_282100-182320	FERC-FIT Offset to Reg Liab (182) Solar Basis Reduction	75,002	0
T13A04	AFUDC Interest	(15,458,342)	6,183,337
T13A08	Book Depreciation/Amortization	641,314,649	(256,525,859)
T13A10	Adjustment To Book Depreciation	44,445,271	(17,778,108)
T13A12	Book Gain/Loss on Property	313,422	(125,369)
T13A14	Contributions in Aid (CIAC's)	48,288,179	(19,315,272)
T13A16	Cost of Removal	(16,315,719)	6,526,288
T13A18	Capitalized Hardware/Software	829,722	(331,889)
T13A19	After Tax ADC,M&E, ITC Temporary	112,445,982	(44,978,393)
T13A26	Tax Interest Capitalized	45,295,726	(18,118,290)
T13A28	Tax Depreciation/Amortization	(1,865,760,580)	746,304,232
T13A30	Tax Gains/Losses	(376,286,211)	150,514,484
T13A51	Nuclear Fuel Book Burned	6,673,360	(2,669,344)
T13A54	Free Basis ITC Federal Only	357,490	(142,996)
T13A75	Section 174 R&E Deduction	(14,947,452)	5,978,981
T13A77	Repairs 481(a) (Pursuant to 3115)	(88,810,369)	35,524,148
T13A80	Pollution Control		0
T13B01	Long Term Service Agreement	(13,331,606)	5,332,642
T13B09	Book Depreciation Charged to Other Accounts	9,144,904	(3,657,962)
T13B22	Amort of Interco Gain	(8,532,696)	3,413,078
T13B23	Non-Cash Overhead Basis Adj	16,670,733	(6,668,293)
T13B26	Equipment Repairs - Annual Adj	(178,955,493)	71,582,197
T13B31	Impairment of Plant Assets	35,142,460	(14,056,984)
T13B32	T & D Repairs 481(a) (pursuant to 3115)	(9,480,738)	3,792,295
T13B33	T & D Repairs - Annual Adj.	(124,417,014)	49,766,806
T13B36	Internal Labor Costs	(1,737,606)	695,042
T13B42	Smart Grid Deferred Costs	(9,147,564)	3,659,026
T13B43	Section 481(a) Casualty Losses	39,371,435	(15,748,574)
T13B44	Capitalized OH - Transportation	(914,619)	365,848
T15B62	Reg Asset - COR	(159,035,827)	63,614,331
T15B63	Reg Asset - Depreciation	10,126,077	(4,050,431)
T22H11	Asset Retirement Costs - ARO	5,129,925	(2,051,970)
T22H45	Asset Retirement Costs - Coal Ash	(3,533,160)	1,413,264
TFL010	FL - Bonus Depreciation Adj.	(16,924,421)	6,769,768
TFL080	FL - Depreciation Adj - ACRS VTGs	11,339	(4,535)
Total 282100/1		(2,023,566,775)	806,736,926
283100/1	ADIT: Other		
F_RGAL_EQUITY_AFUDC_GROSSUP_283100-182320	FERC-FIT Adj Offset to Reg Liab Equity-AFUDC-Gross-up	(83,415,727)	55,708,377
F_RGAL_GROSSUP_283100-182320-Solar	OTH NC After-tax DTA for Solar Basis Reduction Grossup	(878,469)	618,264
F_RGAL_SOLAR_ITC_BASIS_RED_GROSSUP_283100-182320	FERC-FIT Adj Offset to Reg Liab Solar ITC Basis Red Gross-up	40,387	0
T11A23	Deferred Regulatory Cost - Non Current	(27,638,049)	11,055,220
T12A04	Reverse Book Passthrough Earnings	(109,231)	43,692
T15A24	Loss on Reacquired Debt-Amort	(3,541,505)	1,416,602
T15A58	2004 Ivan Storm Cleanup	(562,806)	225,122
T15B04	Reg Asset - Accr Pension FAS158 - FAS87Qual	101	(40)
T15B17	Reg Liab RSLI & Other Misc Dfd Costs	(57,985)	23,194
T15B29	Reg Asset-Pension Post Retirement PAA-FAS87Qual and Oth	(131,997,250)	52,798,900
T15B37	Reg Asset-Pension Post Retirement PAA-FAS87NQ and Oth	(3,537,993)	1,415,197
T15B38	Reg Asset-Pension Post Retirement PAA-FAS 106 and Oth	(15,954,596)	6,381,838
T15B40	Reg Asset - Accr Pension FAS158 - FAS87NQ	(162,194)	64,878
T15B41	Reg Asset - Accr Pension FAS158 - FAS 106/112	0	0
T15B45	Reg Asset - Plant Related Retirements	(1,136,121)	454,449
T15B52	Storm Cost Deferral- Asset	(145,038,559)	58,015,424
T19A58	Deferred Cost CR 3 - Reg. Asset	(399,940,782)	159,976,313
T19A59	Dfd CR3 Dry Cask Storage Reg Asset	(36,424,031)	14,569,612
T19A86	Deferred Fuel Asset - LT	(71,573,006)	28,629,202
T20A38	Regulatory Asset - Deferred Plant Costs	(29,210,012)	11,684,005
T22A23	Retirement Plan Expense - Overfunded	(34,355,745)	13,742,298

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**Duke Energy Business Services, LLC**

Federal Tax Rate (net of FBOS)

33.08%

SubConsolidated Deferred Balances Report - State Only

State Tax Rate

5.50%

2017.12SEC, CSC4\_FL

Code	Name	Beginning Balance	Rate Change	Current Activity
190001/2	ADIT: Prepaid: Taxes			
AT_OTH_190_NC_ST	Other Non-Current AT ST DTA	150,749	0	
F_RGAL_190002-254100	FERC - SIT Adj Offset to Reg Liab	124,900	0	
F_RGAL_190002-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	220,882	0	
F_RGAL_ARAM_GROSSUP_190002-254100	FERC-SIT Adj Offset to Reg Liab-ARAM Gross-up	451,553	0	
T11A02	Bad Debts - Tax over Book	259,986	0	20,86
T11A18	Imputed Interest Income	1,185	0	(1,18)
T11A20	LTD - Cur	37,233	0	
T11B06	Surplus Materials Write-off Liab	0	0	60
T11B08	Surplus Materials Write-Off Asset	44,210	0	8,60
T13A20	IRU Indemnifications-NonCurrent	35,965	0	(11,00)
T13A32	Impairment	(51,659,411)	0	
T13B08	ASSET RETIREMENT OBLIGATION	41,788,650	0	(2,085,89)
T13B28	LT Cap Lease Oblig-Tax Oper	(47,452)	0	(70)
T13B45	Asset Retirement Obligation - Coal Ash	1,019,799	0	51,19
T13B47	LTSA - O&M Cost	(1,869,047)	0	(436,48)
T15A22	Mark to Market - LT	(1,520,743)	0	2,031,54
T15A23	Mark to Market Reg - LT	1,397,494	0	(1,913,99)
T15A45	Amort Int Inc Tax Deficiency	123,471	0	(63,02)
T15A62	OCI Book Addback	(61,700)	0	(325,57)
T15B07	Cash Flow Hedge - Reg Asset/Liab	29,186	0	(117,54)
T15B58	Storm Cost Deferral- Liab	474,532	0	(29,14)
T15B65	Storm Reserve	0	0	
T16A01	Joint Owner Settlement - NC	27,280	0	
T17A02	Accrued Vacation	1,434,204	0	292,34
T17A30	Property Tax Reserves	0	0	
T17A31	Sales and Use Tax Reserve	32,936	0	
T17A40	SEVERANCE RESERVE - LT	502,487	0	(408,23)
T17A54	MGP Sites	527,733	0	(13,67)
T19A02	Deferred Compensation	102,303	0	(33,68)
T19A55	Workers Com Reserve	763,436	0	(88,75)
T19A94	UNBILLED REVENUE - FUEL	4,102,704	0	726,58
T19A95	Reserve for Claims	11,028	0	11,11
T19A96	Lawsuit Contingency	(79,737)	0	20,38
T19A98	Rate Settlement - LT	0	0	
T19B01	FAS 5 Non-Income Tax Reserves	6,734,764	0	(3,422,81)
T20A41	Rate Refunds	2,127	0	
T22A01	Emission Allowance Expense	(180,107)	0	6,47
T22A03	Gain on Emission Allowances	237	0	(19)
T22A07	Charitable Contribution Carryover	0	0	(21,34)
T22A28	Retirement Plan Expense - Underfunded	3,396,904	0	108,76
T22A29	Non-qualified Pension - Accrual	2,557,216	0	(77,93)
T22A30	Retirement Plan Funding - Underfunded	0	0	(1,099,77)
T22A39	Unbilled Revenue	265,168	0	
T22A56	Environmental Reserve	(169,133)	0	177,88
T22B13	ANNUAL INCENTIVE PLAN COMP	1,710,748	0	(113,17)
T22B15	PAYABLE 401 (K) MATCH	95,513	0	(3,88)
T22B29	Tax Int Accrual - Non-cur Liab	(858)	0	(9)
T22B37	Nuclear Refueling Outage Reserve Current	0	0	
T22B40	Generating Performance Incentive Factor	(124,048)	0	109,62
T22B42	Claim Reserve LT	1,375,000	0	
T22E02	OPEB Expense Accrual	8,995,760	0	(395,46)



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**Duke Energy Business Services, LLC**

SubConsolidated Deferred Balances Report - State Only (Reporting)  
2018.01Base Tax Reform, CSC4\_FL

Federal Tax Rate (net of FBOS)  
State Tax Rate

Before T

Code	Name	ADIT Ba
190001/2	ADIT: Prepaid: Taxes	1
AT_OTH_190_NC_ST	Other Non-Current AT ST DTA	
F_RGAL_190002-254100	FERC - SIT Adj Offset to Reg Liab	
F_RGAL_190002-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	
F_RGAL_ARAM_GROSSUP_190002-254100	FERC-SIT Adj Offset to Reg Liab-ARAM Gross-up	
F_RGAL_Fed_Rate Chng_Gross Up_190002-254036	SIT Gross-Up on Excess Federal Tax	
T11A02	Bad Debts - Tax over Book	
T11A18	Imputed Interest Income	
T11B06	Surplus Materials Write-off Liab	
T11B08	Surplus Materials Write-Off Asset	
T13B08	ASSET RETIREMENT OBLIGATION	
T13B28	LT Cap Lease Oblig-Tax Oper	
T13B45	Asset Retirement Obligation - Coal Ash	
T13B47	L TSA - O&M Cost	
T15A22	Mark to Market - LT	
T15A23	Mark to Market Reg - LT	
T15A45	Amort Int Inc Tax Deficiency	
T15A62	OCI Book Addback	
T15B07	Cash Flow Hedge - Reg Asset/Liab	
T15B58	Storm Cost Deferral- Liab	
T15B65	Storm Reserve	
T16A01	Joint Owner Settlement - NC	
T17A02	Accrued Vacation	
T17A30	Property Tax Reserves	
T17A40	SEVERANCE RESERVE - LT	
T17A54	MGP Sites	
T19A02	Deferred Compensation	
T19A55	Workers Com Reserve	
T19A94	UNBILLED REVENUE - FUEL	
T19A95	Reserve for Claims	
T19A96	Lawsuit Contingency	
T19A98	Rate Settlement - LT	
T19B01	FAS 5 Non-Income Tax Reserves	
T20A41	Rate Refunds	
T22A01	Emission Allowance Expense	
T22A03	Gain on Emission Allowances	
T22A28	Retirement Plan Expense - Underfunded	
T22A29	Non-qualified Pension - Accrual	
T22A30	Retirement Plan Funding - Underfunded	
T22A39	Unbilled Revenue	
T22A56	Environmental Reserve	
T22B13	ANNUAL INCENTIVE PLAN COMP	

T15A66  
Total 219046/7

281200/1  
T13A80  
Total 281200/1

282100/1  
AT\_OTH\_282\_NC\_ST\_TBBS  
F\_RGAL\_EQUITY\_AFUDC\_EXCESSADIT\_282101-182320  
T13A04  
T13A08  
T13A10  
T13A12  
T13A14  
T13A16  
T13A18  
T13A19  
T13A26  
T13A28  
T13A30  
T13A51  
T13A75  
T13A77  
T13B01  
T13B09  
T13B22  
T13B23  
T13B26  
T13B31  
T13B32  
T13B33  
T13B36  
T13B42  
T13B43  
T13B44  
T15B62  
T15B63  
T22H11  
T22H45  
TFL010  
TFL080  
Total 282100/1

283100/1  
F\_RGAL\_EQUITY\_AFUDC\_GROSSUP\_283101-182320  
F\_RGAL\_GROSSUP\_283101-182320-Solar  
F\_RGAL\_SOLAR\_ITC\_BASIS\_RED\_GROSSUP\_283101-182320  
T11A23  
T12A04  
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OCI - Interest Rate Hedge

Deferred Income Tax  
Pollution Control

ADIT: PP&E  
Other Non-Current AT ST DTL for TBBS  
FERC-SIT Offset to Reg Liab (182) Equity-AFUDC-Excess-ADIT  
AFUDC Interest  
Book Depreciation/Amortization  
Adjustment To Book Depreciation  
Book Gain/Loss on Property  
Contributions in Aid (CIAC's)  
Cost of Removal  
Capitalized Hardware/Software  
After Tax ADC, M&E, ITC Temporary  
Tax Interest Capitalized  
Tax Depreciation/Amortization  
Tax Gains/Losses  
Nuclear Fuel Book Burned  
Section 174 R&E Deduction  
Repairs 481(a) (Pursuant to 3115)  
Long Term Service Agreement  
Book Depreciation Charged to Other Accounts  
Amort of Interco Gain  
Non-Cash Overhead Basis Adj  
Equipment Repairs - Annual Adj  
Impairment of Plant Assets  
T & D Repairs 481(a) (pursuant to 3115)  
T & D Repairs - Annual Adj.  
Internal Labor Costs  
Smart Grid Deferred Costs  
Section 481(a) Casualty Losses  
Capitalized OH - Transportation  
Reg Asset - COR  
Reg Asset - Depreciation  
Asset Retirement Costs - ARO  
Asset Retirement Costs - Coal Ash  
FL - Bonus Depreciation Adj.  
FL - Depreciation Adj - ACRS VTGs

ADIT: Other  
FERC-SIT Adj Offset to Reg Liab Equity-AFUDC-Gross-up  
OTH NC After-tax DTA for Solar Basis Reduction Grossup  
FERC-SIT Adj Offset to Reg Liab Solar ITC Basis Red Gross-up  
Deferred Regulatory Cost - Non Current  
Reverse Book Passthrough Earnings

T22H07  
T22H12  
T22H46  
Total 283100/1

**Total**

Decommissioning Qualified Fund  
ARO Regulatory Asset  
ARO Regulatory Asset - Coal Ash

\_\_\_\_\_  
\_\_\_\_\_  
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**Duke Energy Florida**  
**Federal NOL Reconciliation**  
**As of December 2017**  
0190155

	Pre tax	Tax-Effectuated
2011 NOL	182,459,732	63,860,906
2013 NOL	624,420,715	218,547,250
2013 NOL Reallocation from '12-'14 Settlement	(41,940,725)	(14,679,254)
2013 M&E study Adj.	500,603	175,211
NOL CF to 2014	<u>765,440,325</u>	267,904,114
2011 NOL utilized in 2014	(182,459,732)	(63,860,906)
2014 M&E study adj.	4,256,552	1,489,793
Contributions converted to NOL from '08-'11 Settlement	11,526,951	4,034,433
NOL CF to 2015	<u>598,764,096</u>	209,567,434
2014 Contributions converted to NOL	579,409	202,793
2013 NOL used in 2015	(27,920,588)	(9,772,206)
NOL CF to 2016	<u>571,422,917</u>	199,998,021
2015 Contributions converted to NOL		
2016 NOL True-up	23,123,076	8,093,077
NOL CF to 2017	<u>594,545,993</u>	208,091,098
2017 NOL Utilization	(157,037,809)	(54,963,233)
2015 tax return adjustment to NOL	7,330,703	2,565,746
172(f) Carryback - 2016 NOL	(10,031,139)	(3,510,898)
2017 Balance per support	434,807,748	152,182,712

**Duke Energy Florida**  
**State NOL Reconciliation**  
**As of December 2017**  
0190156

2013 NOL as per Return	936,235,429
Tax rate	5.50%
State NOL	51,492,949
NOL used in 2014	12,119,476
Beginning Balance	139,373,331
NOL Utilized in 2015	(23,472,474)

**DE Florida**  
**NOL Revaluation**

Fed NOL Needed in OTP - Pretax	434,807,748
	<u>21%</u>
After Tax	<u>91,309,627</u>
Curently in OTP	<u>152,182,712</u>
Rate Change	<u><u>(60,873,085)</u></u>

**AFFIDAVIT**

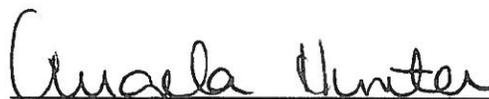
STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I hereby certify that on this 1 day of May, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MATT GORDON, who is personally known to me, and he acknowledged before me that he provided the answers to interrogatory numbers 1, 2, 3, 4, and 6 from CITIZEN'S FIRST SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 1-10) in Docket No. 20180047-EI, and that the responses are true and correct based on his personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 1 day of May, 2018.

  
Matt Gordon

  
Notary Public  
State of North Carolina

My Commission Expires:

My Commission Expires  
05-30-2018

AFFIDAVIT

STATE OF FLORIDA

COUNTY OF PINELLAS

I hereby certify that on this 23<sup>rd</sup> day of April, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MARCIA OLIVIER, who is personally known to me, and she acknowledged before me that she provided the answers to interrogatory numbers 5, 7 and 9, from CITIZEN'S FIRST SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 1-10) in Docket No. 20180047-EI, and that the responses are true and correct based on her personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 23 day of April, 2018.



Marcia Olivier  
Marcia Olivier

Sarah Hirschman Libes  
Notary Public  
State of Florida

My Commission Expires:

3/23/22

# 6

DEF's responses to OPC's 2nd Set of Interrogatories Nos. 12, 13, 14a-f, 14f, 15a-f, 16-23.

**Additional files contained on Staff's Hearing Exhibits CD for Nos. 14, 15a, 15c, 16, 17, 19, 20, 21.**

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 6  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's 2nd Set of Interrogatories Nos. 12, 13, 14a-f, 15a-f, 16-23 Additional files...

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC

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Docket No. 20180047-EI

Dated: April 30, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' SECOND SET OF INTERROGATORIES (NOS. 11-24)**

Duke Energy Florida, LLC ("DEF"), subject to and without waiving the contemporaneously served objections to these requests, responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Second Set of Interrogatories to DEF (Nos. 11-24) as follows:

*Expediting the responses to requests in **bold** below would help facilitate a timely resolution of this matter.*

**11. Details of ADIT balances at December 31, 2017.**

- a. Identify the December 31, 2017 recorded per-book balance of Accumulated Deferred Income Taxes (ADIT) in each account (account 190, 282, 283 etc.).**
- b. Show by each book-tax difference, the components which comprise the ADIT in each ADIT account.**
- c. For each component of the ADIT listed in response to the above requests, please also provide the following information:**
  - 1. The state income tax rate used to compute the ADIT.**
  - 2. The federal income tax rate used to compute the ADIT.**
  - 3. The combined state and federal income tax rate used to compute the ADIT.**
  - 4. The balance (book-tax difference at 12/31/2017) to which the state and federal income tax rates were applied to compute the ADIT.**
- d. For each component in the ADIT accounts, identify the amount representing "excess" ADIT (i.e., calculated using the new 21% flat federal corporate income tax rate versus the previous FIT rate [e.g., of 34% or 35%] that the Company used).**
- e. For each amount of excess property-related ADIT in account 282, please indicate whether it is "protected" (i.e., related to the use of accelerated tax depreciation including Modified Accelerated Cost Recovery System (MACRS) and bonus tax**

12. What software does the Company use to track the tax basis and tax depreciation of its utility plant assets?
  - a. Explain the capabilities of that software for tracking tax basis and tax depreciation by plant account by vintage (year in which the plant was placed into service).
  - b. Explain the capabilities of that software for calculating amortization of excess accumulated deferred income taxes (EADIT) using an average rate assumption method (ARAM).

**Answer:**

PowerTax is the module within the PowerPlan software used to calculate tax depreciation and deferred taxes.

- a. Duke Energy tracks tax depreciation by tax class and vintage in PowerTax. PowerTax interfaces with the book accounting assets which are stored in PowerPlant (a separate module within the PowerPlan software). Each year the book accounting transactions are passed to PowerTax. The book accounting plant accounts are mapped into the various tax classes within PowerTax.
- b. PowerTax does the record keeping for calculating EADIT using the ARAM method. Each asset in PowerTax maintains the book vs. tax timing difference which allows for the calculation of the ARAM.

13. What software does the Company use to track the book basis and book depreciation of its utility plant assets?
  - a. Explain the capabilities of that software for tracking book basis and book depreciation by plant account by vintage (year in which the plant was placed into service).
  - b. Explain the capabilities of that software for calculating amortization of excess accumulated deferred income taxes (EADIT) using an average rate assumption method (ARAM).

**Answer:**

PowerPlant is the module within the PowerPlan software used to do the book accounting for assets.

- a. Each year all the book accounting transactions are interfaced into PowerTax (additions, retirements, transfers, as well as book depreciation). As previously stated Duke Energy maintains records in PowerTax by tax class and vintage. Book depreciation is interfaced from PowerPlant and then allocated to the vintages in PowerTax. The Duke Energy book accounting utilizes group depreciation and the depreciation is not maintained at the vintage level. PowerTax does store the book depreciation by vintage using an allocation procedure each year for the current year book depreciation transactions.
- b. PowerTax maintains the ADIT and EADIT on each PowerTax asset record. Amortization of ARAM begins once book depreciation exceeds tax depreciation for a given record.

14. Provide a listing of each regulatory asset and regulatory liability, by account, that was recorded on the Company's books as of December 31, 2017. For each item, also provide the following information:
- a. the amount
  - b. the amortization period (if any) being applied
  - c. whether the balance accrues carrying charges and, if so, the carrying charge rate and how it is determined
  - d. the amount of ADIT related to the item and how that ADIT was determined (include details for the state and federal income tax rate applied to compute the ADIT and the balance to which the tax rates were applied)
  - e. whether the item was included in utility rate base in the Company's last rate case
  - f. whether the item represents cost deferrals (over- or under-recoveries) that are expected to be recovered via a rider or surcharge and an explanation of such recovery.

**Answer:**

Please see the attached documents bearing bates numbers 20180047-DEF-000065 through 20180047-DEF-000066.

15. Referring to the 21% federal corporate income tax rate that became effective January 1, 2018 as part of the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017 and the identification of excess federal ADIT as of December 31, 2017:
- a. Explain whether and how the Company will be applying the Average Rate Assumption Method (ARAM) to the “protected” portions of the excess federal ADIT balances that relate to the use of accelerated tax depreciation for federal income tax purposes, and show in detail how the Company is calculating the ARAM.
  - b. Is the Company proposing to use an alternative method for amortizing the “protected” portion of its excess ADIT? If so, identify and describe the method and show in detail how the Company is applying it.
  - c. Please provide the Company's currently authorized depreciation rates, by plant account (and sub-account if applicable). For each depreciation rate, please provide a breakout of the rate between (1) the portion related to the recovery of original cost over the plant's estimated useful life and (2) the portion related to cost of removal/negative net salvage.
  - d. How does the Company account for the cost of removal when actual removal costs are incurred, and how does the Company account for the component of depreciation rates (and depreciation expense) that relates to negative net salvage in recording Depreciation Expense and Accumulated Depreciation? Please explain fully, identify and provide accounting policies related to this, and provide illustrative journal entries made in 2017 showing the accounting.
  - e. Does the cost of removal/negative net salvage component of the Company's depreciation rates have any impact on the derivation of the Average Rate Assumption Method that is specified in the Tax Cuts and Jobs Act for application to excess federal ADIT related to the use of accelerated tax depreciation? If “yes” explain fully, and provide an illustrative example showing how the cost of removal/negative net salvage component of the Company's depreciation rates impacts the ARAM.
  - f. What method is the Company proposing to use for the amortization of the “unprotected” portion of its excess ADIT? Please describe the method and show in detail how the Company is applying it.

**Answer:**

- a. DEF will apply ARAM to the “protected” portions of the excess federal ADIT. For a simple example of how it works see attachment DEF\_OPC\_ROG\_15a\_Response\_Attachment\_1.xlsx bearing bates number 201800047-DEF-000067.

- b. No.
- c. DEF's current depreciation rates were most recently approved by the Commission in Order No. PSC-2010-0131-FOF-EI, Page 44 for transmission, distribution, and general plant (<http://www.psc.state.fl.us/library/filings/2010/01530-2010/10-0131.ord.doc>) and amendatory Order No. PSC-10-0131A-FOF-EI for production plant ([http://www.psc.state.fl.us/library/filings/2011/03876-2011/03876-2011\\_10-0131a.ord.doc](http://www.psc.state.fl.us/library/filings/2011/03876-2011/03876-2011_10-0131a.ord.doc)). Please see "OPC ROG15c Response Attachment 1.xlsx" bearing bates numbers 20180047-DEF-000068 through 20180047-DEF-000073, for a list of current depreciation rates. The Life Rate is intended to recover the original cost of the asset, net of gross salvage, over the life of the asset. The Cost of Removal (COR) rate is designed to recover the total expected cost of removal costs over the life of the asset. Note that the Company also accrues for final dismantlement costs through a set annual accrual amount that is separate from the depreciation rates.
- d. The Company uses the fixed asset system to calculate total depreciation expense and to track accumulated depreciation by the portion related to the recovery of original cost, net of estimated salvage, over the plant's estimated useful life ("life reserve") and the portion related to cost of removal ("COR reserve"). The approved depreciation rates are also split between a life rate and a COR rate (as described in part c. above). Each month, depreciation expense is calculated by multiplying the depreciable asset base by the life and COR depreciation rates. As depreciation is calculated, Account 403 – Depreciation Expense is debited and Account 108 – Accumulated Depreciation is credited. The portion of the expense calculated with the life rates is recorded to the life reserve and the portion calculated with the COR rates is recorded to the COR reserve within the fixed asset system. When actual removal costs are incurred, the costs are captured within a project in the fixed asset system. Cost of removal projects are coded so that the costs will debit Account 108 – Accumulated Depreciation and the costs are netted against the cost of removal reserve accumulated within the fixed asset system. Salvage is also recorded on projects within the fixed asset system and the amounts are credited to Account 108 – Accumulated Depreciation. Salvage is netted against the life reserve accumulated within the fixed asset system. The Company follows FERC accounting guidance to account for these transactions. This activity is also discussed within the Company's Capitalization Policy, which was provided in response to OPC's request for production of documents #1 in the storm docket no. 20170272.
- e. Yes. When book depreciation is interfaced from PowerPlant to PowerTax there is no separation maintained for depreciation of cost of removal from the depreciation related to the life of the asset.
- f. Pursuant to paragraph 16.c. of the 2017 settlement agreement approved in order no. PSC 2017-0451-AS-EU, the unprotected portion of excess ADIT will be amortized straight line over a period of ten years since the regulatory liability is more than \$200 million. This amortization is effective January 1, 2018.

- 16. 2017 and 2018 plant additions and bonus tax depreciation.**
- a. Please identify by account the Company's actual 2017 plant additions.**
  - b. Does the Company anticipate claiming bonus tax depreciation on any of its 2017 plant additions?**
    - 1. If “yes”, please identify the 2017 plant additions which are eligible for bonus tax depreciation and show the amounts of bonus tax depreciation that the Company intends to claim.**
  - c. Please also address whether and how the Company distinguished costs for public utility property (1) through September 27, 2017 and (2) from September 28, 2017 through December 31, 2017, in determining its 2017 bonus tax depreciation amounts.**
    - 1. If “no”, please explain fully why not, and provide a copy of the related financial and economic analysis.**
  - d. Does the Company plan on claiming for tax year 2017 any MACRS tax depreciation on any of its 2017 plant additions?**
    - 1. If “yes”, please identify the 2017 plant additions for which the Company intends to claim MACRS tax depreciation and show the amounts of MACRS tax depreciation that the Company intends to claim for tax year 2017.**
  - e. Does the Company plan on claiming for tax year 2018 any bonus tax depreciation on any of its 2018 plant additions (such as property that was under construction at September 27, 2017 and placed into service in 2018)?**
    - 1. If “yes”, please identify the 2018 plant additions for which the Company intends to claim bonus tax depreciation and show the amounts of bonus tax depreciation that the Company intends to claim for tax year 2018.**

**Answer:**

- a. Please see “OPC ROG 16 Response Attachment 1.pdf” bearing bates numbers 20180047-DEF-000074 through 20180047-DEF-000078. This file is a copy of Page 204-207 in the Company’s FERC Form 1 filed for 2017.
- b. Yes, Duke Energy intends to claim 50% bonus depreciation for any qualifying cost incurred prior to 09/28/2017. For any costs incurred after 09/27/2018 Duke Energy will not claim bonus depreciation. The 2017 Tax Return will not be complete until the 3rd quarter of 2018. However, Duke Energy has estimated \$456 million of bonus depreciation for 2017.

- c. Duke Energy intends to claim 50% bonus depreciation for any qualifying cost incurred prior to 09/28/2017. For any costs incurred after 09/27/2018 Duke Energy will not claim bonus depreciation.
- d. Yes. The 2017 Tax Return will not be complete until the 3rd quarter of 2018.
- e. Duke Energy intends to claim bonus depreciation for any qualifying cost incurred prior to 09/28/2017. Any costs incurred after 09/27/2018 will not claim bonus depreciation.

17. How much income tax expense was allowed in the Company's last rate case? Please identify the amount, and provide a breakout showing the amounts for each of the following:
- a. Current federal income tax expense (also provide the amount of federal taxable income and the FIT rate used)
  - b. Current state income tax expense (also provide the amount of state taxable income and the state income tax rate used)
  - c. Deferred federal income tax expense (also provide each book-tax difference for which deferred federal income tax expense was computed and identify the FIT rate used)
  - d. Deferred state income tax expense (also provide each book-tax difference for which deferred state income tax was computed the state income tax rate used)
  - e. Investment tax credit amortization
  - f. Any other components of income tax expense (identify, quantify and explain in detail).

**Answer:**

The following is the section on income tax expense from the FPSC order approving DEF's 2009 Rate Case. Please also see the attachment bearing bates numbers 20180047-DEF-000079 through 20180047-DEF-000085, MFR C-22 from DEF's 2009 rate case filing.

ORDER NO. PSC-10-0131-FOF-EI  
DOCKET NOS. 090079-EI, 090144-EI, 090145-EI  
PAGE 132

EE. Income Tax Expense

PEF proposed an initial Income Tax expense of \$44,490,000 (MFR Schedule C-2 p5), but agrees that reductions to expenses made by us will increase the Income Tax expense based on the statutory income tax rate of 38.575 percent.

The Income Tax expense is a result of other adjustments made by us. Based on our decisions contained herein, the requested total income tax expense of \$42,943,000 shall be increased by \$114,579,811 resulting in an adjusted total Income Tax expense of \$157,522,811.

Amount Requested	\$42,943,000
Adjustments:	<u>114,579,811</u>
Total Income Tax Expense	<u>\$157,522,811</u>

18. **Does the Company have a cost of service study file in Excel from its last rate case? If so, please provide it, with formulas and cross references intact.**
- a. **How were income taxes allocated among rate classes in the cost of service study in the Company's last rate case? Explain fully and show allocations in detail.**
  - b. **How were the Company's ADIT balances allocated among rate classes in the cost of service study in the Company's last rate case? Explain fully and show allocations in detail.**

**Answer:**

DEF does not have a cost of service study in Excel from its last rate case. DEF's cost of service study filed in the last rate case (2009) was completed in a FERC program that had been developed decades earlier and was not Excel compatible. The study was filed in DEF's minimum filing requirements in Docket No. 20090079 and can be found on the Commission's website: <http://www.psc.state.fl.us/library/filings/2009/02442-2009/02442-2009.pdf>

a. Income taxes were allocated among the rate classes based on the percentage of gross electric plant in service allocated to each rate class. The allocators can be found in the Allocated Class Cost of Service & Rate of Return Study, Schedule 13, line 9 (see link above).

b. DEF's retail-adjusted ADIT balances were included in retail-adjusted capital structure at a zero cost rate, and the resulting rate of return was applied consistently to each rate class' rate base in calculating the allowed return on rate base for each rate class. The cost of capital schedules were filed in Section D of DEF's minimum filing requirements on the Commission's website: <http://www.psc.state.fl.us/library/filings/2009/02438-2009/02438-2009.pdf>

19. CIAC. Did the Company receive any collection of contributions in aid of construction (CIAC) during 2017?
- a. If "yes" please identify the amounts of CIAC and explain to which plant accounts the CIAC amounts relate.
  - b. Does the Company have an opinion on whether any of the CIAC collected in 2017 will be required to be included as taxable income on its federal income tax return for tax year 2017? If not, explain fully why not. If "yes" please explain the opinion and the basis for it.
  - c. Did the Company reflect any amounts of federal income tax for CIAC received in 2017? If so, please identify such amounts.
  - d. Does the Company anticipate receiving any CIAC in 2018? If "yes" please identify the amounts of CIAC and explain to which plant accounts the CIAC amounts relate.
  - e. Does the Company have an opinion on whether any of the CIAC collected in 2018 will be required to be included as taxable income on its federal income tax return for tax year 2018? If not, explain fully why not. If "yes" please explain the opinion and the basis for it.
  - f. Is the Company reflecting any amounts of federal income tax for CIAC received in 2018? If so, please identify, quantify and explain such amounts.

**Answer:**

- a. Please see "OPC ROG 19 Response Attachment 1.xlsx" bearing bates numbers 20180047-DEF-000086.
- b. As was the case in prior years, the Company expects to have CIAC that will be included in taxable income on its 2017 federal income tax return. Section 118(b) of the Internal Revenue Code excludes from non-taxable treatment any CIAC payments from customers or potential customers. Examples of taxable CIAC include customer requests to have a line moved from overhead-to-underground or needs transmission or distribution lines relocated because of road construction.
- c. The company does intend to reflect amounts of federal income tax for CIAC received in 2017. The tax return for 2017 will not be completed until 3<sup>rd</sup> quarter 2018. In 2017 we recorded approximately \$31 million as an estimate which may get trued up once we complete the 2017 tax return.
- d. For 2018, the Company estimates to receive CIAC in the amount of \$14 million for transmission projects and \$26 million for distribution projects for a total of \$40 million. \$17 million of that is for line relocations and the remaining \$23 million for new customer work and other projects.

- e. The Company anticipates that most, if not all, of the CIAC received will be required to be included as taxable income on its federal tax return for 2018. An increase in taxable (as opposed to non-taxable) CIAC is expected to start on December 22, 2017 as a result of the law change included in the Tax Cuts & Jobs Act (“TCJA”) signed into law on December 22, 2017. Specifically, the TCJA modified section 118(b) of the Internal Revenue Code to exclude from non-taxable treatment any CIAC paid by any governmental entity or civic group, thereby eliminating the “public use” exception which allowed non-taxable treatment, prior to the law change, of government payments as long as the project benefitted the general public rather than the governmental entity as an electric customer. Examples of projects that are now taxable include road construction causing a line relocation and overhead-to-underground transmission and distribution line relocations requested by customers, potential customers or governmental entities.<sup>4</sup>
  
- f. The Company anticipates that most of the CIAC in response 19.d is taxable for federal income tax purposes for the reasons stated in response 19.e (tax law change that makes governmental CIAC taxable).

20. Does the Company have any journal entries and journal entry workpapers showing how it identified and recorded amounts of EADIT as of December 31, 2017 as a net regulatory liability? If not, explain fully why not. If so, identify and provide the journal entries and journal entry workpapers and supporting calculations. To the extent that the related workpapers are available in Excel (e.g., to support FAS 109 related entries), please include all of the related Excel files.
- a. As a continuing supplement, please provide adjusting journal entries (and the related workpapers) to adjust the 12/31/2017 recording of EADIT as regulatory liability as the Company refines its estimates.

**Answer:**

Please see the attached documents bearing bates numbers 20180047-DEF-000090 through 20180047-DEF-000110.

21. Net operating loss (NOL) carry-forwards.
- a. Does the Company have a net operating loss carry forward for federal income tax purposes as of 12/31/2016 of 12/31/2017? If so:
    1. identify the federal NOL carryforward amount as of each date.
    2. show over what period the Company anticipates utilizing the 12/31/2017 NOL carryforward.
    3. identify, quantify and explain how the Company has recorded an ADIT balance related to the NOL carryforward as of each date.
    4. identify, quantify and explain how the Company has or will adjust its 12/31/2017 recorded ADIT balance related to the NOL carryforward for the reduction in the corporate FIT rate from 35% to 21%.
  - b. Does the Company have a net operating loss carry forward for state income tax purposes as of 12/31/2016 of 12/31/2017? If so:
    1. identify the state NOL carryforward amount as of each date.
    2. show over what period the Company anticipates utilizing the 12/31/2017 state NOL carryforward.
    3. identify, quantify and explain how the Company has recorded an ADIT balance related to the state NOL carryforward as of each date.

**Answer:**

Please see the attached document bearing bates numbers 20180047-DEF-000087 through 20180047-DEF-000089.

22. Identify each regulatory filing, including each filing for each surcharge or rider rate adjustment that the Company plans to file in 2018. For each such filing, please indicate whether the filing includes (1) income tax expense, (2) accumulated deferred income taxes, and (3) any other features which are impacted by the TCJA, and explain how each such surcharge or rider rate is impacted by those items.

**Answer:**

DEF will make or has made the following known filings in 2018:

- Fuel and Capacity clause true-up and projection filings
- Nuclear Cost Recovery clause true-up and projection filings
- Environmental Cost Recovery clause true-up and projection filings
- Energy Conservation Cost Recovery clause true-up and projection filings
- Citrus Generation Base Rate Adjustment filing
- Actual Storm Cost Recovery filing
- Solar Base Rate Adjustment filing
- Asset Securitization Charge true-up filings

The rate of return on rate base in every 2018 filing will include a gross-up for income tax expense at the new combined statutory tax rate of 25.345%. Accumulated deferred income tax is a component of capital structure in the calculation of the rate of return on rate base.

23. When does the Company plan to file its next base rate case?

**Answer:**

DEF's 2017 settlement agreement, approved in Order No. PSC 2017-0451-AS-EU, extends through 2021. DEF's next rate case filing will take place no earlier than 2021, unless the provisions of paragraph 37 of the 2017 settlement agreement are triggered.

**AFFIDAVIT**

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I hereby certify that on this 1 day of May, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MATT GORDON, who is personally known to me, and he acknowledged before me that he provided the answers to interrogatory numbers 11, 12, 13, 14(d, f), 15(a, b, c, d, e), 16, 19, 20, and 21, from CITIZEN'S SECOND SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 11-24) in Docket No. 20180047-EI, and that the responses are true and correct based on his personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 1 day of May 2018.

Matt Gordon  
Matt Gordon

Angela Hunter  
Notary Public  
State of North Carolina

My Commission Expires:

**My Commission Expires**  
**05-30-2018**

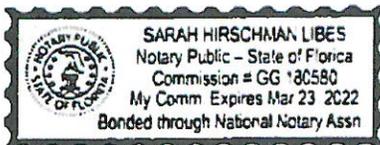
AFFIDAVIT

STATE OF FLORIDA

COUNTY OF PINELLAS

I hereby certify that on this 26<sup>th</sup> day of April, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MARCIA OLIVIER, who is personally known to me, and she acknowledged before me that she provided the answers to interrogatory numbers 14(a, b, c, e, f), 15f, 17, 18, 22, 23, and 24, from CITIZEN'S SECOND SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 11-24) in Docket No. 20180047-EI, and that the responses are true and correct based on her personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 26 day of April, 2018.



Marcia Olivier  
Marcia Olivier

Sarah Hirschman Libes  
Notary Public  
State of Florida

My Commission Expires:

3/23/22

# 7

## DEF's supplemental responses to OPC's 2nd Set of Interrogatories Nos. 11, 24.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 7  
PARTY: Staff  
DESCRIPTION: DEF's supplemental responses to OPC's 2nd  
Set of Interrogatories Nos. 11, 24[Bates Nos. 00044-00052]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC

Docket No. 20180047-EI

Dated: May 3, 2018

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**DUKE ENERGY FLORIDA, LLC'S SUPPLEMENTAL RESPONSE TO  
CITIZENS' SECOND SET OF INTERROGATORIES (NOS. 11-24)**

Duke Energy Florida, LLC ("DEF"), subject to and without waiving the objections to these requests, responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Second Set of Interrogatories to DEF (Nos. 11-24), specifically questions 11 and 24, as follows:

*Expediting the responses to requests in **bold** below would help facilitate a timely resolution of this matter.*

- 11. Details of ADIT balances at December 31, 2017.**
- a. Identify the December 31, 2017 recorded per-book balance of Accumulated Deferred Income Taxes (ADIT) in each account (account 190, 282, 283 etc.).**
  - b. Show by each book-tax difference, the components which comprise the ADIT in each ADIT account.**
  - c. For each component of the ADIT listed in response to the above requests, please also provide the following information:**
    - 1. The state income tax rate used to compute the ADIT.**
    - 2. The federal income tax rate used to compute the ADIT.**
    - 3. The combined state and federal income tax rate used to compute the ADIT.**
    - 4. The balance (book-tax difference at 12/31/2017) to which the state and federal income tax rates were applied to compute the ADIT.**
  - d. For each component in the ADIT accounts, identify the amount representing "excess" ADIT (i.e., calculated using the new 21% flat federal corporate income tax rate versus the previous FIT rate [e.g., of 34% or 35%] that the Company used).**

- e. For each amount of excess property-related ADIT in account 282, please indicate whether it is “protected” (i.e., related to the use of accelerated tax depreciation including Modified Accelerated Cost Recovery System (MACRS) and bonus tax depreciation) or “non-protected” (i.e., related to other book-tax differences such as repairs deductions, etc.).

**Answer:**

For responses to parts a-d, please see DEF’s response to OPC’s first set of interrogatories, numbers 1 and 2. For part e, see attachment DEF\_OPC\_ROG\_11\_Response\_Attachment\_1.xlsx bearing bates numbers 20180047-DEF-000111. Note, DEF has recently determined that the Excess ADIT on the Cost of Removal Regulatory Asset is not protected, and therefore, the protected balance in this attachment may be different from the protected balance provided in previous discovery responses.

24. Please quantify and explain all savings in 2018 and 2019 that the Company expects to realize from the TCJA.

**Answer:**

DEF has calculated the 2018 estimated savings from the TCJA consistent with Paragraph 16 and Exhibit 6 of the 2017 settlement agreement approved in order no. PSC 2017-0451-AS-EU. See attachment bearing bates numbers 20180047-DEF-000112 through 20180047-DEF-000114. The 2017 settlement agreement provides for the calculation of the first year savings impact; therefore, DEF has not quantified any 2019 impacts.

Note, DEF has recently determined that the excess deferred tax asset associated with the net operating loss is protected, and the excess deferred tax liability on the Cost of Removal Regulatory Asset is not protected, and therefore, the protected and unprotected balances in this attachment may be different from the balances provided in previous discovery responses.

PP&E Deferred Income Tax - PowerTax at 12/31/2016

			12/31/2016	12/31/2016	12/31/2016	12/31/2016
			Timing Diff	Timing Diff	Timing Diff	ADP
			Federal	State	State Offset	Feder
Sum of R216_TIMING_DIFF_END			LKU New Tax Rate			
TAX_SEGMENT	LKU Protected/Not Protected	TAX_RECONCILE_ITEM_DESC	21.0000%	5.5000%	-1.1550%	Timing Diff
DEF Tax	Flow Thru	AFUDC Equity	176,814,683.33	176,814,683.33	176,814,683.33	37,13
DEF Tax	Flow Thru	AFUDC Equity Contra - WS	(1,090,628.61)	(1,090,628.61)	(1,090,628.61)	(22
DEF Tax	Flow Thru	Business Meals	1,525,381.96	1,525,381.96	1,525,381.96	32
DEF Tax	Flow Thru	ITC Basis Reduction	2,558,471.71	2,558,471.71	2,558,471.71	53
DEF Tax	<b>Flow Thru Total</b>		<b>179,807,908.39</b>	<b>179,807,908.39</b>	<b>179,807,908.39</b>	<b>37,75</b>
DEF Tax	Not Protected	AFUDC Debt	64,347,119.85	64,347,119.85	64,347,119.85	13,51
DEF Tax	Not Protected	AFUDC Debt Contra - WS	(526,914.79)	(526,914.79)	(526,914.79)	(11
DEF Tax	Not Protected	ARO	(8,361,041.00)	(8,361,041.00)	(8,361,041.00)	(1,75
DEF Tax	Not Protected	CAPITALIZED SPARES	(76,975.40)	(76,975.40)	(76,975.40)	(1
DEF Tax	Not Protected	Casualty Loss	36,530,196.15	36,530,196.15	36,530,196.15	7,67
DEF Tax	Not Protected	Casualty Restoration Addback	(140,286,733.68)	(140,286,733.68)	(140,286,733.68)	(29,46
DEF Tax	Not Protected	CIAC	(296,774,480.82)	(296,774,480.82)	(296,774,480.82)	(62,32
DEF Tax	Not Protected	Depr Cap Trans Equip	213,866.51	213,866.51	213,866.51	4
DEF Tax	Not Protected	FL Bonus Basis Reduce Auto Calc		545,441,993.63	545,441,993.63	
DEF Tax	Not Protected	FL Bonus Basis Reduction PY/481a		687,388,827.03	687,388,827.03	
DEF Tax	Not Protected	FL Bonus To Amortize		(672,724,070.09)	(672,724,070.09)	
DEF Tax	Not Protected	Hardware Capitalized	(462,024.15)	(462,024.15)	(462,024.15)	(9
DEF Tax	Not Protected	Impairment Adjustment	(25,258,956.71)	(25,258,956.71)	(25,258,956.71)	(5,30
DEF Tax	Not Protected	Load Mgmt Devices	23,296.57	23,296.57	23,296.57	
DEF Tax	Not Protected	Method/Life		3,820,761,343.68		
DEF Tax	Not Protected	Method/Life/State Offset			3,820,761,343.68	
DEF Tax	Not Protected	Misc Diffs	3,471,846.32	3,471,846.32	3,471,846.32	72
DEF Tax	Not Protected	NONTAX CIAC/HIWAY REIMB	(2,206,707.82)	(2,206,707.82)	(2,206,707.82)	(46
DEF Tax	Not Protected	Other Adj	2,883,450.42	2,883,450.42	2,883,450.42	60
DEF Tax	Not Protected	PGN Benefits	(48,046,462.36)	(48,046,462.36)	(48,046,462.36)	(10,08
DEF Tax	Not Protected	PGN Conversion Adjs	264,580.10	264,580.10	264,580.10	5
DEF Tax	Not Protected	PGN FL Adjustment	73,377,298.70	73,377,298.70	73,377,298.70	15,40
DEF Tax	Not Protected	PGN FL Adjustment FL Addback		(1,001,423.02)	(1,001,423.02)	
DEF Tax	Not Protected	PGN FPC Basis	(59,297,230.31)	(62,455,856.81)	(62,455,856.81)	(12,45
DEF Tax	Not Protected	PGN Tax Expense T&D	268,260,394.17	268,260,394.17	268,260,394.17	56,33
DEF Tax	Not Protected	RAR Adjustment	569,837.81	569,233.88	569,233.88	11
DEF Tax	Not Protected	Salvage Artificial Loss	(34,809,487.66)	(34,809,487.66)	(34,809,487.66)	(7,30
DEF Tax	Not Protected	Salvaged Inventory Proceeds	30,107,019.76	30,107,019.76	30,107,019.76	6,32
DEF Tax	Not Protected	Sect. 174 Adjust	10,251,372.53	10,251,372.53	10,251,372.53	2,15
DEF Tax	Not Protected	Software Capitalized	(1,028,284.63)	(1,028,284.63)	(1,028,284.63)	(21
DEF Tax	Not Protected	TAX ADJ FED	(17,689,749.86)	(17,689,749.86)	(17,689,749.86)	(3,71
DEF Tax	Not Protected	Tax Expensing	1,116,521,164.95	1,116,521,164.95	1,116,521,164.95	234,46
DEF Tax	Not Protected	Tax Repair Retirements	(10,810,871.98)	(10,810,871.98)	(10,810,871.98)	(2,27
DEF Tax	Not Protected	TIC	(256,312,821.35)	(256,312,821.35)	(256,312,821.35)	(53,82
DEF Tax	Not Protected	TIC Tax Adj	1,481,457.89	1,481,457.89	1,481,457.89	31
DEF Tax	<b>Not Protected Total</b>		<b>706,354,159.21</b>	<b>5,083,061,600.01</b>	<b>5,083,061,600.01</b>	<b>148,33</b>
DEF Tax	Not Protected Non-Utility	FL Bonus Basis Reduce Auto Calc		4,903,152.40	4,903,152.40	
DEF Tax	Not Protected Non-Utility	Method/Life	(1,168,775.84)	(6,071,928.24)		(24
DEF Tax	Not Protected Non-Utility	Method/Life/State Offset			(6,071,928.24)	
DEF Tax	Not Protected Non-Utility	TIC	(7,283.23)	(7,283.23)	(7,283.23)	(
DEF Tax	<b>Not Protected Non-Utility Total</b>		<b>(1,176,059.07)</b>	<b>(1,176,059.07)</b>	<b>(1,176,059.07)</b>	<b>(24</b>
DEF Tax	Protected	Job Creation - Adj to Prior Year	(21,144,965.68)			(4,44

Tax Act Savings Based on Exhibit 6 to 2nd Revised and Restated Settlement Agreement

Methodology of Income Tax Change (\$000's)

INCOME TAX INPUTS AND ASSUMPTIONS				Notes
1				
2	New federal statutory tax rate	Input	21.000%	
3	Current federal statutory tax rate	Given	35.000%	
4	Current State statutory tax rate	Given	5.500%	
5	New combined federal & state statutory tax rate	Line 2 + Line 4 - (Line 2 x Line 4)	25.345%	
6	Current combined federal & state statutory tax rate	Line 3 + Line 4 - (Line 3 x Line 4)	38.575%	
7	Disallowed Interest (or other) expense deduction	Input	n/a	
8				
9	PARAGRAPH 12 - MULTIYEAR INCREASE			
10	Base rate revenue increase	Given	n/a	
11	Income tax at current statutory tax rate	Line 6 x Line 10	n/a	
12	FPSC Adjusted NOI impact	Line 10 - Line 11	n/a	
13	Gross up factor at new statutory tax rate	1 - Line 5	74.655%	
14	Revenue requirement at new statutory tax rate	Line 12 / Line 13	n/a	
15				
16	PARAGRAPH 16 - TAX REFORM SHARING			
17	<b>Step 1 - Calculate income tax expense BEFORE tax reform</b>			
18	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	\$1,032,712	(a)
19	Less interest expense	Input	(222,966)	(b)
20	Permanent differences	Input	(1,300)	(c)
21	FPSC adjusted taxable income	Sum of Lines 18 through 20	808,447	
22	Current combined statutory tax rate	Line 6	38.575%	
23	Income tax expense	Line 21 x Line 22	\$311,858	
24				
25	<b>Step 2 - Calculate income tax expense AFTER tax reform</b>			
26	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	\$1,032,712	
27	Less interest expense	Input	(222,966)	
28	Permanent differences	Input	(1,300)	
29	FPSC adjusted taxable income	Sum of Lines 26 through 28	808,447	
30	New combined statutory tax rate	Line 5	25.345%	
31	Income tax expense	Line 29 x Line 30	\$204,901	
32				
33	<b>Step 3 - Calculate impact on FPSC Adjusted NOI</b>			
34	Income tax expense BEFORE tax reform - Step 1	Line 23	\$311,858	
34a	Parent debt adjustment to income tax expense	Line 35a / Line 5 x Line 6	(15,742)	(d)
35	Income tax expense AFTER tax reform - Step 2	Line 31	204,901	
35a	Parent debt adjustment to income tax expense	Surveillance Sch. 2, pg. 2	(10,343)	(d)
36	Difference - FPSC Adjusted NOI increase/(decrease) from tax reform	Line 34 - Line 35	\$101,558	
37				
38	<b>Step 4 - Calculate adjustment for base rate increases implemented at new combined statutory tax rate</b>			
39	Multi-year increase	Line 14	n/a	
40	Solar base rate adjustment	Input	n/a	
41	GBRA	Input	11,157	(e)
42	Subtotal	Sum Lines 39 through 41	11,157	
43	Change in combined statutory tax rate	Line 5 - Line 6	-13.230%	
44	Adj. for base rate increases at new combined statutory tax rate	Line 42 x Line 43	(\$1,476)	
45				
46	<b>Step 5 - Calculate net favorable/(unfavorable) FPSC adjusted NOI impact</b>			
47	Impact on NOI - Step 3	Line 36	\$101,558	
48	Impact on NOI - Step 4	Line 44	(1,476)	
49	Net favorable/(unfavorable) FPSC adjusted NOI impact - after tax	Line 47 + Line 48	100,082	
50	Divide by one minus new combined statutory tax rate	1 - Line 5	74.655%	
51	Net favorable/(unfavorable) FPSC adjusted NOI impact - pretax	Line 49 / Line 50	\$134,060	
52				
53	<b>Step 6 - Calculate annual pretax impacts</b>			
54	Annual CR4&5 accelerated depreciation	If Line 51 > 0, then Line 51 x 40%, up to \$50m	\$50,000	
55	Annual flowback to customers	If Line 51 > 0, then Line 51 - Line 54	84,060	
56	Annual deferral to Regulatory Asset	If Line 51 < 0, then Line 51	-	
57	Total	Sum Lines 54 through 56, ties to Line 51	\$134,060	

**Notes:**

- (a) FPSC adjusted net operating income before tax from 2018 Forecasted Earnings Surveillance Report Sch. 2, pg. 2 of \$822,729 plus add back of storm amortization of \$159,984 and CR4&5 accelerated depreciation of \$50,000.
- (b) Interest Expense is FPSC adjusted rate base of \$11,859,874 (Sch. 2, pg. 1) multiplied by weighted average cost of debt of 1.88% (Sch. 3).
- (c) Permanent difference is made up of non-deductible portion of meals.
- (d) The parent debt income tax adjustment on Sch. 2, pg. 2 decreased as a result of the reduction in the statutory tax rate; therefore, an adjustment must be included in order to reflect the correct impact of tax reform on FPSC adjusted net operating income.
- (e) Citrus GBRA income tax rate was adjusted in revenue requirement calculation. Pretax earnings impact for 2018 is calculated as follows:

Revenue	\$36,174
O&M	(7,120)
Depreciation	(7,248)
Property Tax	(4,354)
Interest Expense *	(6,296)
Net Oper. Income before Tax	<u>\$11,157</u>

\* Interest Expense Calculation:

EPIS (13 mo avg retail)	\$336,451
A/D (13 mo avg retail)	(1,557)
Net Plant (13 mo avg retail)	<u>334,895</u>
WACD (Sch. 3)	1.88%
Interest Expense	<u>\$6,296</u>

Calculation of Total Annual Retail Flowback - PRELIMINARY DRAFT

1 Excess ADIT - Protected	560,483
2 ARAM 2018 Amortization Percentage	4.82%
3 Excess ADIT - Protected Amortization 2018	<u>27,015</u>
4	
5 Excess ADIT - Unprotected	248,540
6 Amortization Percentage - per Settlement	10.00%
7 Excess ADIT - Unprotected Amortization 2018	<u>24,854</u>
8	
9 Total Excess ADIT 2018 Amortization (line 3 + line 7)	51,869
10 OATT Portion	3.73%
11 Less OATT Excess ADIT Amortization	<u>1,935</u>
12 Retail Excess ADIT Amortization (line 9 - line 11)	49,935
13	
14 Retail gross up to pretax amount (line 12 divided by 1 - 25.345%)	66,887
15 Add Annual Retail Impact per Page 1, Line 55	<u>84,060</u>
16 Retail Annual Projected Flow Back	<u><u>\$150,947</u></u>

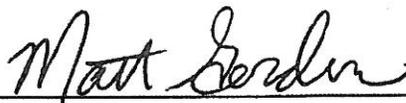
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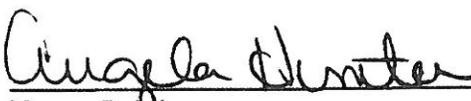
STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I hereby certify that on this 1 day of May, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MATT GORDON, who is personally known to me, and he acknowledged before me that he provided the answers to interrogatory numbers 11, 12, 13, 14(d, f), 15(a, b, c, d, e), 16, 19, 20, and 21, from CITIZEN'S SECOND SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 11-24) in Docket No. 20180047-EI, and that the responses are true and correct based on his personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 1 day of May, 2018.

  
\_\_\_\_\_  
Matt Gordon

  
\_\_\_\_\_  
Notary Public  
State of North Carolina

My Commission Expires:

**My Commission Expires**  
**05-30-2018**

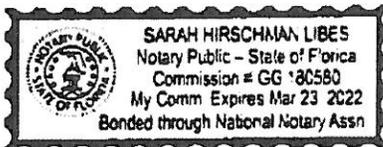
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STATE OF FLORIDA

COUNTY OF PINELLAS

I hereby certify that on this 26<sup>th</sup> day of April, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MARCIA OLIVIER, who is personally known to me, and she acknowledged before me that she provided the answers to interrogatory numbers 14(a, b, c, e, f), 15f, 17, 18, 22, 23, and 24, from CITIZEN'S SECOND SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 11-24) in Docket No. 20180047-EI, and that the responses are true and correct based on her personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 26 day of April, 2018.



Marcia Olivier  
Marcia Olivier

Sarah Hirschman Libes  
Notary Public  
State of Florida

My Commission Expires:

3/23/22

# 8

DEF's responses to OPC's 3rd Set of Interrogatories Nos. 25-28.

**Additional files contained on Staff's Hearing Exhibits CD for No. 25-28**

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 8  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's 3rd Set of Interrogatories Nos. 25-28Additional files contained on Staff's ...

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: June 4, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' THIRD SET OF INTERROGATORIES (NOS. 25-28)**

Duke Energy Florida, LLC ("DEF"), subject to and without waiving the contemporaneously served objections to these requests, responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Third Set of Interrogatories to DEF (Nos. 25-28) as follows:

25. Details of Average Rate Assumption Method ("ARAM") calculations for protected excess Accumulated Deferred Income Tax ("EDIT") balances at December 31, 2017. Please provide in Excel, the information from PowerPlan and PowerTax, showing how the Company will apply the ARAM to the December 31, 2017 protected EDIT balances for these generating plant assets and other accounts distribution and general plant accounts as listed below:
- a. Osprey Combined Cycle Plant (plant accounts 312, Boiler Plant Equipment for Osprey CC)
  - b. Account 303, Miscellaneous Intangible Plant
  - c. Account 368, Line Transformers
  - d. Account 370, Meters
  - e. Account 390, Structures and Improvements

**Answer:**

DEF does not maintain a low level of detail in PowerTax. When records are interfaced between PowerPlant and PowerTax they get summarized. DEF does not maintain details for generation by station and it does not maintain details for distribution by FERC accounts. The information is generally summarized into functional amounts (Fossil, Nuclear, Distribution, Transmission etc.).

- a. The Osprey Combined Cycle Plant was placed into service in 2017. The 2017 tax return is not yet complete. Therefore, the deferred tax records have not yet been created in PowerTax.

- b. While DEF does not maintain details by FERC account see attachment DEF\_OPC\_ROG\_25\_Response\_Attachment\_1 for the related information bearing bates numbers 20180047-DEF-00115 through 20180047-DEF-00184.
- c. While DEF does not maintain details by FERC account see attachment DEF\_OPC\_ROG\_25\_Response\_Attachment\_1 for the related information bearing bates numbers 20180047-DEF-00115 through 20180047-DEF-00184.
- d. While DEF does not maintain details by FERC account see attachment DEF\_OPC\_ROG\_25\_Response\_Attachment\_1 for the related information bearing bates numbers 20180047-DEF-00115 through 20180047-DEF-00184.
- e. While DEF does not maintain details by FERC account see attachment DEF\_OPC\_ROG\_25\_Response\_Attachment\_1 for the related information bearing bates numbers 20180047-DEF-00115 through 20180047-DEF-00184.

26. What is the amount of the Company's excess accumulated depreciation a/k/a depreciation reserve excess as of December 31, 2017. Please show in total and by tracked accumulated depreciation component.

**Answer:**

Excess theoretical reserves are determined as part of a depreciation study. DEF has not completed a depreciation study since 2009, thus does not have a current view of a theoretical excess (or deficit) reserve balance. In the last rate case, DEF was ordered to create a regulatory asset related to - COR reserves in the amount of approximately \$600 million to address the theoretical surplus (approximately \$700 million) that was identified in that proceeding.

27. How is the Company's depreciation reserve excess being amortized? Explain fully.

**Answer:**

DEF is currently recording depreciation expense in accordance with the last approved depreciation study.

28. Is the Company's depreciation reserve excess expected to have any impact on the ARAM calculations? If so, explain the expected impacts.

**Answer:**

Any amount recorded as book depreciation would impact the ARAM calculations. There is no differentiation in PowerTax between the underlying components of book depreciation (life, cost of removal, salvage, or excess or deficiency reserve amortizations).

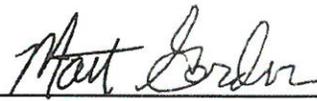
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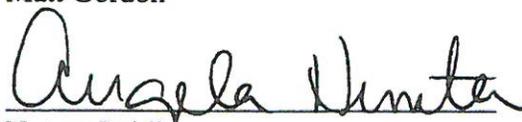
STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I hereby certify that on this 29 day of May, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MATT GORDON, who is personally known to me, and he acknowledged before me that he provided the answers to interrogatory numbers 25, 26, 27, and 28, from CITIZEN'S THIRD SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 25-28) in Docket No. 20180047-EI, and that the responses are true and correct based on his personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 29 day of May, 2018.

  
\_\_\_\_\_  
Matt Gordon

  
\_\_\_\_\_  
Notary Public  
State of North Carolina

My Commission Expires: Expires  
My Commission Expires: Expires  
05-30-2018

# 9

## DEF's responses to OPC's 4th Set of Interrogatories No. 29.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 9  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
4th Set of Interrogatories No. 29[Bates Nos.  
00060-00120]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

Docket No. 20180047-EI

Dated: June 22, 2018

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**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' FOURTH SET OF INTERROGATORIES (NO. 29)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Fourth Set of Interrogatories to DEF (No. 29) as follows:

29. Please provide an explanation as to how the Company treated Cost of Removal in the calculation of Excess Accumulated Deferred Income Taxes (ADIT) as creating either protected or unprotected deferred taxes.
- (a) Explain in detail why you believe the determination by the Company as to whether the ADIT created by recording a Cost of Removal is protected or unprotected is the appropriate recognition, and provide any supporting guidance relied on.
  - (b) Provide an analysis showing the calculation of the amount of excess ADIT created by the federal Tax Cuts and Jobs Act related to Cost of Removal.

**Answer:**

As explained in more detail below, in the calculation of protected excess ADIT (*i.e.*, excess ADIT subject to the normalization requirements), the Company took into account Cost of Removal to the extent it would be reflected in depreciation deductions allowable under Internal Revenue Code ("IRC") Section 167 using the method used to compute regulatory depreciation expense. The Company took into account all Cost of Removal not meeting this criteria in the calculation of unprotected excess ADIT (*i.e.*, excess ADIT not subject to the normalization requirements).

- (a) By way of background, prior to 1981, the normalization requirements for depreciation only applied to certain book-tax depreciation *life* differences. As part the enactment of the Accelerated Cost Recovery System ("ACRS"), Section 201(a) of the Economic Recovery Tax Act of 1981 (P.L. 97-34) expanded the normalization requirements to also apply to book-tax depreciation *method* differences, including averaging convention and *salvage value* differences.<sup>1</sup> This expanded scope of the normalization

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<sup>1</sup> See, e.g., S Rep No 97-144, 97th Cong, 1st Sess, at 57 (1981) and Joint Committee on Taxation, "General Explanation of the Economic Recovery Tax Act of 1981," JCS-71-81, at 101 (December 29, 1981).

requirements was not affected by the modifications to ACRS made by the Tax Reform Act of 1986 (P.L. 99-514).<sup>2</sup>

Section 13001(d)(3)(A) of the Tax Cuts and Jobs Act defines “protected excess ADIT” as the amount that, as a result of its reduction to the corporate tax rate, becomes excess in the reserve for ADIT described in IRC Section 168(i)(9)(A)(ii) (*i.e.*, the ADIT subject to normalization requirements, or “protected ADIT”). Protected ADIT reflects the cumulative tax deferral resulting from differences between tax depreciation deductions allowable under IRC Section 168 (*i.e.*, under MACRS or ACRS) and the depreciation deductions that would have been allowable under IRC Section 167 “using the method (including the period, first and last year convention, and salvage value)” used to compute regulatory tax and depreciation expense (hereinafter referred to as “Section 167 Regulatory Depreciation”).<sup>3</sup>

Treasury Regulation Section 1.167(a)-1(c)(1) generally allows taxpayers to use either gross salvage or net salvage (*i.e.*, gross salvage less Cost of Removal) as the “salvage value” taken into account in determining depreciation deductions allowable under IRC Section 167. However, as explained by the Internal Revenue Service in Private Letter Ruling (“PLR”) 8616018, such optionality is not available to utilities that use net salvage to compute their regulatory depreciation expense:

“...it is clear that in calculating the amount to be normalized...a taxpayer must use the same method of calculating salvage value in computing [protected ADIT] as it uses in computing its tax expense and depreciation expense for ratemaking purposes. Thus, if [a taxpayer] uses net salvage value to calculate its regulated tax expense and depreciation expense...[the taxpayer] must use net salvage value...to calculate [protected ADIT]. The use of any other method...violates the consistency requirement of [the normalization rules]...”<sup>4</sup>

Similar to the taxpayer that requested PLR 8616018, the Company uses *net* salvage value to determine the rate of depreciation it uses to calculate regulatory depreciation expense. As a result, to comply with the normalization requirements, the Company also must use *net* salvage value to determine the Section 167 Regulatory Depreciation it uses to calculate protected ADIT and protected excess ADIT.<sup>5</sup>

To the extent that book and tax basis are the same, the amount of net salvage value (and therefore Cost of Removal) reflected in Section 167 Regulatory Depreciation is

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<sup>2</sup> See, *e.g.*, Joint Committee on Taxation, “General Explanation of the Tax Reform Act of 1986,” JCS-10-87, at 100 (May 4, 1987).

<sup>3</sup> See IRC Section 168(i)(9)(A)(ii).

<sup>4</sup> IRC Section 168(e)(3)(B)(ii), as referred to in PLR 8616018, was redesignated to IRC Section 168(i)(9)(A)(ii) by Section 201(a) of the Tax Reform Act of 1986.

<sup>5</sup> Using *net* salvage value in this calculation produces less protected excess ADIT and more unprotected excess ADIT compared to the amounts that would result if *gross* salvage value were used instead (*i.e.*, if Cost of Removal were not taken into account in the calculation of protected ADIT and protected excess ADIT).

identical to the amount reflected in regulatory depreciation expense. However, since the tax basis used to determine Section 167 Regulatory Depreciation is the same as the tax basis used to determine depreciation deductions allowable under IRC Section 168, book-tax basis differences (*e.g.*, costs expensed as repairs or mixed service costs for tax purposes, but capitalized and depreciated for book purposes) cause the amount of net salvage value (and therefore Cost of Removal) reflected in Section 167 Regulatory Depreciation to be different from the amount reflected in regulatory depreciation expense. The Cost of Removal taken into account in the Company's calculation of unprotected excess ADIT is that portion attributable to such book-tax basis differences.<sup>6</sup>

See attachment DEF\_OPC\_ROG\_29\_Response\_Attachment\_1, bearing bates numbers 20180047-DEF-000202 through 20180047-DEF-000257 for the supporting guidance on which the Company relied in reaching the conclusions described above.

- (b) Please see documents bearing bates numbers 20180047-DEF-000185 through 20180047-DEF-000201 provided with DEF's response to OPC's POD number 10.

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<sup>6</sup> For example, if the Company expensed for tax purposes \$25 of indirect overhead costs included in an asset's \$100 depreciable book basis, 75 percent of the net salvage value (and therefore Cost of Removal) reflected in the asset's regulatory depreciation expense through December 31, 2017 would be taken into account in the Company's calculation of protected excess ADIT, with the remaining 25 percent taken into account in the Company's calculation of unprotected excess ADIT.

“(2) LEGISLATIVE DAYS.—For purposes of paragraph (1), a legislative day during any taxable year for any individual shall be any day during such year on which—

“(A) the legislature was in session (including any day in which the legislature was not in session for a period of 4 consecutive days or less), or

“(B) the legislature was not in session but the physical presence of the individual was formally recorded at a meeting of a committee of such legislature.

“(3) ELECTION.—An election under this subsection for any taxable year shall be made at such time and in such manner as the Secretary shall by regulations prescribe.

“(4) SECTION NOT TO APPLY TO LEGISLATORS WHO RESIDE NEAR CAPITOL.—For taxable years beginning after December 31, 1980, this subsection shall not apply to any legislator whose place of residence within the legislative district which he represents is 50 or fewer miles from the capitol building of the State.”

(b) The amendment made by subsection (a) shall apply to taxable years beginning on or after January 1, 1976.

Effective date.  
26 USC 162  
note.

#### SEC. 128. RATES OF TAX FOR PRINCIPAL CAMPAIGN COMMITTEES.

(a) IN GENERAL.—Section 527 (relating to political organizations) is amended by adding at the end thereof the following new subsection:

26 USC 527.

“(h) SPECIAL RULE FOR PRINCIPAL CAMPAIGN COMMITTEES.—

“(1) IN GENERAL.—In the case of a political organization which is a principal campaign committee, paragraph (1) of subsection (b) shall be applied by substituting ‘the appropriate rates’ for ‘the highest rate’.

“(2) PRINCIPAL CAMPAIGN COMMITTEE DEFINED.—

“(A) IN GENERAL.—For purposes of this subsection, the term ‘principal campaign committee’ means the political committee designated by a candidate for Congress as his principal campaign committee for purposes of—

“(i) section 302(e) of the Federal Election Campaign Act of 1971 (2 U.S.C. 432(e)), and

“(ii) this subsection.

“(B) DESIGNATION.—A candidate may have only 1 designation in effect under subparagraph (A)(ii) at any time and such designation—

“(i) shall be made at such time and in such manner as the Secretary may prescribe by regulations, and

“(ii) once made, may be revoked only with the consent of the Secretary.”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1981.

26 USC 527  
note.

## TITLE II—BUSINESS INCENTIVE PROVISIONS

### Subtitle A—Cost Recovery Provisions

#### SEC. 201. ACCELERATED COST RECOVERY SYSTEM.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 (relating to itemized deductions for individuals and corporations) is amended by inserting after section 167 the following new section:

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26 USC 168.

**"SEC. 168. ACCELERATED COST RECOVERY SYSTEM.**

**"(a) ALLOWANCE OF DEDUCTION.—**There shall be allowed as a deduction for any taxable year the amount determined under this section with respect to recovery property.

**"(b) AMOUNT OF DEDUCTION.—**

**"(1) IN GENERAL.—**Except as otherwise provided in this section, the amount of the deduction allowable by subsection (a) for any taxable year shall be the aggregate amount determined by applying to the unadjusted basis of recovery property the applicable percentage determined in accordance with the following tables:

**"(A) FOR PROPERTY PLACED IN SERVICE AFTER DECEMBER 31, 1980, AND BEFORE JANUARY 1, 1985.—**

"If the recovery year is:	The applicable percentage for the class of property is:			
	8-year	5-year	10-year	15-year public utility
1.....	25	15	8	5
2.....	33	22	14	10
3.....	37	21	12	9
4.....		21	10	8
5.....		21	10	7
6.....			10	7
7.....			9	6
8.....			9	6
9.....			9	6
10.....			9	6
11.....				6
12.....				6
13.....				6
14.....				6
15.....				6.

**"(B) FOR PROPERTY PLACED IN SERVICE IN 1985.—**

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"If the recovery year is:	The applicable percentage for the class of property is:			
	3-year	5-year	10-year	15-year public utility
1.....	29	18	9	6
2.....	47	33	19	12
3.....	24	25	16	12
4.....		16	14	11
5.....		8	12	10
6.....			10	9
7.....			8	8
8.....			6	7
9.....			4	6
10.....			2	5
11.....				4
12.....				4
13.....				3
14.....				2
15.....				1.

**"(C) FOR PROPERTY PLACED IN SERVICE AFTER DECEMBER 31, 1985.—**

"If the recovery year is:	The applicable percentage for the class of property is:			
	3-year	5-year	10-year	15-year public utility
1.....	88	20	10	7
2.....	45	32	18	12
3.....	22	24	16	12
4.....		16	14	11
5.....		8	12	10
6.....			10	9
7.....			8	8
8.....			6	7
9.....			4	6
10.....			2	5
11.....				4
12.....				3
13.....				3
14.....				2
15.....				1.

**"(2) 15-YEAR REAL PROPERTY.—**

**"(A) IN GENERAL.—**In the case of 15-year real property, the applicable percentage shall be determined in accordance with a table prescribed by the Secretary. In prescribing such table, the Secretary shall—

**"(i)** assign to the property a 15-year recovery period, and

**"(ii)** assign percentages generally determined in accordance with use of the 175 percent declining balance method (200 percent declining balance method in the case of low-income housing), switching to the method described in section 167(b)(1) at a time to maximize the deduction allowable under subsection (a).

26 USC 167.

For purposes of this subparagraph, the applicable percentage in the taxable year in which the property is placed in

"Low income housing."  
26 USC 1250.

service shall be determined on the basis of the number of months in such year during which the property was in service. For purposes of this subparagraph, the term 'low-income housing' means property described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B).

"(B) SPECIAL RULE FOR YEAR OF DISPOSITION.—In the case of a disposition of 15-year real property, the deduction allowable under subsection (a) for the taxable year in which the disposition occurs shall reflect only the months during such year the property was in service.

"(3) ELECTION OF DIFFERENT RECOVERY PERCENTAGE.—

"(A) IN GENERAL.—Except as provided in subsection (f)(2), in lieu of any applicable percentage under paragraphs (1) and (2), the taxpayer may elect, with respect to one or more classes of recovery property placed in service during the taxable year, the applicable percentage determined by use of the straight line method over the recovery period elected by the taxpayer in accordance with the following table:

"In the case of:	The taxpayer may elect a recovery period of:
3-year property .....	3, 5, or 12 years.
5-year property .....	5, 12, or 25 years.
10-year property .....	10, 25, or 35 years.
15-year real property .....	15, 35, or 45 years.
15-year public utility property .....	15, 35, or 45 years.

"(B) OPERATING RULES.—

"(i) IN GENERAL.—Except as provided in clause (ii), the taxpayer may elect under subparagraph (A) only a single percentage for property in any class of recovery property placed in service during the taxable year. The percentage so elected shall apply to all property in such class placed in service during such taxable year and shall apply throughout the recovery period elected for such property.

"(ii) REAL PROPERTY.—In the case of 15-year real property the taxpayer shall make the election under subparagraph (A) on a property-by-property basis.

"(iii) CONVENTION.—Under regulations prescribed by the Secretary, the half-year convention shall apply to any election with respect to any recovery property (other than 15-year real property) with respect to which an election is made under this paragraph.

"(c) RECOVERY PROPERTY.—For purposes of this title—

"(1) RECOVERY PROPERTY DEFINED.—Except as provided in subsection (e), the term 'recovery property' means tangible property of a character subject to the allowance for depreciation—

- "(A) used in a trade or business, or
- "(B) held for the production of income.

"(2) CLASSES OF RECOVERY PROPERTY.—Each item of recovery property shall be assigned to one of the following classes of property:

"(A) 3-YEAR PROPERTY.—The term '3-year property' means section 1245 class property—

- "(i) with a present class life of 4 years or less; or
- "(ii) used in connection with research and experimentation.

"(B) 5-YEAR PROPERTY.—The term '5-year property' means recovery property which is section 1245 class property and

which is not 3-year property, 10-year property, or 15-year public utility property.

“(C) 10-YEAR PROPERTY.—The term ‘10-year property’ means—

“(i) public utility property (other than section 1250 class property or 3-year property) with a present class life of more than 18 years but not more than 25 years; and

“(ii) section 1250 class property with a present class life of 12.5 years or less.

“(D) 15-YEAR REAL PROPERTY.—The term ‘15-year real property’ means section 1250 class property which does not have a present class life of 12.5 years or less.

“(E) 15-YEAR PUBLIC UTILITY PROPERTY.—The term ‘15-year public utility property’ means public utility property (other than section 1250 class property or 3-year property) with a present class life of more than 25 years.

“(d) UNADJUSTED BASIS; ADJUSTMENTS.—

“(1) UNADJUSTED BASIS DEFINED.—

“(A) IN GENERAL.—For purposes of this section, the term ‘unadjusted basis’ means the excess of—

“(i) the basis of the property determined under part II of subchapter O of chapter 1 for purposes of determining gain (determined without regard to the adjustments described in paragraph (2) or (3) of section 1016(a)), over

“(ii) the sum of—

“(I) that portion of the basis for which the taxpayer properly elects amortization (including the deduction allowed under section 167(k)) in lieu of depreciation, and

“(II) that portion of the basis which the taxpayer properly elects to treat as an expense under section 179.

“(B) TIME FOR TAKING BASIS INTO ACCOUNT.—

“(i) IN GENERAL.—The unadjusted basis of property shall be first taken into account under subsection (b) for the taxable year in which the property is placed in service.

“(ii) REDETERMINATIONS.—The Secretary shall by regulation provide for the method of determining the deduction allowable under subsection (a) for any taxable year (and succeeding taxable years) in which the basis is redetermined (including any reduction under section 1017).

“(2) DISPOSITIONS.—

“(A) MASS ASSET ACCOUNTS.—In lieu of recognizing gain or loss under this chapter, a taxpayer who maintains one or more mass asset accounts of recovery property may, under regulations prescribed by the Secretary, elect to include in income all proceeds realized on the disposition of such property.

“(B) ADJUSTMENT TO BASIS.—Except as provided under regulations prescribed by the Secretary under subsection (f)(7), if any recovery property (other than 15-year real property or property with respect to which an election under subparagraph (A) is made) is disposed of, the unadjusted basis of such property shall cease to be taken into account in determining any recovery deduction allowable under subsec-

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tion (a) as of the beginning of the taxable year in which such disposition occurs.

“(C) DISPOSITION INCLUDES RETIREMENT.—For purposes of this subparagraph, the term ‘disposition’ includes retirement.

“(e) PROPERTY EXCLUDED FROM APPLICATION OF SECTION.—For purposes of this section—

“(1) PROPERTY PLACED IN SERVICE BEFORE JANUARY 1, 1981.—The term ‘recovery property’ does not include property placed in service by the taxpayer before January 1, 1981.

“(2) CERTAIN METHODS OF DEPRECIATION.—The term ‘recovery property’ does not include property if—

“(A) the taxpayer elects to exclude such property from the application of this section, and

“(B) for the first taxable year for which a deduction would (but for this election) be allowable under this section with respect to such property in the hands of the taxpayer, the property is properly depreciated under the unit-of-production method or any method of depreciation not expressed in a term of years (other than the retirement-replacement-betterment method).

“(3) SPECIAL RULE FOR CERTAIN PUBLIC UTILITY PROPERTY.—

“(A) IN GENERAL.—The term ‘recovery property’ does not include public utility property (within the meaning of section 167(l)(3)(A)) if the taxpayer does not use a normalization method of accounting.

“(B) USE OF NORMALIZATION METHOD DEFINED.—For purposes of subparagraph (A), in order to use a normalization method of accounting with respect to any public utility property—

“(i) the taxpayer must, in computing its tax expense for purposes of establishing its cost of service for rate-making purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes; and

“(ii) if the amount allowable as a deduction under this section with respect to such property differs from the amount that would be allowable as a deduction under section 167 (determined without regard to section 167(l)) using the method (including the period, first and last year convention, and salvage value) used to compute regulated tax expense under subparagraph (B)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

“(C) PUBLIC UTILITY PROPERTY WHICH IS NOT RECOVERY PROPERTY.—In the case of public utility property which, by reason of this paragraph, is not treated as recovery property, the allowance for depreciation under section 167(a) shall be an amount computed using the method and period referred to in subparagraph (B)(i).

“(4) CERTAIN TRANSACTIONS IN PROPERTY PLACED IN SERVICE BEFORE 1986.—

“(A) SECTION 1245 CLASS PROPERTY.—The term ‘recovery property’ does not include section 1245 class property acquired by the taxpayer after December 31, 1980, if—

26 USC 167.

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“(i) the property was owned or used at any time during 1980 by the taxpayer or a related person,

“(ii) the property is acquired from a person who owned such property at any time during 1980, and, as part of the transaction, the user of such property does not change,

“(iii) the taxpayer leases such property to a person (or a person related to such person) who owned or used such property at any time during 1980, or

“(iv) the property is acquired in a transaction as part of which the user of such property does not change and the property is not recovery property in the hands of the person from which the property is so acquired by reason of clause (ii) or (iii).

For purposes of this subparagraph and subparagraph (B), property shall not be treated as owned before it is placed in service. For purposes of this subparagraph, whether the user of property changes as part of a transaction shall be determined in accordance with regulations prescribed by the Secretary.

“(B) SECTION 1250 CLASS PROPERTY.—The term ‘recovery property’ does not include section 1250 class property acquired by the taxpayer after December 31, 1980, if—

“(i) such property was owned by the taxpayer or by a related person at any time during 1980;

“(ii) the taxpayer leases such property to a person (or a person related to such person) who owned such property at any time during 1980; or

“(iii) such property is acquired in an exchange described in section 1031, 1033, 1038, or 1039 to the extent that the basis of such property includes an amount representing the adjusted basis of other property owned by the taxpayer or a related person during 1980.

“(C) CERTAIN NONRECOGNITION TRANSACTIONS.—The term ‘recovery property’ does not include property placed in service by the transferor or distributor before January 1, 1981, which is acquired by the taxpayer after December 31, 1980, in a transaction described in section 332, 351, 361, 371(a), 374(a), 721, or 731 (or such property acquired from the transferee or acquiring corporation in a transaction described in such section), to the extent that the basis of the property is determined by reference to the basis of the property in the hands of the transferor or distributor. In the case of property to which this subparagraph applies, rules similar to the rules described in section 381(c)(6) shall apply.

“(D) RELATED PERSON DEFINED.—Except as provided in subparagraph (E), for purposes of this paragraph a person (hereinafter referred to as the related person) is related to any person if—

“(i) the related person bears a relationship to such person specified in section 267(b) or section 707(b)(1), or

“(ii) the related person and such person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52).

For purposes of clause (i), in applying section 267(b) and section 707(b)(1) ‘10 percent’ shall be substituted for ‘50 percent’. The determination of whether a person is related to

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another person shall be made as of the time the taxpayer acquires the property involved.

**“(E) LIQUIDATION OF SUBSIDIARY, ETC.—**For purposes of this paragraph, a corporation is not a related person to the taxpayer—

26 USC 334.

“(i) if such corporation is a distributing corporation in a transaction to which section 334(b)(2)(B) applies and the stock of such corporation referred to in such subparagraph (B) was acquired by the taxpayer by purchase after December 31, 1980, or

“(ii) if such corporation is liquidated in a liquidation to which section 331(a) applies and the taxpayer (or a related person) by himself or together with 1 or more other persons acquires the stock of the liquidated corporation by purchase (meeting the requirements of section 334(b)(2)(B)) after December 31, 1980.

**“(F) ANTI-AVOIDANCE RULE.—**The term ‘recovery property’ does not include property acquired by the taxpayer after December 31, 1980, which, under regulations prescribed by the Secretary, is acquired in a transaction one of the principal purposes of which is to avoid the principles of paragraph (1) and this paragraph.

**“(G) REDUCTION IN UNADJUSTED BASIS.—**In the case of an acquisition of property described in subparagraph (B) or (C), the unadjusted basis of the property under subsection (d) shall be reduced to the extent that such property acquired is not recovery property.

**“(H) SPECIAL RULES FOR PROPERTY PLACED IN SERVICE BEFORE CERTAIN PERCENTAGES TAKE EFFECT.—**Under regulations prescribed by the Secretary—

“(i) rules similar to the rules of this paragraph shall be applied in determining whether the tables contained in subparagraph (B) or (C) of subsection (b)(1) apply with respect to recovery property, and

“(ii) if the tables contained in subparagraph (B) or (C) of subsection (b)(1) do not apply to such property by reason of clause (i), the deduction allowable under subsection (a) shall be computed—

“(I) In the case of a transaction described in subparagraph (C), under rules similar to the rules described in section 381(c)(6); and

“(II) in the case of a transaction otherwise described in this paragraph, under the recovery period and method (including rates prescribed under subsection (b)(1)) used by the person from whom the taxpayer acquired such property (or, where such person had no recovery method and period for such property, under the recovery period and method (including rates prescribed under subsection (b)(1)) used by the person which transferred such property to such person).

**“(f) SPECIAL RULES FOR APPLICATION OF THIS SECTION.—**For purposes of this section—

**“(1) COMPONENTS OF SECTION 1250 CLASS PROPERTY.—**

**“(A) IN GENERAL.—**Except as otherwise provided in this paragraph—

“(i) the deduction allowable under subsection (a) with respect to any component (which is section 1250 class

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property) of a building shall be computed in the same manner as the deduction allowable with respect to such building, and

“(ii) the recovery period for such component shall begin on the later of—

“(I) the date such component is placed in service, or

“(II) the date on which the building is placed in service.

“(B) TRANSITIONAL RULE.—In the case of any building placed in service by the taxpayer before January 1, 1981, for purposes of applying subparagraph (A) to components of such buildings placed in service after December 31, 1980, the deduction allowable under subsection (a) with respect to such components shall be computed in the same manner as the deduction allowable with respect to the first such component placed in service after December 31, 1980. For purposes of the preceding sentence, the method of computing the deduction allowable with respect to such first component shall be determined as if it were a separate building.

“(C) EXCEPTION FOR SUBSTANTIAL IMPROVEMENTS.—

“(i) IN GENERAL.—For purposes of this paragraph, a substantial improvement shall be treated as a separate building.

“(ii) SUBSTANTIAL IMPROVEMENT.—For purposes of clause (i), the term ‘substantial improvement’ means the improvements added to capital account with respect to any building during any 24-month period, but only if the sum of the amounts added to such account during such period equals or exceeds 25 percent of the adjusted basis of the building (determined without regard to the adjustments provided in paragraphs (2) and (3) of section 1016(a)) as of the first day of such period.

26 USC 1016.

“(iii) IMPROVEMENTS MUST BE MADE AFTER BUILDING IN SERVICE FOR 3 YEARS.—For purposes of this paragraph, the term ‘substantial improvement’ shall not include any improvement made before the date 3 years after the building was placed in service.

“(2) RECOVERY PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.—

“(A) IN GENERAL.—Except as provided in subparagraphs (B) and (C), in the case of recovery property which, during the taxable year, is used predominantly outside the United States, the recovery deduction for the taxable year shall be, in lieu of the amount determined under subsection (b), the amount determined by applying to the unadjusted basis of such property the applicable percentage determined under tables prescribed by the Secretary. For purposes of the preceding sentence, in prescribing such tables, the Secretary shall—

“(i) assign the property described in this subparagraph to classes in accordance with the present class life (or 12 years in the case of personal property with no present class life) of such property; and

“(ii) assign percentages (taking into account the half-year convention) determined in accordance with use of the method of depreciation described in section 167(b)(2), switching to the method described in section 167(b)(1) at

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a time to maximize the deduction allowable under subsection (a).

“(B) REAL PROPERTY.—

“(i) IN GENERAL.—Except as provided in subparagraph (C), in the case of 15-year real property which, during the taxable year, is predominantly used outside the United States, the recovery deduction for the taxable year shall be, in lieu of the amount determined under subsection (b), the amount determined by applying to the unadjusted basis of such property the applicable percentage determined under tables prescribed by the Secretary. For purposes of the preceding sentence in prescribing such tables, the Secretary shall—

“(I) assign to the property described in this subparagraph a 85-year recovery period; and

“(II) assign percentages (taking into account the next to the last sentence of subsection (b)(2)(A)) determined in accordance with use of the method of depreciation described in section 167(j)(1)(B), switching to the method described in section 167(b)(1) at a time to maximize the deduction allowable under subsection (a).

“(ii) SPECIAL RULE FOR DISPOSITION.—In the case of a disposition of 15-year real property described in clause (i), subsection (b)(2)(B) shall apply.

“(C) ELECTION OF DIFFERENT RECOVERY PERCENTAGE.—

“(i) GENERAL RULE.—The taxpayer may elect, with respect to one or more classes of recovery property described in this paragraph, to determine the applicable percentage under this paragraph by use of the straight-line method over the recovery period determined in accordance with the following table:

“In the case of:	The taxpayer may elect a recovery period of:
3-year property .....	The present class life, 5 or 12 years.
5-year property .....	The present class life, 12 or 25 years.
10-year property .....	The present class life, 25 or 35 years.
15-year real property .....	35 or 45 years.
15-year public utility property.	The present class life, 35 or 45 years.

26 USC 167.

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**“(ii) OPERATING RULES.—**

**“(I) PERIOD ELECTED BY TAXPAYER.—**Except as provided in subclause (II), the taxpayer may elect under clause (i) for any taxable year only a single recovery period for recovery property described in this paragraph which is placed in service during such taxable year, which has the same present class life, and which is in the same class under subsection (c)(2). The period so elected shall not be shorter than such present class life.

**“(II) REAL PROPERTY.—**In the case of 15-year real property, the election under clause (i) shall be made on a property-by-property basis.

**“(D) DETERMINATION OF PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.—**For purposes of this paragraph, under regulations prescribed by the Secretary, rules similar to the rules under section 48(a)(2) (including the exceptions under subparagraph (B)) shall be applied in determining whether property is used predominantly outside the United States.

26 USC 48.

**“(E) CONVENTION.—**Under regulations prescribed by the Secretary, the half year convention shall apply for purposes of any determination under subparagraph (C) (other than any determination with respect to 15-year real property).

**“(3) RRB REPLACEMENT PROPERTY.—**

**“(A) IN GENERAL.—**In the case of RRB replacement property placed in service before January 1, 1985, the recovery deduction for the taxable year shall be, in lieu of the amount determined under subsection (b), the amount determined by applying to the unadjusted basis of such property the applicable percentage determined under tables prescribed by the Secretary. For purposes of the preceding sentence, in prescribing such tables, the Secretary shall—

**“(i) use the recovery period determined in accordance with the following table:**

<b>“If the year property is placed in service is:</b>	<b>The recovery period is:</b>
1981 .....	1
1982 .....	2
1983 .....	3
1984 .....	4

**and**

**“(ii) assign percentages determined in accordance with use of the method of depreciation described in section 167(b)(2), switching to the method described in section 167(b)(3) at a time to maximize the deduction allowable under subsection (a) (taking into account the half-year convention).**

**“(B) RRB REPLACEMENT PROPERTY DEFINED.—**For purposes of this section, the term ‘RRB replacement property’ means replacement track material (including rail, ties, other track material, and ballast) installed by a railroad (including a railroad switching or terminal company) if—

**“(i) the replacement is made pursuant to a scheduled program for replacement,**

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“(ii) the replacement is made pursuant to observations by maintenance-of-way personnel of specific track material needing replacement,

“(iii) the replacement is made pursuant to the detection by a rail-test car of specific track material needing replacement, or

“(iv) the replacement is made as a result of a casualty. Replacements made as a result of a casualty shall be RRB replacement property only to the extent that, in the case of each casualty, the replacement cost with respect to the replacement track material exceeds \$50,000.

“(4) MANNER AND TIME FOR MAKING ELECTIONS.—

“(A) IN GENERAL.—Any election under this section shall be made for the taxable year in which the property is placed in service.

“(B) MADE ON RETURN.—Any election under this section shall be made on the taxpayer's return of the tax imposed by this chapter for the taxable year concerned.

“(C) REVOCATION ONLY WITH CONSENT.—Any election under this section, once made, may be revoked only with the consent of the Secretary.

“(5) SHORT TAXABLE YEARS.—In the case of a taxable year that is less than 12 months, the amount of the deduction under this section shall be an amount which bears the same relationship to the amount of the deduction, determined without regard to this paragraph, as the number of months in the short taxable year bears to 12. In such case, the amount of the deduction for subsequent taxable years shall be appropriately adjusted in accordance with regulations prescribed by the Secretary. The determination of when a taxable year begins shall be made in accordance with regulations prescribed by the Secretary. This paragraph shall not apply to any deduction with respect to any property for the first taxable year of the lessor for which an election under paragraph (8) is in effect with respect to such property.

“(6) LEASEHOLD IMPROVEMENTS.—For purposes of determining whether a leasehold improvement which is recovery property shall be amortized over the term of the lease, the recovery period (taking into account any election under paragraph (2)(C) of this subsection or under subsection (b)(3) with respect to such property) of such property shall be taken into account in lieu of its useful life.

“(7) SPECIAL RULE FOR ACQUISITIONS AND DISPOSITIONS IN NON-RECOGNITION TRANSACTIONS.—Notwithstanding any other provision of this section, the deduction allowed under this section in the taxable year in which recovery property is acquired or is disposed of in a transaction in which gain or loss is not recognized in whole or in part shall be determined in accordance with regulations prescribed by the Secretary.

“(8) SPECIAL RULE FOR LEASES.—

“(A) IN GENERAL.—In the case of an agreement with respect to qualified leased property, if all of the parties to the agreement characterize such agreement as a lease and elect to have the provisions of this paragraph apply with respect to such agreement, and if the requirements of subparagraph (B) are met, then, for purposes of this subtitle—

“(i) such agreement shall be treated as a lease entered into by the parties (and any party which is a corporation

described in subparagraph (B)(i)(I) shall be deemed to have entered into the lease in the course of carrying on a trade or business), and

“(ii) the lessor shall be treated as the owner of the property and the lessee shall be treated as the lessee of the property.

“(B) CERTAIN REQUIREMENTS MUST BE MET.—The requirements of this subparagraph are met if—

“(i) the lessor is—

“(I) a corporation (other than an electing small business corporation (within the meaning of section 1371(b)) or a personal holding company (within the meaning of section 542(a))),

26 USC 1371.

“(II) a partnership all of the partners of which are corporations described in subclause (I), or

“(III) a grantor trust with respect to which the grantor and all beneficiaries of the trust are described in subclause (I) or (II),

“(ii) the minimum investment of the lessor—

“(I) at the time the property is first placed in service under the lease, and

“(II) at all times during the term of the lease, is not less than 10 percent of the adjusted basis of such property, and

“(iii) the term of the lease (including any extensions) does not exceed the greater of—

“(I) 90 percent of the useful life of such property for purposes of section 167, or

“(II) 150 percent of the present class life of such property.

“(C) NO OTHER FACTORS TAKEN INTO ACCOUNT.—If the requirements of subparagraphs (A) and (B) are met with respect to any transaction described in subparagraph (A), no other factors shall be taken into account in making a determination as to whether subparagraph (A) (i) or (ii) applies with respect to such transaction.

“(D) QUALIFIED LEASED PROPERTY DEFINED.—For purposes of subparagraph (A), the term ‘qualified leased property’ means recovery property (other than a qualified rehabilitated building within the meaning of section 48(g)(1)) which is—

Post, p. 236.

“(i) new section 38 property (as defined in section 48(b)) of the lessor which is leased within 3 months after such property was placed in service and which, if acquired by the lessee, would have been new section 38 property of the lessee,

“(ii) property—

“(I) which was new section 38 property of the lessee,

“(II) which was leased within 3 months after such property was placed in service by the lessee, and

“(III) with respect to which the adjusted basis of the lessor does not exceed the adjusted basis of the lessee at the time of the lease, or

“(iii) property which is a qualified mass commuting vehicle (as defined in section 103(b)(9)) and which is financed in whole or in part by obligations the interest

Post, p. 349.

on which is excludable from income under section 103(a).

For purposes of this title (other than this subparagraph), any property described in clause (i) or (ii) to which subparagraph (A) applies shall be deemed originally placed in service not earlier than the date such property is used under the lease. In the case of property placed in service after December 31, 1980, and before the date of the enactment of this subparagraph, this subparagraph shall be applied by submitting 'the date of the enactment of this subparagraph' for 'such property was placed in service'.

“(E) MINIMUM INVESTMENT.—

“(i) IN GENERAL.—For purposes of subparagraph (A), the term ‘minimum investment’ means the amount the lessor has at risk with respect to the property (other than financing from the lessee or a related party of the lessee).

“(ii) SPECIAL RULE FOR PURCHASE REQUIREMENT.—For purposes of clause (i), an agreement between the lessor and lessee requiring either or both parties to purchase or sell the qualified leased property at some price (whether or not fixed in the agreement) at the end of the lease term shall not affect the amount the lessor is treated as having at risk with respect to the property.

“(F) CHARACTERIZATION BY PARTIES.—For purposes of this paragraph, any determination as to whether a person is a lessor or lessee or property is leased shall be made on the basis of the characterization of such person or property under the agreement described in subparagraph (A).

“(G) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this paragraph, including (but not limited to) regulations consistent with such purposes which limit the aggregate amount of (and timing of) deductions and credits in respect of qualified leased property to the aggregate amount (and the timing) allowable without regard to this paragraph.

“(H) CROSS REFERENCE.—

“For special recapture in cases where lessee acquires qualified leased property, see section 1245.

“(9) SALVAGE VALUE.—No salvage value shall be taken into account in determining the deduction allowable under subsection (a).

“(10) TRANSFeree BOUND BY TRANSFEROR'S PERIOD AND METHOD IN CERTAIN CASES.—

“(A) IN GENERAL.—In the case of recovery property transferred in a transaction described in subparagraph (B), the transferee shall be treated as the transferor for purposes of computing the deduction allowable under subsection (a) with respect to so much of the basis in the hands of the transferee as does not exceed the adjusted basis in the hands of the transferor.

“(B) TRANSFERS COVERED.—The transactions described in this subparagraph are—

“(i) a transaction described in section 332 (other than a transaction with respect to which the basis is determined under section 334(b)(2)), 351, 361, 371(a), 374(a), 721, or 731;

26 USC 332.

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“(ii) an acquisition (other than described in clause (i)) from a related person (as defined in subparagraph (D) of subsection (e)(4)); and

“(iii) an acquisition followed by a leaseback to the person from whom the property is acquired.

“(C) PROPERTY REACQUIRED BY THE TAXPAYER.—Under regulations prescribed by the Secretary, recovery property which is disposed of and then reacquired by the taxpayer shall be treated for purposes of computing the deduction allowable under subsection (a) as if such property had not been disposed of.

“(D) EXCEPTION.—This paragraph shall not apply to any transaction to which subsection (e)(4) applies.

“(11) SPECIAL RULES FOR COOPERATIVES.—In the case of a cooperative organization described in section 1381(a), the Secretary may by regulations provide— 26 USC 1381.

“(A) for allowing allocation units to make separate elections under this section with respect to recovery property, and

“(B) for the allocation of the deduction allowable under subsection (a) among allocation units.

“(g) DEFINITIONS.—For purposes of this section—

“(1) PUBLIC UTILITY PROPERTY.—The term ‘public utility property’ means property described in section 167(l)(3)(A).

“(2) PRESENT CLASS LIFE.—The term ‘present class life’ means the class life (if any) which would be applicable with respect to any property as of January 1, 1981, under subsection (m) of section 167 (determined without regard to paragraph (4) thereof and as if the taxpayer had made an election under such subsection). Post, p. 221.

“(3) SECTION 1245 CLASS PROPERTY.—The term ‘section 1245 class property’ means tangible property described in section 1245(a)(3) other than subparagraphs (C) and (D).

“(4) SECTION 1250 CLASS PROPERTY.—The term ‘section 1250 class property’ means property described in section 1250(c) and property described in section 1245(a)(3)(C).

“(5) RESEARCH AND EXPERIMENTATION.—The term ‘research and experimentation’ has the same meaning as the term research or experimental has under section 174.

“(6) RRB PROPERTY DEFINED.—For purposes of this section, the term ‘RRB property’ means property which under the taxpayer’s method of depreciation before January 1, 1981, would have been depreciated using the retirement-replacement-betterment method.

“(7) MANUFACTURED HOMES.—The term ‘manufactured home’ has the same meaning as in section 603(6) of the Housing and Community Development Act of 1974, which is 1250 class property used as a dwelling unit. 42 USC 5402.

“(8) QUALIFIED COAL UTILIZATION PROPERTY.—

“(A) IN GENERAL.—The term ‘qualified coal utilization property’ means that portion of the unadjusted basis of coal utilization property which bears the same ratio (but not greater than 1) to such unadjusted basis as—

“(i) the Btu’s of energy produced by the powerplant or major fuel-burning installation before the conversion or replacement involving coal utilization property, bears to

“(ii) the Btu’s of energy produced by such powerplant or installation after such conversion or replacement.

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"Coal utilization property."

"(B) IN GENERAL.—The term 'coal utilization property' means—

"(i) a boiler or burner—

"(I) the primary fuel for which is coal (including lignite), and

"(II) which replaces an existing boiler or burner which is part of a powerplant or major fuel-burning installation and the primary fuel for which is oil or natural gas or any product thereof, and

"(ii) equipment for converting an existing boiler or burner described in clause (i)(II) to a boiler or burner the primary fuel for which will be coal.

"(C) POWERPLANT AND MAJOR FUEL-BURNING INSTALLATION.—The terms 'powerplant' and 'major fuel-burning installation' have the meanings given such terms by paragraphs (7) and (10) of section 103(a) of the Powerplant and Industrial Fuel Use Act of 1978, respectively.

42 USC 8302.

"(D) EXISTING BOILER OR BURNER.—The term 'existing boiler or burner' means a boiler or burner which was placed in service before January 1, 1981.

"(E) REPLACEMENT OF EXISTING BOILER OR BURNER.—A boiler or burner shall be treated as replacing a boiler or burner if the taxpayer certifies that the boiler or burner which is to be replaced—

"(i) was used during calendar year 1980 for more than 2,000 hours of full load peak use (or equivalent thereof), and

"(ii) will not be used for more than 2,000 hours of such use during any 12-month period after the boiler or burner which is to replace such boiler or burner is placed in service.

"(h) SPECIAL RULES FOR RECOVERY PROPERTY CLASSES.—For purposes of this section—

"(1) CERTAIN HORSES.—The term '3-year property' includes—

"(A) any race horse which is more than 2 years old at the time such horse is placed in service; or

"(B) any other horse which is more than 12 years old at such time.

"(2) RAILROAD TANK CARS.—The term '10-year property' includes railroad tank cars.

"(3) MANUFACTURED HOMES.—The term '10-year property' includes manufactured homes.

"(4) QUALIFIED COAL UTILIZATION PROPERTY.—The term '10-year property' includes qualified coal utilization property which is not 3-year property, 5-year property, or 10-year property (determined without regard to this paragraph).

"(5) APPLICATION WITH OTHER CLASSES.—Any property which is treated as included in a class or property by reason of this subsection shall not be treated as property included in any other class.

"(i) CROSS REFERENCE.—

"For special rules with respect to certain gain derived from disposition of recovery property, see sections 1245 and 1250."

26 USC 1245.

(b) SINGLE PURPOSE AGRICULTURAL OR HORTICULTURAL STRUCTURES AND PETROLEUM PRODUCT STORAGE FACILITIES TREATED AS SECTION 1245 PROPERTY.—Paragraph (3) of section 1245(a) (defining section 1245 property) is amended by striking out "or" at the end of

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subparagraph (C), by striking out the period at the end of subparagraph (D), and by adding at the end thereof the following new subparagraphs:

"(E) a single purpose agricultural or horticultural structure (as defined in section 48(p)), or

"(F) a storage facility used in connection with the distribution of petroleum or any primary product of petroleum."

(c) REPEAL OF SECTION 263(e).—Subsection (e) of section 263 is hereby repealed. 26 USC 263.

(d) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by inserting after the item relating to section 167 the following new item:

"Sec. 168. Accelerated cost recovery system."

**SEC. 202. ELECTION TO EXPENSE CERTAIN DEPRECIABLE BUSINESS ASSETS.**

(a) IN GENERAL.—Section 179 (relating to additional first-year depreciation allowance for small business) is amended to read as follows: 26 USC 179.

**"SEC. 179. ELECTION TO EXPENSE CERTAIN DEPRECIABLE BUSINESS ASSETS.**

"(a) TREATMENT AS EXPENSES.—A taxpayer may elect to treat the cost of any section 179 property as an expense which is not chargeable to capital account. Any cost so treated shall be allowed as a deduction for the taxable year in which the section 179 property is placed in service.

"(b) DOLLAR LIMITATION.—

"(1) IN GENERAL.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed the following applicable amount:

"If the taxable year begins in:	The applicable amount is:
1981 .....	\$0
1982 .....	5,000
1983 .....	5,000
1984 .....	7,500
1985 .....	7,500
1986 or thereafter .....	10,000.

"(2) MARRIED INDIVIDUALS FILING SEPARATELY.—In the case of a husband and wife filing separate returns for a taxable year, the applicable amount under paragraph (1) shall be equal to 50 percent of the amount otherwise determined under paragraph (1).

"(c) ELECTION.—

"(1) IN GENERAL.—An election under this section for any taxable year shall—

"(A) specify the items of section 179 property to which the election applies and the portion of the cost of each of such items which is to be taken into account under subsection (a), and

"(B) be made on the taxpayer's return of the tax imposed by this chapter for the taxable year.

Such election shall be made in such manner as the Secretary may by regulations prescribe.

"(2) ELECTION IRREVOCABLE.—Any election made under this section, and any specification contained in any such election, may not be revoked except with the consent of the Secretary.

"(d) DEFINITIONS AND SPECIAL RULES.—

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97TH CONGRESS }  
1st Session }

SENATE

{ REPORT  
No. 97-144

**ECONOMIC RECOVERY TAX ACT OF 1981**

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**REPORT**

OF THE

**COMMITTEE ON FINANCE  
UNITED STATES SENATE**

ON

**H.J. Res. 266**

together with

**ADDITIONAL AND MINORITY VIEWS**



**JULY 6, 1981.—Ordered to be printed**

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covery period equal to the ADR guideline period (midpoint life) for the property as of January 1, 1981. For personal property for which there is no ADR midpoint life as of January 1, 1981, a 12-year recovery period will be used. The applicable recovery percentages will be determined under tables prescribed by the Secretary. These tables will be based on the 200-percent declining balance method for the early years of the recovery period and the straight-line method for the later years. A "half-year" convention will be used and there will be no salvage value limitation. The determination of useful lives using facts and circumstances will not be allowed.

For foreign real property, the recovery period will be 35 years. The applicable percentages for real property also will be determined under tables prescribed by the Secretary, which will be based on the 150-percent declining balance method for the early years of the recovery period and the straight-line method for the later years. There will be no salvage value limitation. Useful life determinations based on facts and circumstances will not be allowed.

To provide flexibility, the straight-line method can be used in lieu of the prescribed accelerated method. In the case of foreign personal property the taxpayer may elect to use the straight-line method over the ADR midpoint, the extended recovery period used to compute earnings and profits for property of the same class, or the earnings and profits period for property of the next higher class, but the period elected may not be shorter than the ADR midpoint. Thus, for a foreign asset that is 3-year property, the taxpayer may elect straight-line recovery over a recovery period of the midpoint life, or if longer, 5 years or 12 years. For all foreign personal property with the same ADR midpoint and same ACRS class, the taxpayer must make any election regarding recovery periods and recovery methods with respect to all such property placed in service in the same taxable year.

For real property, the taxpayer may elect to use the straight-line method over a recovery period of 35 or 45 years. This election may be made on a property-by-property basis.

If an optional straight-line recovery is elected for personal property, the "half-year" convention will apply in the same manner as for domestic property. For foreign real property, recovery in the years of acquisition and disposition will be based on the number of months the property is in service during the year.

Whether an asset is used predominantly outside the United States will be determined under regulations prescribed by the Secretary similar to the rules currently used to determine whether foreign assets are eligible for the investment credit (sec. 48(a)(2)), taking into account all the exceptions set forth in section 48(a)(2)(B).

***g. Normalization requirement for public utility property***

Under the committee bill, public utility property placed in service after December 31, 1980, is treated as recovery property only if all the tax benefits of ACRS are normalized in setting the rates charged by the utility to customers. If a normalization method of accounting for ACRS benefits is not used in setting rates, a depreciation allowance for the property will be determined under section 167(a), using the same

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depreciation method and useful life used to compute the ratemaking depreciation allowance for the property. For this purpose, averaging conventions and salvage value limitations are considered part of the ratemaking depreciation method.

Under the committee bill, the normalization rule for the benefits of using ACRS shortened recovery periods differs from present law. Under present law, the maximum benefit that must be normalized is the benefit of using the 20-percent ADR variance rather than the ADR midpoint life. The further benefit of using the ADR midpoint life instead of a longer ratemaking useful life may be immediately flowed through to customers under present law. Under the committee bill, the total benefit of using the ACRS recovery period rather than the longer ratemaking useful life must be normalized, and none of this benefit may be immediately flowed through to customers.

The committee bill also requires that the statutory "half-year" convention and salvage value rules of ACRS be normalized. Therefore, if for purposes of determining the ratemaking allowance for depreciation, a salvage value limitation rule or a rule relating to first-year depreciation is used, those rules will be used in determining the amount of deferred taxes that result from using ACRS.

As under present law, the committee bill does not restrict the authority of regulatory bodies to treat the deferred taxes as zero-cost capital or as a reduction in rate base in setting rates. However, as under present law, the amount of capital treated as zero-cost capital and the amount of rate base reduction may not exceed the amount of deferred taxes that result from the taxpayer's use of the recovery periods and methods actually used to compute a recovery allowance.

The committee bill does not provide for any continuation of flow-through accounting for property placed in service after December 31, 1980. Thus, public utility property placed in service after December 31, 1980, that is the same type of property as property for which flow-through accounting is currently permitted is subject to the normalization requirement. This is in contrast to present law rules, which permit flowthrough accounting for public utility property placed in service after 1969 if the same type of property was subject to flowthrough accounting in 1969.

As a consequence of the mandatory normalization requirement for all property placed in service after 1980, flow-through treatment of the investment credit permitted under section 46(f)(3) will not be permitted for any property placed in service after 1980.

#### ***h. Retirement-replacement-betterment (RRB) property***

Under the committee bill, Code section 167(r) permitting the use of the RRB method is repealed as of January 1, 1981. Property placed in service after 1980 that would have been RRB property under present law will be treated as 5-year property under ACRS.

During a 4-year transition period (1981-1984), a special transition rule is provided for such property that would have been expensed under RRB (replacements). Costs of property that would have been capitalized under RRB (additions and betterments) are treated the same as other 5-year property under ACRS. Thus, such costs are subject to the same rules that apply for other eligible property placed in service after 1980.

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**GENERAL EXPLANATION  
OF THE  
ECONOMIC RECOVERY TAX ACT OF 1981  
(H.R. 4242, 97TH CONGRESS; PUBLIC LAW 97-31)**

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PREPARED BY THE STAFF OF THE  
JOINT COMMITTEE ON TAXATION



DECEMBER 29, 1981

*n. Normalization requirement for public utility property*

Under prior law, a public utility could use an accelerated depreciation method only if it also used a normalization method of accounting, unless the company used flow-through accounting for accelerated depreciation in 1969. A public utility that had to normalize accelerated depreciation could use the ADR system only if it normalized certain differences between the ADR useful life and the ratemaking useful life of eligible property. Similarly, a utility that had to normalize accelerated depreciation also had to normalize the investment tax credit. In addition, some utilities not required to normalize accelerated depreciation were required to normalize all or part of the investment credit.

Under the Act, except as provided in relevant transition rules, public utility property placed in service after December 31, 1980, is eligible for the investment credit and accelerated cost recovery under ACRS only if all the tax benefits of the investment credit and ACRS are normalized in setting rates charged by utilities to customers and in reflecting operating results in regulated books of account.

If a normalization method of accounting for ACRS benefits is not used with respect to property placed in service after December 31, 1980, such property will not be eligible for the investment credit and will not be treated as recovery property. However, such property would not be subject to the depreciation rules applicable to property placed in service before 1981. Thus, accelerated depreciation methods permitted under prior law section 167 generally could not be used and useful lives based on facts and circumstances or the ADR system could not be used. Instead, the Act provides that a depreciation allowance for such property would be determined under section 167(a), using a depreciation method the same as, and a useful life no shorter than, the depreciation method and useful life used to compute the depreciation allowance for the property for purposes of setting rates and reflecting operating results in regulated books of account. For this purpose, averaging conventions and salvage value limitations are considered part of the ratemaking depreciation method.

Under the Act, the benefits of ACRS that must be normalized include those attributable to the prescribed ACRS accelerated depreciation schedules, the ACRS recovery periods, the ACRS averaging conventions, and the ACRS salvage value rules. Therefore, ratemaking depreciation methods, useful lives, placed in service rules, and salvage value rules will be used in determining the amount of deferred taxes that result from using ACRS.

As under prior law, the Act does not restrict the authority of regulatory bodies to treat the deferred taxes as zero-cost capital or as a reduction in rate base in setting rates. However, as under prior law, the amount of capital treated as zero-cost capital and the amount of rate base reduction may not exceed the amount of deferred taxes that result from the taxpayer's use of the recovery periods and methods actually used to compute a recovery allowance.

The Act does not provide for any flowthrough accounting for property placed in service after December 31, 1980. Thus, public utility property placed in service after December 31, 1980, that is

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the same type of property as pre-1981 property for which flow-through accounting is permitted is subject to the normalization requirement.

The Act also provides, subject to a special transition rule, that the benefits of the investment credit must be normalized for all public utility property placed in service after December 31, 1980.

Under transition rules, taxpayers are considered to satisfy the new normalization requirements for depreciation or the investment credit with respect to a rate order that complies with the requirements of prior law if (1) the rate order was put into effect before the date of enactment of the Act and (2) a superseding rate order determining cost of service is put into effect complying with the new applicable normalization requirements before January 1, 1983.

*o. Leasing*

**Background**

The benefits of depreciation deductions and investment credits attributable to property generally are available only to the owner of the property. In many cases, companies in a tax loss position and thus unable to use currently the tax benefits of owning equipment have been able to obtain a portion of those benefits indirectly by leasing the equipment from companies having sufficient taxable income to use the tax benefits. The use of the tax benefits by the leasing company was reflected in reduced rental payments charged to the loss company. The determination of whether these "lease financing" transactions should be treated for tax purposes in accordance with their form as leases or whether they should be recharacterized as in substance conditional sales or financing arrangements required a case-by-case analysis.

If a transfer of property were treated as a lease, reasonable rental payments by the lessee would be deductible by a lessee using the property in a trade or business. Also, since ownership under a lease remains with the lessor, the lessor would be entitled to recover its costs through depreciation and investment tax credits. The rental payments received by the lessor would be taxable at ordinary income rates.

On the other hand, if the transfer were a financing arrangement or conditional sale by the nominal lessor rather than a lease, the transferee of the property would not be able to deduct its payments as rent. The lessee could claim depreciation and investment tax credits since it would be treated as the owner of the property by virtue of the sale. For a lessee that is unable to utilize the tax benefits, the cost of acquiring the equipment would be higher than if the lessor took the benefits and passed them through to the lessee in the form of lower rents. For the lessor, no depreciation or investment credit would be allowed. Any difference between the lessor's basis in the property and the amount received from the lessee would be treated as gain from the sale of the property. Assuming the asset is a capital asset and has been held for more than 1 year, the gain would generally be capital gain (except for the portion treated as imputed interest under section 483, which is taxable at ordinary income rates). Installment reporting of the gain may be available to the seller.

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whether or not such unit (or portion thereof) was so used, and

“(ii) the deductions allocable to the trade or business in which such use occurs (but which are not allocable to such use) for such taxable year.

Any amount not allowable as a deduction under this chapter by reason of the preceding sentence shall be taken into account as a deduction (allocable to such use) under this chapter for the succeeding taxable year.”

**SEC. 144. DEDUCTION FOR MORTGAGE INTEREST AND REAL PROPERTY TAXES ALLOWABLE WHERE PARSONAGE ALLOWANCE OR MILITARY HOUSING ALLOWANCE RECEIVED.**

Section 265 (relating to expenses and interest relating to tax-exempt income) is amended by adding at the end thereof the following new paragraph:

“(6) SECTION NOT TO APPLY WITH RESPECT TO PARSONAGE AND MILITARY HOUSING ALLOWANCES.—No deduction shall be denied under this section for interest on a mortgage on, or real property taxes on, the home of the taxpayer by reason of the receipt of an amount as—

“(A) a military housing allowance, or

“(B) a parsonage allowance excludable from gross income under section 107.”

## Subtitle F—Effective Dates

**SEC. 151. EFFECTIVE DATES.**

(a) **GENERAL RULE.**—Except as otherwise provided in this section, the amendments made by this title shall apply to taxable years beginning after December 31, 1986.

(b) **UNEMPLOYMENT COMPENSATION.**—The amendment made by section 121 shall apply to amounts received after December 31, 1986, in taxable years ending after such date.

(c) **PRIZES AND AWARDS.**—The amendments made by section 122 shall apply to prizes and awards granted after December 31, 1986.

(d) **SCHOLARSHIPS.**—The amendments made by section 123 shall apply to taxable years beginning after December 31, 1986, but only in the case of scholarships and fellowships granted after August 16, 1986.

(e) **PARSONAGE AND MILITARY HOUSING ALLOWANCES.**—The amendment made by section 144 shall apply to taxable years beginning before, on, or after, December 31, 1986.

## TITLE II—PROVISIONS RELATING TO CAPITAL COST

### Subtitle A—Depreciation Provisions

**SEC. 201. MODIFICATION OF ACCELERATED COST RECOVERY SYSTEM.**

(a) **GENERAL RULE.**—Section 168 (relating to accelerated cost recovery system) is amended to read as follows:

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**“SEC. 168. ACCELERATED COST RECOVERY SYSTEM.**

**“(a) GENERAL RULE.—**Except as otherwise provided in this section, the depreciation deduction provided by section 167(a) for any tangible property shall be determined by using—

- “(1) the applicable depreciation method,
- “(2) the applicable recovery period, and
- “(3) the applicable convention.

**“(b) APPLICABLE DEPRECIATION METHOD.—**For purposes of this section—

“(1) **IN GENERAL.—**Except as provided in paragraphs (2) and (3), the applicable depreciation method is—

- “(A) the 200 percent declining balance method,
- “(B) switching to the straight line method for the 1st taxable year for which using the straight line method with respect to the adjusted basis as of the beginning of such year will yield a larger allowance.

“(2) **15-YEAR AND 20-YEAR PROPERTY.—**In the case of 15-year and 20-year property, paragraph (1) shall be applied by substituting ‘150 percent’ for ‘200 percent’.

“(3) **PROPERTY TO WHICH STRAIGHT LINE METHOD APPLIES.—**The applicable depreciation method shall be the straight line method in the case of the following property:

- “(A) Nonresidential real property.
- “(B) Residential rental property.
- “(C) Property with respect to which the taxpayer elects under paragraph (5) to have the provisions of this paragraph apply.

“(4) **SALVAGE VALUE TREATED AS ZERO.—**Salvage value shall be treated as zero.

“(5) **ELECTION.—**An election under paragraph (3)(C) may be made with respect to 1 or more classes of property for any taxable year and once made with respect to any class shall apply to all property in such class placed in service during such taxable year. Such an election, once made, shall be irrevocable.

**“(c) APPLICABLE RECOVERY PERIOD.—**For purposes of this section, the applicable recovery period shall be determined in accordance with the following table:

“In the case of:	The applicable recovery period is:
3-year property .....	3 years
5-year property .....	5 years
7-year property .....	7 years
10-year property .....	10 years
15-year property .....	15 years
20-year property .....	20 years
Residential rental property .....	27.5 years
Nonresidential real property .....	31.5 years.

**“(d) APPLICABLE CONVENTION.—**For purposes of this section—

“(1) **IN GENERAL.—**Except as otherwise provided in this subsection, the applicable convention is the half-year convention.

- “(2) **REAL PROPERTY.—**In the case of—
  - “(A) nonresidential real property, and
  - “(B) residential rental property,

the applicable convention is the mid-month convention.

“(3) **SPECIAL RULE WHERE SUBSTANTIAL PROPERTY PLACED IN SERVICE DURING LAST 3 MONTHS OF TAXABLE YEAR.—**

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“(A) IN GENERAL.—Except as provided in regulations, if during any taxable year—

“(i) the aggregate bases of property to which this section applies and which are placed in service during the last 3 months of the taxable year, exceed

“(ii) 40 percent of the aggregate bases of property to which this section applies placed in service during such taxable year,

the applicable convention for all property to which this section applies placed in service during such taxable year shall be the mid-quarter convention.

“(B) CERTAIN REAL PROPERTY NOT TAKEN INTO ACCOUNT.—For purposes of subparagraph (A), nonresidential real property and residential rental property shall not be taken into account.

“(4) DEFINITIONS.—

“(A) HALF-YEAR CONVENTION.—The half-year convention is a convention which treats all property placed in service during any taxable year (or disposed of during any taxable year) as placed in service (or disposed of) on the mid-point of such taxable year.

“(B) MID-MONTH CONVENTION.—The mid-month convention is a convention which treats all property placed in service during any month (or disposed of during any month) as placed in service (or disposed of) on the mid-point of such month.

“(C) MID-QUARTER CONVENTION.—The mid-quarter convention is a convention which treats all property placed in service during any quarter of a taxable year (or disposed of during any quarter of a taxable year) as placed in service (or disposed of) on the mid-point of such quarter.

“(e) CLASSIFICATION OF PROPERTY.—For purposes of this section—

“(1) IN GENERAL.—Except as otherwise provided in this subsection, property shall be classified under the following table:

Property shall be treated as:	If such property has a class life (in years) of:
3-year property.....	4 or less
5-year property.....	More than 4 but less than 10
7-year property.....	10 or more but less than 16
10-year property.....	16 or more but less than 20
15-year property.....	20 or more but less than 25
20-year property.....	25 or more.

“(2) RESIDENTIAL RENTAL OR NONRESIDENTIAL REAL PROPERTY.—

“(A) RESIDENTIAL RENTAL PROPERTY.—The term ‘residential rental property’ has the meaning given such term by section 167(j)(2)(B).

“(B) NONRESIDENTIAL REAL PROPERTY.—The term ‘nonresidential real property’ means section 1250 property which is not—

“(i) residential rental property, or

“(ii) property with a class life of less than 27.5 years.

“(3) CLASSIFICATION OF CERTAIN PROPERTY.—

“(A) 3-YEAR PROPERTY.—The term ‘3-year property’ includes—

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- “(i) any race horse which is more than 2 years old at the time it is placed in service, and
- “(ii) any horse other than a race horse which is more than 12 years old at the time it is placed in service.
- “(B) 5-YEAR PROPERTY.—The term ‘5-year property’ includes—
  - “(i) any automobile or light general purpose truck,
  - “(ii) any semi-conductor manufacturing equipment,
  - “(iii) any computer-based telephone central office switching equipment,
  - “(iv) any qualified technological equipment,
  - “(v) any property used in connection with research and experimentation, and
  - “(vi) any property which—
    - “(I) is described in paragraph (3)(A)(viii), (3)(A)(ix), or (4) of section 48(l), or
    - “(II) is described in paragraph (15) of section 48(l) and is a qualifying small power production facility within the meaning of section 3(17)(C) of the Federal Power Act (16 U.S.C. 796(17)(C)), as in effect on September 1, 1986.
- “(C) 7-YEAR PROPERTY.—The term ‘7-year property’ includes—
  - “(i) any railroad track,
  - “(ii) any single-purpose agricultural or horticultural structure (within the meaning of section 48(p)), and
  - “(iii) any property which—
    - “(I) does not have a class life, and
    - “(II) is not otherwise classified under paragraph (2) or this paragraph.
- “(D) 15-YEAR PROPERTY.—The term ‘15-year property’ includes—
  - “(i) any municipal wastewater treatment plant, and
  - “(ii) any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.
- “(E) 20-YEAR PROPERTY.—The term ‘20-year property’ includes any municipal sewers.
- “(f) PROPERTY TO WHICH SECTION DOES NOT APPLY.—This section shall not apply to—
  - “(1) CERTAIN METHODS OF DEPRECIATION.—Any property if—
    - “(A) the taxpayer elects to exclude such property from the application of this section, and
    - “(B) for the 1st taxable year for which a depreciation deduction would be allowable with respect to such property in the hands of the taxpayer, the property is properly depreciated under the unit-of-production method or any method of depreciation not expressed in a term of years (other than the retirement-replacement-betterment method or similar method).
  - “(2) CERTAIN PUBLIC UTILITY PROPERTY.—Any public utility property (within the meaning of section 167(l)(3)(A)) if the taxpayer does not use a normalization method of accounting.
  - “(3) FILMS AND VIDEO TAPE.—Any motion picture film or video tape.
  - “(4) SOUND RECORDINGS.—Any sound recording described in section 48(r)(5).

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“(5) CERTAIN PROPERTY PLACED IN SERVICE IN CHURNING TRANS-ACTIONS.—

“(A) IN GENERAL.—Property—

“(i) described in paragraph (4) of section 168(e) (as in effect before the amendments made by the Tax Reform Act of 1986), or

“(ii) which would be described in such paragraph if such paragraph were applied by substituting ‘1987’ for ‘1981’ and ‘1986’ for ‘1980’ each place such terms appear.

“(B) SUBPARAGRAPH (A) (ii) NOT TO APPLY.—Clause (ii) of subparagraph (A) shall not apply to—

“(i) any residential rental property or nonresidential real property, or

“(ii) any property if, for the 1st full taxable year in which such property is placed in service—

“(I) the amount allowable as a deduction under this section (as in effect before the date of the enactment of this paragraph) with respect to such property is greater than,

“(II) the amount allowable as a deduction under this section (as in effect on or after such date and using the half-year convention) for such taxable year.

“(g) ALTERNATIVE DEPRECIATION SYSTEM FOR CERTAIN PROPERTY.—

“(1) IN GENERAL.—In the case of—

“(A) any tangible property which during the taxable year is used predominantly outside the United States,

“(B) any tax-exempt use property,

“(C) any tax-exempt bond financed property,

“(D) any imported property covered by an Executive order under paragraph (6), and

“(E) any property to which an election under paragraph (7) applies,

the depreciation deduction provided by section 167(a) shall be determined under the alternative depreciation system.

“(2) ALTERNATIVE DEPRECIATION SYSTEM.—For purposes of paragraph (1), the alternative depreciation system is depreciation determined by using—

“(A) the straight line method (without regard to salvage value),

“(B) the applicable convention determined under subsection (d), and

“(C) a recovery period determined under the following table:

	The recovery period shall be:
“In the case of:	The class life.
(i) Property not described in clause (ii) or (iii).....	12 years.
(ii) Personal property with no class life.....	12 years.
(iii) Nonresidential real and residential rental property.....	40 years.

“(3) SPECIAL RULES FOR DETERMINING CLASS LIFE.—

“(A) TAX-EXEMPT USE PROPERTY SUBJECT TO LEASE.—In the case of any tax-exempt use property subject to a lease, the recovery period used for purposes of paragraph (2) shall in no event be less than 125 percent of the lease term.

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“(B) SPECIAL RULE FOR CERTAIN PROPERTY ASSIGNED TO CLASSES.—For purposes of paragraph (2), in the case of property described in any of the following subparagraphs of subsection (e)(3), the class life shall be determined as follows:

“If property is described in subparagraph:	The class life is:
(B)(i) .....	5
(B)(iii) .....	9.5
(C)(i) .....	10
(C)(ii) .....	15
(D)(i) .....	24
(D)(ii) .....	24
(E) .....	50.

“(C) QUALIFIED TECHNOLOGICAL EQUIPMENT.—In the case of any qualified technological equipment, the recovery period used for purposes of paragraph (2) shall be 5 years.

“(D) AUTOMOBILES, ETC.—In the case of any automobile or light general purpose truck, the recovery period used for purposes of paragraph (2) shall be 5 years.

“(E) CERTAIN REAL PROPERTY.—In the case of any section 1245 property which is real property with no class life, the recovery period used for purposes of paragraph (2) shall be 40 years.

“(4) PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.—For purposes of this subsection, rules similar to the rules under section 48(a)(2) (including the exceptions contained in subparagraph (B) thereof) shall apply in determining whether property is used predominantly outside the United States. In addition to the exceptions contained in such subparagraph (B), there shall be excepted any satellite or other spacecraft (or any interest therein) held by a United States person if such satellite or spacecraft was launched from within the United States.

“(5) TAX-EXEMPT BOND FINANCED PROPERTY.—For purposes of this subsection—

“(A) IN GENERAL.—Except as otherwise provided in this paragraph, the term ‘tax-exempt bond financed property’ means any property to the extent such property is financed (directly or indirectly) by an obligation the interest on which is exempt from tax under section 103(a).

“(B) ALLOCATION OF BOND PROCEEDS.—For purposes of subparagraph (A), the proceeds of any obligation shall be treated as used to finance property acquired in connection with the issuance of such obligation in the order in which such property is placed in service.

“(C) QUALIFIED RESIDENTIAL RENTAL PROJECTS.—The term ‘tax-exempt bond financed property’ shall not include any qualified residential rental project (within the meaning of section 142(a)(7)).

“(6) IMPORTED PROPERTY.—

“(A) COUNTRIES MAINTAINING TRADE RESTRICTIONS OR ENGAGING IN DISCRIMINATORY ACTS.—If the President determines that a foreign country—

“(i) maintains nontariff trade restrictions, including variable import fees, which substantially burden United States commerce in a manner inconsistent with provisions of trade agreements, or

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“(ii) engages in discriminatory or other acts (including tolerance of international cartels) or policies unjustifiably restricting United States commerce, the President may by Executive order provide for the application of paragraph (1)(D) to any article or class of articles manufactured or produced in such foreign country for such period as may be provided by such Executive order. Any period specified in the preceding sentence shall not apply to any property ordered before (or the construction, reconstruction, or erection of which began before) the date of the Executive order unless the President determines an earlier date to be in the public interest and specifies such date in the Executive order.

“(B) IMPORTED PROPERTY.—For purposes of this subsection, the term ‘imported property’ means any property if—

“(i) such property was completed outside the United States, or

“(ii) less than 50 percent of the basis of such property is attributable to value added within the United States.

For purposes of this subparagraph, the term ‘United States’ includes the Commonwealth of Puerto Rico and the possessions of the United States.

“(7) ELECTION TO USE ALTERNATIVE DEPRECIATION SYSTEM.—

“(A) IN GENERAL.—If the taxpayer makes an election under this paragraph with respect to any class of property for any taxable year, the alternative depreciation system under this subsection shall apply to all property in such class placed in service during such taxable year. Notwithstanding the preceding sentence, in the case of nonresidential real property or residential rental property, such election may be made separately with respect to each property.

“(B) ELECTION IRREVOCABLE.—An election under subparagraph (A), once made, shall be irrevocable.

“(h) TAX-EXEMPT USE PROPERTY.—

“(1) IN GENERAL.—For purposes of this section—

“(A) PROPERTY OTHER THAN NONRESIDENTIAL REAL PROPERTY.—Except as otherwise provided in this subsection, the term ‘tax-exempt use property’ means that portion of any tangible property (other than nonresidential real property) leased to a tax-exempt entity.

“(B) NONRESIDENTIAL REAL PROPERTY.—

“(i) IN GENERAL.—In the case of nonresidential real property, the term ‘tax-exempt use property’ means that portion of the property leased to a tax-exempt entity in a disqualified lease.

“(ii) DISQUALIFIED LEASE.—For purposes of this subparagraph, the term ‘disqualified lease’ means any lease of the property to a tax-exempt entity, but only if—

“(I) part or all of the property was financed (directly or indirectly) by an obligation the interest on which is exempt from tax under section 103(a) and such entity (or a related entity) participated in such financing,

“(II) under such lease there is a fixed or determinable price purchase or sale option which in-

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volves such entity (or a related entity) or there is the equivalent of such an option,

“(III) such lease has a lease term in excess of 20 years, or

“(IV) such lease occurs after a sale (or other transfer) of the property by, or lease of the property from, such entity (or a related entity) and such property has been used by such entity (or a related entity) before such sale (or other transfer) or lease.

“(iii) 35-PERCENT THRESHOLD TEST.—Clause (i) shall apply to any property only if the portion of such property leased to tax-exempt entities in disqualified leases is more than 35 percent of the property.

“(iv) TREATMENT OF IMPROVEMENTS.—For purposes of this subparagraph, improvements to a property (other than land) shall not be treated as a separate property.

“(v) LEASEBACKS DURING 1ST 3 MONTHS OF USE NOT TAKEN INTO ACCOUNT.—Subclause (IV) of clause (ii) shall not apply to any property which is leased within 3 months after the date such property is first used by the tax-exempt entity (or a related entity).

“(C) EXCEPTION FOR SHORT-TERM LEASES.—

“(i) IN GENERAL.—Property shall not be treated as tax-exempt use property merely by reason of a short-term lease.

“(ii) SHORT-TERM LEASE.—For purposes of clause (i), the term ‘short-term lease’ means any lease the term of which is—

“(I) less than 3 years, and

“(II) less than the greater of 1 year or 30 percent of the property’s present class life.

In the case of nonresidential real property and property with no present class life, subclause (II) shall not apply.

“(D) EXCEPTION WHERE PROPERTY USED IN UNRELATED TRADE OR BUSINESS.—The term ‘tax-exempt use property’ shall not include any portion of a property if such portion is predominantly used by the tax-exempt entity (directly or through a partnership of which such entity is a partner) in an unrelated trade or business the income of which is subject to tax under section 511. For purposes of subparagraph (B)(iii), any portion of a property so used shall not be treated as leased to a tax-exempt entity in a disqualified lease.

“(E) NONRESIDENTIAL REAL PROPERTY DEFINED.—For purposes of this paragraph, the term ‘nonresidential real property’ includes residential rental property.

“(2) TAX-EXEMPT ENTITY.—

“(A) IN GENERAL.—For purposes of this subsection, the term ‘tax-exempt entity’ means—

“(i) the United States, any State or political subdivision thereof, any possession of the United States, or any agency or instrumentality of any of the foregoing,

“(ii) an organization (other than a cooperative described in section 521) which is exempt from tax imposed by this chapter, and

“(iii) any foreign person or entity.

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“(B) EXCEPTIONS FOR CERTAIN PROPERTY SUBJECT TO UNITED STATES TAX AND USED BY FOREIGN PERSON OR ENTITY.—

“(i) INCOME FROM PROPERTY SUBJECT TO UNITED STATES TAX.—Clause (iii) of subparagraph (A) shall not apply with respect to any property if more than 50 percent of the gross income for the taxable year derived by the foreign person or entity from the use of such property is—

“(I) subject to tax under this chapter, or

“(II) included under section 951 in the gross income of a United States shareholder for the taxable year with or within which ends the taxable year of the controlled foreign corporation in which such income was derived.

For purposes of the preceding sentence, any exclusion or exemption shall not apply for purposes of determining the amount of the gross income so derived, but shall apply for purposes of determining the portion of such gross income subject to tax under this chapter.

“(ii) MOVIES AND SOUND RECORDINGS.—Clause (iii) of subparagraph (A) shall not apply with respect to any qualified film (as defined in section 48(k)(1)(B)) or any sound recording (as defined in section 48(r)(5)).

“(C) FOREIGN PERSON OR ENTITY.—For purposes of this paragraph, the term ‘foreign person or entity’ means—

“(i) any foreign government, any international organization, or any agency or instrumentality of any of the foregoing, and

“(ii) any person who is not a United States person. Such term does not include any foreign partnership or other foreign pass-thru entity.

“(D) TREATMENT OF CERTAIN TAXABLE INSTRUMENTALITIES.—For purposes of this subsection, a corporation shall not be treated as an instrumentality of the United States or of any State or political subdivision thereof if—

“(i) all of the activities of such corporation are subject to tax under this chapter, and

“(ii) a majority of the board of directors of such corporation is not selected by the United States or any State or political subdivision thereof.

“(E) CERTAIN PREVIOUSLY TAX-EXEMPT ORGANIZATIONS.—

“(i) IN GENERAL.—For purposes of this subsection, an organization shall be treated as an organization described in subparagraph (A)(ii) with respect to any property (other than property held by such organization) if such organization was an organization (other than a cooperative described in section 521) exempt from tax imposed by this chapter at any time during the 5-year period ending on the date such property was first used by such organization. The preceding sentence and subparagraph (D)(ii) shall not apply to the Federal Home Loan Mortgage Corporation.

“(ii) ELECTION NOT TO HAVE CLAUSE (I) APPLY.—

“(I) IN GENERAL.—In the case of an organization formerly exempt from tax under section 501(a) as an organization described in section 501(c)(12),

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clause (i) shall not apply to such organization with respect to any property if such organization elects not to be exempt from tax under section 501(a) during the tax-exempt use period with respect to such property.

“(II) TAX-EXEMPT USE PERIOD.—For purposes of subclause (I), the term ‘tax-exempt use period’ means the period beginning with the taxable year in which the property described in subclause (I) is first used by the organization and ending with the close of the 15th taxable year following the last taxable year of the applicable recovery period of such property.

“(III) ELECTION.—Any election under subclause (I), once made, shall be irrevocable.

“(iii) TREATMENT OF SUCCESSOR ORGANIZATIONS.—Any organization which is engaged in activities substantially similar to those engaged in by a predecessor organization shall succeed to the treatment under this subparagraph of such predecessor organization.

“(iv) FIRST USED.—For purposes of this subparagraph, property shall be treated as first used by the organization—

“(I) when the property is first placed in service under a lease to such organization, or

“(II) in the case of property leased to (or held by) a partnership (or other pass-thru entity) in which the organization is a member, the later of when such property is first used by such partnership or pass-thru entity or when such organization is first a member of such partnership or pass-thru entity.

“(3) SPECIAL RULES FOR CERTAIN HIGH TECHNOLOGY EQUIPMENT.—

“(A) EXEMPTION WHERE LEASE TERM IS 5 YEARS OR LESS.—For purposes of this section, the term ‘tax-exempt use property’ shall not include any qualified technological equipment if the lease to the tax-exempt entity has a lease term of 5 years or less.

“(B) EXCEPTION FOR CERTAIN PROPERTY.—

“(i) IN GENERAL.—For purposes of subparagraph (A), the term ‘qualified technological equipment’ shall not include any property leased to a tax-exempt entity if—

“(I) part or all of the property was financed (directly or indirectly) by an obligation the interest on which is exempt from tax under section 103(a),

“(II) such lease occurs after a sale (or other transfer) of the property by, or lease of such property from, such entity (or related entity) and such property has been used by such entity (or a related entity) before such sale (or other transfer) or lease, or

“(III) such tax-exempt entity is the United States or any agency or instrumentality of the United States.

“(ii) LEASEBACKS DURING 1ST 3 MONTHS OF USE NOT TAKEN INTO ACCOUNT.—Subclause (II) of clause (i) shall not apply to any property which is leased within 3

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months after the date such property is first used by the tax-exempt entity (or a related entity).

"(4) RELATED ENTITIES.—For purposes of this subsection—

"(A)(i) Each governmental unit and each agency or instrumentality of a governmental unit is related to each other such unit, agency, or instrumentality which directly or indirectly derives its powers, rights, and duties in whole or in part from the same sovereign authority.

"(ii) For purposes of clause (i), the United States, each State, and each possession of the United States shall be treated as a separate sovereign authority.

"(B) Any entity not described in subparagraph (A)(i) is related to any other entity if the 2 entities have—

"(i) significant common purposes and substantial common membership, or

"(ii) directly or indirectly substantial common direction or control.

"(C)(i) An entity is related to another entity if either entity owns (directly or through 1 or more entities) a 50 percent or greater interest in the capital or profits of the other entity.

"(ii) For purposes of clause (i), entities treated as related under subparagraph (A) or (B) shall be treated as 1 entity.

"(D) An entity is related to another entity with respect to a transaction if such transaction is part of an attempt by such entities to avoid the application of this subsection.

"(5) TAX-EXEMPT USE OF PROPERTY LEASED TO PARTNERSHIPS, ETC., DETERMINED AT PARTNER LEVEL.—For purposes of this subsection—

"(A) IN GENERAL.—In the case of any property which is leased to a partnership, the determination of whether any portion of such property is tax-exempt use property shall be made by treating each tax-exempt entity partner's proportionate share (determined under paragraph (6)(C)) of such property as being leased to such partner.

"(B) OTHER PASS-THRU ENTITIES; TIERED ENTITIES.—Rules similar to the rules of subparagraph (A) shall also apply in the case of any pass-thru entity other than a partnership and in the case of tiered partnerships and other entities.

"(C) PRESUMPTION WITH RESPECT TO FOREIGN ENTITIES.—Unless it is otherwise established to the satisfaction of the Secretary, it shall be presumed that the partners of a foreign partnership (and the beneficiaries of any other foreign pass-thru entity) are persons who are not United States persons.

"(6) TREATMENT OF PROPERTY OWNED BY PARTNERSHIPS, ETC.—

"(A) IN GENERAL.—For purposes of this subsection, if—

"(i) any property which (but for this subparagraph) is not tax-exempt use property is owned by a partnership which has both a tax-exempt entity and a person who is not a tax-exempt entity as partners, and

"(ii) any allocation to the tax-exempt entity of partnership items is not a qualified allocation,

an amount equal to such tax-exempt entity's proportionate share of such property shall (except as provided in paragraph (1)(D)) be treated as tax-exempt use property.

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“(B) QUALIFIED ALLOCATION.—For purposes of subparagraph (A), the term ‘qualified allocation’ means any allocation to a tax-exempt entity which—

“(i) is consistent with such entity’s being allocated the same distributive share of each item of income, gain, loss, deduction, credit, and basis and such share remains the same during the entire period the entity is a partner in the partnership, and

“(ii) has substantial economic effect within the meaning of section 704(b)(2).

For purposes of this subparagraph, items allocated under section 704(c) shall not be taken into account.

“(C) DETERMINATION OF PROPORTIONATE SHARE.—

“(i) IN GENERAL.—For purposes of subparagraph (A), a tax-exempt entity’s proportionate share of any property owned by a partnership shall be determined on the basis of such entity’s share of partnership items of income or gain (excluding gain allocated under section 704(c)), whichever results in the largest proportionate share.

“(ii) DETERMINATION WHERE ALLOCATIONS VARY.—For purposes of clause (i), if a tax-exempt entity’s share of partnership items of income or gain (excluding gain allocated under section 704(c)) may vary during the period such entity is a partner in the partnership, such share shall be the highest share such entity may receive.

“(D) DETERMINATION OF WHETHER PROPERTY USED IN UNRELATED TRADE OR BUSINESS.—For purposes of this subsection, in the case of any property which is owned by a partnership which has both a tax-exempt entity and a person who is not a tax-exempt entity as partners, the determination of whether such property is used in an unrelated trade or business of such an entity shall be made without regard to section 514.

“(E) OTHER PASS-THRU ENTITIES; TIERED ENTITIES.—Rules similar to the rules of subparagraphs (A), (B), (C), and (D) shall also apply in the case of any pass-thru entity other than a partnership and in the case of tiered partnerships and other entities.

“(F) TREATMENT OF CERTAIN TAXABLE ENTITIES.—

“(i) IN GENERAL.—For purposes of this paragraph and paragraph (5), except as otherwise provided in this subparagraph, any tax-exempt controlled entity shall be treated as a tax-exempt entity.

“(ii) ELECTION.—If a tax-exempt controlled entity makes an election under this clause—

“(I) such entity shall not be treated as a tax-exempt entity for purposes of this paragraph and paragraph (5), and

“(II) any gain recognized by a tax-exempt entity on any disposition of an interest in such entity (and any dividend or interest received or accrued by a tax-exempt entity from such tax-exempt controlled entity) shall be treated as unrelated business taxable income for purposes of section 511.

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Any such election shall be irrevocable and shall bind all tax-exempt entities holding interests in such tax-exempt controlled entity. For purposes of subclause (II), there shall only be taken into account dividends which are properly allocable to income of the tax-exempt controlled entity which was not subject to tax under this chapter.

“(iii) TAX-EXEMPT CONTROLLED ENTITY.—

“(I) IN GENERAL.—The term ‘tax-exempt controlled entity’ means any corporation (which is not a tax-exempt entity determined without regard to this subparagraph and paragraph (2)(E)) if 50 percent or more (in value) of the stock in such corporation is held by 1 or more tax-exempt entities (other than a foreign person or entity).

“(II) ONLY 5-PERCENT SHAREHOLDERS TAKEN INTO ACCOUNT IN CASE OF PUBLICLY TRADED STOCK.—For purposes of subclause (I), in the case of a corporation the stock of which is publicly traded on an established securities market, stock held by a tax-exempt entity shall not be taken into account unless such entity holds at least 5 percent (in value) of the stock in such corporation. For purposes of this subclause, related entities (within the meaning of paragraph (4)) shall be treated as 1 entity.

“(III) SECTION 318 TO APPLY.—For purposes of this clause, a tax-exempt entity shall be treated as holding stock which it holds through application of section 318 (determined without regard to the 50-percent limitation contained in subsection (a)(2)(C) thereof).

“(G) REGULATIONS.—For purposes of determining whether there is a qualified allocation under subparagraph (B), the regulations prescribed under paragraph (8) for purposes of this paragraph—

“(i) shall set forth the proper treatment for partnership guaranteed payments, and

“(ii) may provide for the exclusion or segregation of items.

“(7) LEASE.—For purposes of this subsection, the term ‘lease’ includes any grant of a right to use property.

“(8) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection.

“(i) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

“(1) CLASS LIFE.—

“(A) IN GENERAL.—Except as provided in this section, the term ‘class life’ means the class life (if any) which would be applicable with respect to any property as of January 1, 1986, under subsection (m) of section 167 (determined without regard to paragraph (4) thereof and as if the taxpayer had made an election under such subsection).

“(B) SECRETARIAL AUTHORITY.—The Secretary, through an office established in the Treasury—

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“(i) shall monitor and analyze actual experience with respect to all depreciable assets, and

“(ii) except in the case of residential rental property or nonresidential real property—

“(I) may prescribe a new class life for any property,

“(II) in the case of assigned property, may modify any assigned item, or

“(III) may prescribe a class life for any property which does not have a class life within the meaning of subparagraph (A).

Any class life or assigned item prescribed or modified under the preceding sentence shall reasonably reflect the anticipated useful life, and the anticipated decline in value over time, of the property to the industry or other group.

“(C) EFFECT OF MODIFICATION.—Any class life or assigned item with respect to any property prescribed or modified under subparagraph (B) shall be used in classifying such property under subsection (e) and in applying subsection (g).

“(D) NO MODIFICATION OF ASSIGNED PROPERTY BEFORE JANUARY 1, 1992.—

“(i) IN GENERAL.—Except as otherwise provided in this subparagraph, the Secretary may not modify an assigned item under subparagraph (B)(ii)(II) for any assigned property which is placed in service before January 1, 1992.

“(ii) EXCEPTION FOR SHORTER CLASS LIFE.—In the case of assigned property which is placed in service before January 1, 1992, and for which the assigned item reflects a class life which is shorter than the class life under subparagraph (A), the Secretary may modify such assigned item under subparagraph (B)(ii)(II) if such modification results in an item which reflects a shorter class life than such assigned item.

“(E) ASSIGNED PROPERTY AND ITEM.—For purposes of this paragraph—

“(i) ASSIGNED PROPERTY.—The term ‘assigned property’ means property for which a class life, classification, or recovery period is assigned under subsection (e)(3) or subparagraph (B), (C), or (D) of subsection (g)(3).

“(ii) ASSIGNED ITEM.—The term ‘assigned item’ means the class life, classification, or recovery period assigned under subsection (e)(3) or subparagraph (B), (C), or (D) of subsection (g)(3).

“(2) QUALIFIED TECHNOLOGICAL EQUIPMENT.—

“(A) IN GENERAL.—The term ‘qualified technological equipment’ means—

“(i) any computer or peripheral equipment,

“(ii) any high technology telephone station equipment installed on the customer’s premises, and

“(iii) any high technology medical equipment.

“(B) COMPUTER OR PERIPHERAL EQUIPMENT DEFINED.—For purposes of this paragraph—

“(i) IN GENERAL.—The term ‘computer or peripheral equipment’ means—

“(I) any computer, and

“(II) any related peripheral equipment.

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“(ii) **COMPUTER.**—The term ‘computer’ means a programmable electronically activated device which—

“(I) is capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention, and

“(II) consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities.

“(iii) **RELATED PERIPHERAL EQUIPMENT.**—The term ‘related peripheral equipment’ means any auxiliary machine (whether on-line or off-line) which is designed to be placed under the control of the central processing unit of a computer.

“(iv) **EXCEPTIONS.**—The term ‘computer or peripheral equipment’ shall not include—

“(I) any equipment which is an integral part of other property which is not a computer,

“(II) typewriters, calculators, adding and accounting machines, copiers, duplicating equipment, and similar equipment, and

“(III) equipment of a kind used primarily for amusement or entertainment of the user.

“(C) **HIGH TECHNOLOGY MEDICAL EQUIPMENT.**—For purposes of this paragraph, the term ‘high technology medical equipment’ means any electronic, electromechanical, or computer-based high technology equipment used in the screening, monitoring, observation, diagnosis, or treatment of patients in a laboratory, medical, or hospital environment.

“(3) **LEASE TERM.**—

“(A) **IN GENERAL.**—In determining a lease term—

“(i) there shall be taken into account options to renew, and

“(ii) 2 or more successive leases which are part of the same transaction (or a series of related transactions) with respect to the same or substantially similar property shall be treated as 1 lease.

“(B) **SPECIAL RULE FOR FAIR RENTAL OPTIONS ON NONRESIDENTIAL REAL PROPERTY OR RESIDENTIAL RENTAL PROPERTY.**—For purposes of clause (i) of subparagraph (A), in the case of nonresidential real property or residential rental property, there shall not be taken into account any option to renew at fair market value, determined at the time of renewal.

“(4) **GENERAL ASSET ACCOUNTS.**—Under regulations, a taxpayer may maintain 1 or more general asset accounts for any property to which this section applies. Except as provided in regulations, all proceeds realized on any disposition of property in a general asset account shall be included in income as ordinary income.

“(5) **CHANGES IN USE.**—The Secretary shall, by regulations, provide for the method of determining the deduction allowable under section 167(a) with respect to any tangible property for any taxable year (and the succeeding taxable years) during which such property changes status under this section but continues to be held by the same person.

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“(6) TREATMENTS OF ADDITIONS OR IMPROVEMENTS TO PROPERTY.—In the case of any addition to (or improvement of) any property—

“(A) any deduction under subsection (a) for such addition or improvement shall be computed in the same manner as the deduction for such property would be computed if such property had been placed in service at the same time as such addition or improvement, and

“(B) the applicable recovery period for such addition or improvement shall begin on the later of—

“(i) the date on which such addition (or improvement) is placed in service, or

“(ii) the date on which the property with respect to which such addition (or improvement) was made is placed in service.

“(7) TREATMENT OF CERTAIN TRANSFEREES.—

“(A) IN GENERAL.—In the case of any property transferred in a transaction described in subparagraph (B), the transferee shall be treated as the transferor for purposes of computing the depreciation deduction determined under this section with respect to so much of the basis in the hands of the transferee as does not exceed the adjusted basis in the hands of the transferor.

“(B) TRANSACTIONS COVERED.—The transactions described in this subparagraph are any transaction described in section 332, 351, 361, 371(a), 374(a), 721, or 731. Subparagraph (A) shall not apply in the case of a termination of a partnership under section 708(b)(1)(B).

“(C) PROPERTY REACQUIRED BY THE TAXPAYER.—Under regulations, property which is disposed of and then reacquired by the taxpayer shall be treated for purposes of computing the deduction allowable under subsection (a) as if such property had not been disposed of.

“(D) EXCEPTION.—This paragraph shall not apply to any transaction to which subsection (f)(5) applies (relating to churning transactions).

“(8) TREATMENT OF LEASEHOLD IMPROVEMENTS.—In the case of any building erected (or improvements made) on leased property, if such building or improvement is property to which this section applies, the depreciation deduction shall be determined under the provisions of this section.

“(9) NORMALIZATION RULES.—

“(A) IN GENERAL.—In order to use a normalization method of accounting with respect to any public utility property for purposes of subsection (f)(2)—

“(i) the taxpayer must, in computing its tax expense for purposes of establishing its cost of service for rate-making purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes; and

“(ii) if the amount allowable as a deduction under this section with respect to such property differs from the amount that would be allowable as a deduction under section 167 (determined without regard to sec-

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tion 167(l)) using the method (including the period, first and last year convention, and salvage value) used to compute regulated tax expense under clause (i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

**“(B) USE OF INCONSISTENT ESTIMATES AND PROJECTIONS, ETC.—**

**“(i) IN GENERAL.—**One way in which the requirements of subparagraph (A) are not met is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with the requirements of subparagraph (A).

**“(ii) USE OF INCONSISTENT ESTIMATES AND PROJECTIONS.—**The procedures and adjustments which are to be treated as inconsistent for purposes of clause (i) shall include any procedure or adjustment for ratemaking purposes which uses an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under subparagraph (A)(ii) unless such estimate or projection is also used, for ratemaking purposes, with respect to the other 2 such items and with respect to the rate base.

**“(iii) REGULATORY AUTHORITY.—**The Secretary may by regulations prescribe procedures and adjustments (in addition to those specified in clause (ii)) which are to be treated as inconsistent for purposes of clause (i).

**“(C) PUBLIC UTILITY PROPERTY WHICH DOES NOT MEET NORMALIZATION RULES.—**In the case of any public utility property to which this section does not apply by reason of subsection (f)(2), the allowance for depreciation under section 167(a) shall be an amount computed using the method and period referred to in subparagraph (A)(i).

**“(10) PUBLIC UTILITY PROPERTY.—**The term ‘public utility property’ has the meaning given such term by section 167(l)(3)(A).

**“(11) RESEARCH AND EXPERIMENTATION.—**The term ‘research and experimentation’ has the same meaning as the term research and experimental has under section 174.

**“(12) SECTION 1245 AND 1250 PROPERTY.—**The terms ‘section 1245 property’ and ‘section 1250 property’ have the meanings given such terms by sections 1245(a)(3) and 1250(c), respectively.”

**(b) SYSTEM USED FOR PURPOSES OF EARNINGS AND PROFITS.—**Paragraph (3) of section 312(k) is amended to read as follows:

**“(3) EXCEPTION FOR TANGIBLE PROPERTY.—**

**“(A) IN GENERAL.—**Except as provided in subparagraph (B), in the case of tangible property to which section 168 applies, the adjustment to earnings and profits for depreciation for any taxable year shall be determined under the alternative depreciation system (within the meaning of section 168(g)(2)).

**“(B) TREATMENT OF AMOUNTS DEDUCTIBLE UNDER SECTION 179.—**For purposes of computing the earnings and profits of a corporation, any amount deductible under section 179 shall be allowed as a deduction ratably over the period of 5 taxable years (beginning with the taxable year for which such amount is deductible under section 179).”

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(c) CONTINUATION OF RULES RELATING TO MOTOR VEHICLE OPERATING LEASES.—Section 7701 is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) MOTOR VEHICLE OPERATING LEASES.—

“(1) IN GENERAL.—For purposes of this title, in the case of a qualified motor vehicle operating agreement which contains a terminal rental adjustment clause—

“(A) such agreement shall be treated as a lease if (but for such terminal rental adjustment clause) such agreement would be treated as a lease under this title, and

“(B) the lessee shall not be treated as the owner of the property subject to an agreement during any period such agreement is in effect.

“(2) QUALIFIED MOTOR VEHICLE OPERATING AGREEMENT DEFINED.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘qualified motor vehicle operating agreement’ means any agreement with respect to a motor vehicle (including a trailer) which meets the requirements of subparagraphs (B), (C), and (D) of this paragraph.

“(B) MINIMUM LIABILITY OF LESSOR.—An agreement meets the requirements of this subparagraph if under such agreement the sum of—

“(i) the amount the lessor is personally liable to repay, and

“(ii) the net fair market value of the lessor’s interest in any property pledged as security for property subject to the agreement,

equals or exceeds all amounts borrowed to finance the acquisition of property subject to the agreement. There shall not be taken into account under clause (ii) any property pledged which is property subject to the agreement or property directly or indirectly financed by indebtedness secured by property subject to the agreement.

“(C) CERTIFICATION BY LESSEE; NOTICE OF TAX OWNERSHIP.—An agreement meets the requirements of this subparagraph if such agreement contains a separate written statement separately signed by the lessee—

“(i) under which the lessee certifies, under penalty of perjury, that it intends that more than 50 percent of the use of the property subject to such agreement is to be in a trade or business of the lessee, and

“(ii) which clearly and legibly states that the lessee has been advised that it will not be treated as the owner of the property subject to the agreement for Federal income tax purposes.

“(D) LESSOR MUST HAVE NO KNOWLEDGE THAT CERTIFICATION IS FALSE.—An agreement meets the requirements of this subparagraph if the lessor does not know that the certification described in subparagraph (C)(i) is false.

“(3) TERMINAL RENTAL ADJUSTMENT CLAUSE DEFINED.—

“(A) IN GENERAL.—For purposes of this subsection, the term ‘terminal rental adjustment clause’ means a provision of an agreement which permits or requires the rental price to be adjusted upward or downward by reference to the

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amount realized by the lessor under the agreement upon sale or other disposition of such property.

“(B) SPECIAL RULE FOR LESSEE DEALERS.—The term ‘terminal rental adjustment clause’ also includes a provision of an agreement which requires a lessee who is a dealer in motor vehicles to purchase the motor vehicle for a predetermined price and then resell such vehicle where such provision achieves substantially the same results as a provision described in subparagraph (A).”

(d) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) SECTION 167.—Paragraph (4) of section 167(m) (relating to termination of class lives) is amended to read as follows:

“(4) TERMINATION.—This subsection shall not apply with respect to any property to which section 168 applies.”

(2) SECTION 178.—

(A) Section 178 is amended to read as follows:

“SEC. 178. AMORTIZATION OF COST OF ACQUIRING A LEASE.

“(a) GENERAL RULE.—In determining the amount of the deduction allowable to a lessee of a lease for any taxable year for amortization under section 167, 169, 179, 185, 190, 193, or 194 in respect of any cost of acquiring the lease, the term of the lease shall be treated as including all renewal options (and any other period for which the parties reasonably expect the lease to be renewed) if less than 75 percent of such cost is attributable to the period of the term of the lease remaining on the date of its acquisition.

“(b) CERTAIN PERIODS EXCLUDED.—For purposes of subsection (a), in determining the period of the term of the lease remaining on the date of acquisition, there shall not be taken into account any period for which the lease may subsequently be renewed, extended, or continued pursuant to an option exercisable by the lessee.”

(B) The table of sections for part VI of subchapter B of chapter 1 is amended by striking out the item relating to section 178 and inserting in lieu thereof the following new item:

“Sec. 178. Amortization of cost of acquiring a lease.”

(3) SECTION 179.—Paragraph (8) of section 179(d) is amended to read as follows:

“(8) TREATMENT OF PARTNERSHIPS AND S CORPORATIONS.—In the case of a partnership, the limitations of subsection (b) shall apply with respect to the partnership and with respect to each partner. A similar rule shall apply in the case of an S corporation and its shareholders.”

(4) SECTION 280F.—

(A) Paragraph (2) of section 280F(a) (relating to depreciation) is amended—

(i) by striking out clauses (i) and (ii) of subparagraph (A) thereof and inserting in lieu thereof the following new clauses:

“(i) \$2,560 for the 1st taxable year in the recovery period,

“(ii) \$4,100 for the 2nd taxable year in the recovery period,

“(iii) \$2,450 for the 3rd taxable year in the recovery period, and

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“(iv) \$1,475 for each succeeding taxable year in the recovery period.”, and

(ii) by striking out “\$4,800” each place it appears in subparagraph (B) thereof and inserting in lieu thereof “\$1,475”.

(B) Subparagraph (A) of section 280F(b)(3) (relating to recapture) is amended by striking out “the straight line method over the earnings and profits life” and inserting in lieu thereof “section 168(g) (relating to alternative depreciation system)”.

(C) Paragraph (4) of section 280F(b) (relating to definitions) is amended to read as follows:

“(4) **PROPERTY PREDOMINANTLY USED IN QUALIFIED BUSINESS USE.**—For purposes of this subsection, property shall be treated as predominantly used in a qualified business use for any taxable year if the business use percentage for such taxable year exceeds 50 percent.”

(D) Paragraph (4) of section 280F(c) is amended by striking out “section 168(j)(6)(B)” and inserting in lieu thereof “section 168(i)(3)(A)”.

(E) Paragraph (1) of section 280F(d) is amended by striking out “recovery deduction” and inserting in lieu thereof “depreciation deduction”.

(F) Paragraph (2) of section 280F(d) is amended—

(i) by striking out “recovery deduction” and inserting in lieu thereof “depreciation deduction”, and

(ii) by striking out “use described in section 168(c)(1) (defining recovery property)” and inserting in lieu thereof “use in a trade or business (including the holding for the production of income)”.

(G) Clause (iv) of section 280F(d)(4)(A) is amended by striking out “section 168(j)(5)(D)” and inserting in lieu thereof “section 168(i)(2)(B)”.

(H) Paragraph (8) of section 280F(d) (defining unrecovered basis) is amended to read as follows:

“(8) **UNRECOVERED BASIS.**—For purposes of subsection (a)(2), the term ‘unrecovered basis’ means the adjusted basis of the passenger automobile determined after the application of subsection (a) and as if all use during the recovery period were use in a trade or business (including the holding of property for the production of income).”

(I) Paragraph (10) of section 280F(d) is amended by striking out “, notwithstanding any regulations prescribed under section 168(f)(7).”.

(J) Paragraph (2) of section 280F(b) is amended by striking out “the straight line method over the earnings and profits life for such property” and inserting in lieu thereof “section 168(g) (relating to alternative depreciation system)”.

(K) Subsections (a) and (b) of section 280F are amended by striking out “recovery deduction” each place it appears and inserting in lieu thereof “depreciation deduction”.

(5) **SECTION 291.**—

(A) Subparagraph (A) of section 291(a)(1) is amended by striking out “or section 1245 recovery property”.

(B) Paragraph (1) of section 291(c) is amended to read as follows:

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“(1) ACCELERATED COST RECOVERY DEDUCTION.—Section 168 shall apply with respect to that portion of the basis of any property not taken into account under section 169 by reason of subsection (a)(5).”

(C) Section 291(e)(2) is amended by striking out “, ‘section 1245 recovery property’,” and “, section 1245(a)(5),”.

(6) SECTION 312.—Paragraph (4) of section 312(k) is amended by striking out the last sentence.

(7) SECTION 465.—

(A) Subparagraph (C) of section 465(b)(3) is amended to read as follows:

“(C) RELATED PERSON.—For purposes of this subsection, a person (hereinafter in this paragraph referred to as the ‘related person’) is related to any person if—

“(i) the related person bears a relationship to such person specified in section 267(b) or section 707(b)(1), or

“(ii) the related person and such person are engaged in trades or business under common control (within the meaning of subsections (a) and (b) of section 52).

For purposes of clause (i), in applying section 267(b) or 707(b)(1), ‘10 percent’ shall be substituted for ‘50 percent’.”

(B) Section 46(c)(8)(D)(v) is amended by striking out “section 168(e)(4)” and inserting in lieu thereof “section 465(b)(3)(C)”.

(C) Section 4162(c)(3) is amended by striking out “section 168(e)(4)(D)” and inserting in lieu thereof “section 465(b)(3)(C)”.

(8) SECTION 467.—

(A) Paragraph (3) of section 467(e) is amended to read as follows:

“(3) STATUTORY RECOVERY PERIOD.—

“(A) IN GENERAL.—

“In the case of:

	The statutory recovery period is:
3-year property.....	3 years
5-year property.....	5 years
7-year property.....	7 years
10-year property.....	10 years
15-year and 20-year property.....	15 years
Residential rental property and nonresidential real property.....	19 years.

“(B) SPECIAL RULE FOR PROPERTY NOT DEPRECIABLE UNDER SECTION 168.—In the case of property to which section 168 does not apply, subparagraph (A) shall be applied as if section 168 applies to such property.”

(B) Paragraph (5) of section 467(e) (defining related person) is amended by striking out “section 168(e)(4)(D)” and inserting in lieu thereof “section 465(b)(3)(C)”.

(9) SECTION 514.—Subclause (II) of section 514(c)(9)(B)(vi) (relating to real property acquired by a qualified organization) is amended by striking out “section 168(j)(9)” and inserting in lieu thereof “section 168(h)(6)”.

(10) SECTION 751.—Subsection (c) of section 751 (defining unrealized receivables) is amended by striking out “section 1245 recovery property (as defined in section 1245(a)(5)),”.

(11) SECTION 1245.—

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(A) Paragraph (1) of section 1245(a) (relating to gain from dispositions of certain depreciable property) is amended by striking out "during a taxable year beginning after December 31, 1962, or section 1245 recovery property is disposed of after December 31, 1980,".

(B) Paragraph (2) of section 1245(a) (defining recomputed basis) is amended to read as follows:

"(2) RECOMPUTED BASIS.—For purposes of this section—

"(A) IN GENERAL.—The term 'recomputed basis' means, with respect to any property, its adjusted basis recomputed by adding thereto all adjustments reflected in such adjusted basis on account of deductions (whether in respect of the same or other property) allowed or allowable to the taxpayer or to any other person for depreciation or amortization.

"(B) TAXPAYER MAY ESTABLISH AMOUNT ALLOWED.—For purposes of subparagraph (A), if the taxpayer can establish by adequate records or other sufficient evidence that the amount allowed for depreciation or amortization for any period was less than the amount allowable, the amount added for such period shall be the amount allowed.

"(C) CERTAIN DEDUCTIONS TREATED AS AMORTIZATION.—Any deduction allowable under section 179, 190, or 193 shall be treated as if it were a deduction allowable for amortization."

(C) Paragraph (3) of section 1245(a) (defining section 1245 property) is amended by striking out subparagraph (C) and by redesignating subparagraphs (D), (E), and (F) as subparagraphs (C), (D), and (E), respectively.

(D) Subsection (a) of section 1245 is amended by striking out paragraphs (5) and (6).

(12) SECTION 4162.—Paragraph (3) of section 4162(c) (defining related person) is amended by striking out "section 168(e)(4)(D)" and inserting in lieu thereof "section 465(b)(3)(C)".

(13) SECTION 6111.—Clause (ii) of section 6111(c)(3)(B) (relating to certain borrowed amounts excluded) is amended by striking out "section 168(e)(4)" and inserting in lieu thereof "section 465(b)(3)(C)".

(14) SECTION 7701.—

(A) Subparagraph (A) of section 7701(e)(4) is amended by striking out "section 168(j)" and inserting in lieu thereof "section 168(h)".

(B) Paragraph (5) of section 7701(e) (relating to exception for certain low-income housing) is amended by striking out "low-income housing (section 168(c)(2)(F))" and inserting in lieu thereof "property described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B) (relating to low-income housing)".

#### SEC. 202. EXPENSING OF DEPRECIABLE ASSETS.

(a) LIMITATIONS ON EXPENSING.—Subsection (b) of section 179 (relating to election to expense certain depreciable assets) is amended to read as follows:

"(b) LIMITATIONS.—

"(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed \$10,000.

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[JOINT COMMITTEE PRINT]

**GENERAL EXPLANATION  
OF THE  
TAX REFORM ACT OF 1986**

**(H.R. 3838, 99TH CONGRESS;  
PUBLIC LAW 99-514)**

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**PREPARED BY THE STAFF  
OF THE  
JOINT COMMITTEE ON TAXATION**



**MAY 4, 1987**

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used, placed in service after December 31, 1986. Eligible property does not include (1) property that the taxpayer properly elects to depreciate under the unit-of-production method or any other method not expressed in terms of years (other than the "retirement replacement betterment" method or similar method), (2) any property used by a public utility (within the meaning of section 167(1)(3)(A)) if the taxpayer does not use a normalization method of accounting, (3) any motion picture film or video tape, (4) any sound recording described in section 280(c)(2), or (5) any property subject to ACRS as in effect before enactment of the Act or pre-ACRS depreciation rules (by application of an effective date or transitional rule or the anti-churning rule). As under present law, intangible property may be amortizable under section 167.

The legislative history clarifies that under present law cargo containers have an ADR midpoint of six years and this present class life shall be used in applying the provisions of the Act.<sup>2</sup>

As under prior law, property that the taxpayer properly elects to depreciate under the unit-of-production method or any other method not expressed in terms of years (other than the retirement-replacement-betterment method or similar method), will be so depreciated. For example, depreciation is allowable with respect to landfills on a unit basis (without regard to whether the space for dumping waste was excavated by the taxpayer), to the extent capital costs are properly allocable to the space to be filled with waste rather than to the underlying land.

*Normalization requirements for public utility property*

The Act continues the rule that public utility property is eligible for ACRS only if the tax benefits of ACRS are normalized in setting rates charged by utilities to customers and in reflecting operating results in regulated books of account. In addition to requiring the normalization of ACRS deductions, the Act provides for the normalization of excess deferred tax reserves resulting from the reduction of corporate income tax rates (with respect to prior depreciation or recovery allowances taken on assets placed in service before 1987).

If an excess deferred tax reserve is reduced more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method, the taxpayer will not be treated as using a normalization method of accounting with respect to any of its assets. Thus, if the excess deferred tax reserve is not normalized, the taxpayer must compute its depreciation allowances using the depreciation method, useful life determination, averaging convention, and salvage value limitation used for purposes of setting rates and reflecting operating results in regulated books of account.

The excess deferred tax reserve is the reserve for deferred taxes computed under prior law over what the reserve for deferred taxes would be if the tax rate in effect under the Act had been in effect for all prior periods. The average rate assumption method is the method which reduces the excess deferred tax reserve over the remaining regulatory lives of the property that gave rise to the re-

<sup>2</sup> H. Rep. 99-841, Vol. II (September 18, 1986), p. 40.

serve for deferred taxes. Under this method, the excess deferred tax reserve is reduced as the timing differences (i.e., differences between tax depreciation and regulatory depreciation with respect to each asset or group of assets in the case of vintage accounts) reverse over the life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the asset. The excess deferred tax reserve is multiplied by a formula that is designed to insure that the excess is reduced to zero at the end of the regulatory life of the asset that generated the reserve.

The Congress did not intend that the provisions apply retroactively to any excess deferred tax reserve generated from previous reductions in corporate tax rates; such excess deferred tax reserves will continue to be treated under prior law.

*Classification of assets and recovery periods*

For purposes of assigning assets to ACRS classes (and applying the alternative depreciation system, described below), the Act prescribes ADR midpoint lives for the following assets: (1) Semiconductor manufacturing equipment (described in ADR class 36.0), 5 years; (2) computer-based telephone central office switching equipment and related equipment (described in ADR class 48.12) the functions of which are those of a computer or peripheral equipment (as defined in section 168(i)(2)(B)) in their capacity as telephone central office equipment, 9.5 years; (3) Railroad track, 10 years; (4) Single-purpose agricultural and horticultural structures within the meaning of sec. 48(p) (described in ADR class 01.3), 15 years; (5) Telephone distribution plant (e.g., telephone fiber optic cable) (described in ADR class 48.14) and comparable equipment, 24 years (comparable equipment means equipment used by non-telephone companies for two-way exchange of voice and data communications (equivalent of telephone communications)—comparable equipment does not include cable television equipment used primarily for one-way communication); (6) Municipal waste-water treatment plant, 24 years; and (7) Municipal sewers, 50 years.

*Personal property*

*Three-year class.*—The Act retains the three-year class for property with an ADR midpoint of four years or less, but excludes automobiles, light general purpose trucks, and property used in connection with research and experimentation. Property used in connection with research and experimentation is included in the five-year class described below.

*Five-year class.*—The Act modifies the five-year class to include property with ADR midpoint lives of more than four but less than ten years, and adding automobiles, light trucks, qualified technological equipment, computer-based telephone central office switching equipment, research and experimentation property, and geothermal, ocean thermal, solar, and wind energy properties, and biomass properties described in section 48(l) that are used in connection with qualifying small power production facilities.

Telephone central office switching equipment and related equipment (described in ADR class 48.12) is computer-based only if its

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H. R. 1

**One Hundred Fifteenth Congress  
of the  
United States of America**

**AT THE FIRST SESSION**

*Begun and held at the City of Washington on Tuesday,  
the third day of January, two thousand and seventeen*

**An Act**

To provide for reconciliation pursuant to titles II and V of the concurrent resolution  
on the budget for fiscal year 2018.

*Be it enacted by the Senate and House of Representatives of  
the United States of America in Congress assembled,*

**TITLE I**

**SECTION 11000. SHORT TITLE, ETC.**

(a) **AMENDMENT OF 1986 CODE.**—Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

**Subtitle A—Individual Tax Reform**

**PART I—TAX RATE REFORM**

**SEC. 11001. MODIFICATION OF RATES.**

(a) **IN GENERAL.**—Section 1 is amended by adding at the end the following new subsection:

“(j) **MODIFICATIONS FOR TAXABLE YEARS 2018 THROUGH 2025.**—

“(1) **IN GENERAL.**—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026—

“(A) subsection (i) shall not apply, and

“(B) this section (other than subsection (i)) shall be applied as provided in paragraphs (2) through (6).

“(2) **RATE TABLES.**—

“(A) **MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.**—The following table shall be applied in lieu of the table contained in subsection (a):

“If taxable income is:	The tax is:
Not over \$19,050 .....	10% of taxable income.
Over \$19,050 but not over \$77,400 .....	\$1,905, plus 12% of the excess over \$19,050.
Over \$77,400 but not over \$165,000 .....	\$8,907, plus 22% of the excess over \$77,400.
Over \$165,000 but not over \$315,000 .....	\$28,179, plus 24% of the excess over \$165,000.
Over \$315,000 but not over \$400,000 .....	\$64,179, plus 32% of the excess over \$315,000.

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(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by subsections (a) and (b) shall apply to taxable years beginning after December 31, 2017.

(2) WITHHOLDING.—The amendments made by subsection (b)(3) shall apply to distributions made after December 31, 2017.

(3) CERTAIN TRANSFERS.—The amendments made by subsection (b)(6) shall apply to transfers made after December 31, 2017.

(d) NORMALIZATION REQUIREMENTS.—

(1) IN GENERAL.—A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method.

(2) ALTERNATIVE METHOD FOR CERTAIN TAXPAYERS.—If, as of the first day of the taxable year that includes the date of enactment of this Act—

(A) the taxpayer was required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method, and

(B) the taxpayer's books and underlying records did not contain the vintage account data necessary to apply the average rate assumption method,

the taxpayer will be treated as using a normalization method of accounting if, with respect to such jurisdiction, the taxpayer uses the alternative method for public utility property that is subject to the regulatory authority of that jurisdiction.

(3) DEFINITIONS.—For purposes of this subsection—

(A) EXCESS TAX RESERVE.—The term "excess tax reserve" means the excess of—

(i) the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code of 1986) as of the day before the corporate rate reductions provided in the amendments made by this section take effect, over

(ii) the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate rate reductions provided in this Act were in effect for all prior periods.

(B) AVERAGE RATE ASSUMPTION METHOD.—The average rate assumption method is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Under such method, during the time period in which the timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying—

(i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question, by

## H. R. 1—47

(ii) the amount of the timing differences which reverse during such period.

(C) ALTERNATIVE METHOD.—The “alternative method” is the method in which the taxpayer—

(i) computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and

(ii) reduces the excess tax reserve ratably over the remaining regulatory life of the property.

(4) TAX INCREASED FOR NORMALIZATION VIOLATION.—If, for any taxable year ending after the date of the enactment of this Act, the taxpayer does not use a normalization method of accounting for the corporate rate reductions provided in the amendments made by this section—

(A) the taxpayer's tax for the taxable year shall be increased by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting, and

(B) such taxpayer shall not be treated as using a normalization method of accounting for purposes of subsections (f)(2) and (i)(9)(C) of section 168 of the Internal Revenue Code of 1986.

**SEC. 13002. REDUCTION IN DIVIDEND RECEIVED DEDUCTIONS TO REFLECT LOWER CORPORATE INCOME TAX RATES.**

(a) DIVIDENDS RECEIVED BY CORPORATIONS.—

(1) IN GENERAL.—Section 243(a)(1) is amended by striking “70 percent” and inserting “50 percent”.

(2) DIVIDENDS FROM 20-PERCENT OWNED CORPORATIONS.—

Section 243(c)(1) is amended—

(A) by striking “80 percent” and inserting “65 percent”, and

(B) by striking “70 percent” and inserting “50 percent”.

(3) CONFORMING AMENDMENT.—The heading for section 243(c) is amended by striking “RETENTION OF 80-PERCENT DIVIDEND RECEIVED DEDUCTION” and inserting “INCREASED PERCENTAGE”.

(b) DIVIDENDS RECEIVED FROM FSC.—Section 245(c)(1)(B) is amended—

(1) by striking “70 percent” and inserting “50 percent”, and

(2) by striking “80 percent” and inserting “65 percent”.

(c) LIMITATION ON AGGREGATE AMOUNT OF DEDUCTIONS.—Section 246(b)(3) is amended—

(1) by striking “80 percent” in subparagraph (A) and inserting “65 percent”, and

(2) by striking “70 percent” in subparagraph (B) and inserting “50 percent”.

(d) REDUCTION IN DEDUCTION WHERE PORTFOLIO STOCK IS DEBT-FINANCED.—Section 246A(a)(1) is amended—

(1) by striking “70 percent” and inserting “50 percent”, and

(2) by striking “80 percent” and inserting “65 percent”.

(e) INCOME FROM SOURCES WITHIN THE UNITED STATES.—Section 861(a)(2) is amended—

**168(i)(8)(B)(ii)** Which is irrevocably disposed of or abandoned by the lessor at the termination of the lease by such lessee,

shall be treated for purposes of determining gain or loss under this title as disposed of by the lessor when so disposed of or abandoned.

**168(i)(8)(C) Cross Reference**

For treatment of qualified long-term real property constructed or improved in connection with cash or rent reduction from lessor to lessee, see [section 110\(b\)](#).

**168(i)(9) Normalization Rules**

**168(i)(9)(A) In General** In order to use a normalization method of accounting with respect to any public utility property for purposes of subsection (f)(2)—

**168(i)(9)(A)(i)** The taxpayer must, in computing its tax expense for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes; and

**168(i)(9)(A)(ii)** If the amount allowable as a deduction under this section with respect to such property (respecting all elections made by the taxpayer under this section) differs from the amount that would be allowable as a deduction under [section 167](#) using the method (including the period, first and last year convention, and salvage value) used to compute regulated tax expense under clause (i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

**168(i)(9)(B) Use of Inconsistent Estimates and Projections, etc**

**168(i)(9)(B)(i) In General** One way in which the requirements of subparagraph (A) are not met is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with the requirements of subparagraph (A).

**168(i)(9)(B)(ii) Use of Inconsistent Estimates and Projections** The procedures and adjustments which are to be treated as inconsistent for purposes of clause (i) shall include any procedure or adjustment for ratemaking purposes which uses an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under subparagraph (A)(ii) unless such estimate or projection is also used, for ratemaking purposes, with respect to the other 2 such items and with respect to the rate base.

**168(i)(9)(B)(iii) Regulatory Authority** The Secretary may by regulations prescribe procedures and adjustments (in addition to those specified in clause (ii)) which are to be treated as inconsistent for purposes of clause (i).

**168(i)(9)(C) Public Utility Property Which Does Not Meet Normalization Rules** In the case of any public utility property to which this section does not apply by reason of subsection (f)(2), the allowance for depreciation under [section 167\(a\)](#) shall be an amount computed using the method and period referred to in subparagraph (A)(i).

**168(i)(10) Public Utility Property** The term "public utility property" means property used predominantly in the trade or business of the furnishing or sale of—

**168(i)(10)(A)** Electrical energy, water, or sewage disposal services,

Treasury Regulation § 1.167(a)-1 Depreciation In General.

Treasury Regulations

PART 1 — INCOME TAXES (Sections 1.0-1 to 1.9300-1)

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## Treasury Regulation § 1.167(a)-1 Depreciation In General.

*This regulation was last amended by T.D. 7203, [37 FR 17133](#) (Aug. 25, 1972).*

**Treas. Reg. § 1.167(a)-1(a) Reasonable Allowance.** — Section 167(a) provides that a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business or of property held by the taxpayer for the production of income shall be allowed as a depreciation deduction. The allowance is that amount which should be set aside for the taxable year in accordance with a reasonably consistent plan (not necessarily at a uniform rate), so that the aggregate of the amounts set aside, plus the salvage value, will, at the end of the estimated useful life of the depreciable property, equal the cost or other basis of the property as provided in section [167\(g\)](#) and § [1.167\(g\)-1](#). An asset shall not be depreciated below a reasonable salvage value under any method of computing depreciation. However, see section [167\(f\)](#) and § [1.167\(f\)-1](#) for rules which permit a reduction in the amount of salvage value to be taken into account for certain personal property acquired after October 16, 1962. See also paragraph (c) of this section for definition of salvage. The allowance shall not reflect amounts representing a mere reduction in market value. See section [179](#) and § 1.179-1 for a further description of the term “reasonable allowance.”

**Treas. Reg. § 1.167(a)-1(b) Useful Life.** — For the purpose of section [167](#) the estimated useful life of an asset is not necessarily the useful life inherent in the asset but is the period over which the asset may reasonably be expected to be useful to the taxpayer in his trade or business or in the production of his income. This period shall be determined by reference to his experience with similar property taking into account present conditions and probable future developments. Some of the factors to be considered in determining this period are (1) wear and tear and decay or decline from natural causes, (2) the normal progress of the art, economic changes, inventions, and current developments within the industry and the taxpayer's trade or business, (3) the climatic and other local conditions peculiar to the taxpayer's trade or business, and (4) the taxpayer's policy as to repairs, renewals, and replacements. Salvage value is not a factor for the purpose of determining useful life. If the taxpayer's experience is inadequate, the general experience in the industry may be used until such time as the taxpayer's own experience forms an adequate basis for making the determination. The estimated remaining useful life may be subject to modification by reason of conditions known to exist at the end of the taxable year and shall be redetermined when necessary regardless of the method of computing depreciation. However, estimated remaining useful life shall be redetermined only when the change in the useful life is significant and there is a clear and convincing basis for the redetermination. For rules covering agreements with respect to useful life, see section [167\(d\)](#) and § [1.167\(d\)-1](#). If a taxpayer claims an investment credit with respect to an asset for a taxable year preceding the taxable year in which the asset is considered as placed in service under § [1.167\(a\)-10\(b\)](#) or § [1.167\(a\)-11\(e\)](#), the useful life of the asset under this paragraph shall be the same useful life assigned to the asset under § 1.46-3(e).

### **Treas. Reg. § 1.167(a)-1(c) Salvage.**

**Treas. Reg. § 1.167(a)-1(c)(1)** — Salvage value is the amount (determined at the time of acquisition) which is estimated will be realizable upon sale or other disposition of an asset when it is no longer useful in the taxpayer's trade or business or in the production of his income and is to be retired from service by the taxpayer. Salvage value shall not be changed at any time after the determination made at the time of acquisition merely because of changes in price levels. However, if there is a redetermination of useful life under the rules of paragraph (b) of this section, salvage value may be redetermined based upon facts known at the time of such redetermination of useful life. Salvage, when reduced by the cost of removal, is referred to as net salvage. The time at which an asset is retired from service may vary according to the policy of the taxpayer. If the taxpayer's policy is to dispose of assets which are still in good operating condition, the salvage value may represent a relatively large proportion of the original basis of the asset. However, if the taxpayer customarily uses an asset until its inherent useful life has been substantially exhausted, salvage value may represent no more than junk value. Salvage value must be taken into account in determining the depreciation deduction either by a reduction of the amount subject to depreciation or by a reduction in the rate of depreciation, but in no event shall an asset (or an account) be depreciated below a reasonable salvage value. See, however, paragraph (a) of § [1.167\(b\)-2](#) for the treatment of salvage under the declining balance method, and § [1.179-1](#) for the treatment of salvage in computing the additional first-year depreciation allowance. The taxpayer may use either salvage or net salvage in determining depreciation allowances but such practice must be consistently followed and the treatment of the costs of

Treasury Regulation § 1.167(a)-1 Depreciation In General.

removal must be consistent with the practice adopted. For specific treatment of salvage value, see §§ 1.167(b)-1, 1.167(b)-2, and 1.167(b)-3. When an asset is retired or disposed of, appropriate adjustments shall be made in the asset and depreciation reserve accounts. For example, the amount of the salvage adjusted for the costs of removal may be credited to the depreciation reserve.

**Treas. Reg. § 1.167(a)-1(c)(2)** — For taxable years beginning after December 31, 1961, and ending after October 16, 1962, see section [167\(f\)](#) and § [1.167\(f\)-1](#) for rules applicable to the reduction of salvage value taken into account for certain personal property acquired after October 16, 1962.

[T.D. 6500, [25 FR 11402](#), Nov. 26, 1960, as amended by T.D. 6712, [29 FR 3653](#), Mar. 24, 1964; T.D. 7203, [37 FR 17133](#), Aug. 25, 1972]

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IRS, Private Letter Ruling, PLR 8616018

Department of the Treasury  
Internal Revenue Service  
Private Letter Ruling

## Private Letter Ruling 8616018

Section [168](#) – ACRS Depreciation

*Index Nos.: 0168.00-00*

Refer Reply to: CC:C:E:1

January 14, 1986  
Re: Request for Ruling

**LEGEND:**

P: \*\*\*

S: \*\*\*

R1: \*\*\*

R2: \*\*\*

Dear \*\*\*

This is in response to your January 7, 1985, request for ruling and subsequent submissions. You have requested a ruling under section [168\(e\)](#) of the [Internal Revenue Code](#) regarding the proper treatment of the cost of removal upon the retirement of depreciable property. Specifically, you have requested a ruling that where net salvage is used to calculate regulated tax expense under section [168\(e\)\(3\)\(B\)\(i\)](#) of the Code, net salvage value must be used under [section 168\(e\)\(3\)\(B\)\(ii\)](#) to calculate the adjustment to reserve reflecting the deferral of taxes.

P is the common parent of a group of affiliated corporations which includes S. S is a public utility which provides telecommunications services within and between local exchanges in a \*\*\* state operating area. S also provides access to this local exchange network to long distance carriers. The charges which S makes to its customers are set by regulatory authorities.

For tax purposes, S uses:

- (1) the Class Life System provided by section [1.167\(a\)-12](#) of the Income Tax Regulations for property placed in service before January 1, 1971;
- (2) the Asset Depreciation Range provided by [section 1.167\(a\)-11](#) of the regulations for property placed in service after December 31, 1970 and before January 1, 1981;
- (3) the facts and circumstances method provided by [section 1.167\(a\)-1](#) of the regulations for property placed in service before January 1, 1981 for which no elections under [sections 1.167\(a\)-11](#) or 1.167(a)-12 were made; and (4) the Accelerated Cost Recovery System provided by section [168](#) of the Code for property placed in service after December 31, 1980.

For property placed in service after 1969, S has used accelerated methods of computing depreciation.

In computing its depreciation expense on its regulated books of account and for ratemaking purposes, S uses the straight line method of computing depreciation. S calculates this depreciation expense over the useful lives prescribed by RI.

For property placed in service after December 31, 1980, which for tax purposes is depreciated under the Accelerated Cost Recovery System (ACRS) provided by section [168](#) of the Code, R1 uses net salvage value 1 to compute depreciation expense on S's regulated books of account and R2 uses net salvage value to compute depreciation expense and tax expense when establishing S's cost of service for ratemaking purposes. Thus, an aliquot portion of

IRS, Private Letter Ruling, PLR 8616018

the cost of removal is reflected each year in S's *depreciation expense* on its regulated books of account and in establishing S's cost of service for ratemaking purposes. For tax purposes, [section 168](#) does not consider salvage value.

R2 proposes that in computing the amount to be normalized under [section 168\(e\)\(3\)](#) of the Code, gross salvage value be used in computing the amount of taxes deferred due to accelerated rates of depreciation. This would treat the cost of removal as a flow-through item.

Section [168\(a\)\(1\)](#) of the Code provides that there shall be allowed as a deduction for any taxable year, the amount determined under this section with respect to recovery property. Section [168\(e\)\(3\)](#) of the Code provides that the term "recovery property" does not include public utility property (within the meaning of [section 167\(1\)\(3\)\(A\)](#)) if the taxpayer does not use a normalization method of accounting.

Section [168\(e\)\(3\)\(B\)](#) of the Code provides that in order to use a normalization method of accounting with respect to any public utility property the taxpayer must, in computing its tax expense for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, (i) use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes; and (ii) if the amount allowable as a deduction under this section with respect to such property differs from the amount that would be allowable as a deduction under [section 167](#) (determined without regard to [section 167\(1\)](#)) using the method (including the period, first and last year convention, and salvage value) used to compute regulated tax expense under subparagraph (B)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section [168\(e\)\(3\)\(C\)\(i\)](#) of the Code provides that the requirements of [section 168\(e\)\(3\)\(B\)](#) are not met if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with the requirements of [section 168\(e\)\(3\)\(B\)](#). Section [168\(e\)\(3\)\(C\)\(ii\)](#) provides that the procedures and adjustments which are to be treated as inconsistent for purposes of [section 168\(e\)\(3\)\(C\)\(i\)](#) shall include any procedure or adjustment for ratemaking purposes which uses an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under [section 168\(e\)\(3\)\(B\)\(ii\)](#) unless such estimate or projection is also used for ratemaking purposes, with respect to the other 2 such items and with respect to the rate base.

From the foregoing, it is clear that in calculating the amount to be normalized under [section 168\(e\)\(3\)\(B\)](#) of the Code, a taxpayer must use the same method of calculating salvage value in computing the reserve for deferred taxes as it uses in computing its tax expense and depreciation expense for ratemaking purposes. Thus, if S uses net salvage value to calculate its regulated tax expense and depreciation expense under [section 168\(e\)\(3\)\(B\)\(i\)](#), S must use net salvage value under [section 168\(e\)\(3\)\(B\)\(ii\)](#) to calculate the adjustment to the reserve for deferred taxes. The use of any other method of computing salvage value for purposes of computing the adjustment to the reserve for deferred taxes violates the consistency requirement of [section 168\(e\)\(3\)\(C\)\(ii\)](#).

This ruling is directed only to the taxpayer who requested it. Section [6110\(j\)\(3\)](#) of the Code provides that it may not be used or cited as precedent. Temporary or final regulations pertaining to one or more of the issues addressed in this ruling have not yet been adopted. Therefore, this ruling will be modified or revoked by adoption of temporary or final regulations, to the extent the regulations are inconsistent with any conclusion in the ruling. See [section 17.04](#) of Rev. Proc. [85-1](#), 1985-1 C.B. 440. However, when the criteria in [section 17.05](#) of Rev. Proc. [85-1](#) are satisfied, a ruling is not revoked or modified retroactively, except in rare or unusual circumstances.

Sincerely yours,  
John W. Holt  
Director, Corporation  
Tax Division

1 Net salvage value refers to gross salvage value less cost of removal.

**AFFIDAVIT**

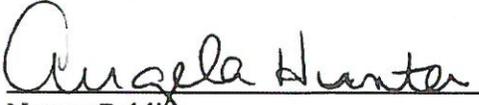
STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I hereby certify that on this 20 day of June, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MATT GORDON, who is personally known to me, and he acknowledged before me that he provided the answers to interrogatory number 29, from CITIZEN'S FOURTH SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NO. 29) in Docket No. 20180047-EI, and that the responses are true and correct based on his personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 20 day of June, 2018.

  
Matt Gordon

  
Notary Public  
State of North Carolina

My Commission Expires:  
My Commission Exp. ...  
**05-30-2023**

# 10

## DEF's responses to OPC's 5th Set of Interrogatories Nos. 30-31.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 10  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
5th Set of Interrogatories Nos. 30-31[Bates  
Nos. 00121-00126]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: July 2, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' FIFTH SET OF INTERROGATORIES (NOS. 30-31)**

Duke Energy Florida, LLC ("DEF"), subject to and without waiving the contemporaneously served objections to these requests, responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Fifth Set of Interrogatories to DEF (Nos. 30-31) as follows:

**INTERROGATORIES**

**BOLDED REQUESTS INDICATE PRIORITY ITEMS**

30. Refer to the direct testimony of DEF witness Matt Gordon at pages 7-8 which states as follows:

Q. Please explain whether DEF treated the cost of removal (COR) component of excess ADIT as protected or unprotected

A. DEF treated the COR component of excess ADIT as both protected and unprotected with the majority being treated as protected. This approach is an effort to avoid any normalization violations. Some utilities are treating COR as a basis difference which would result in COR being classified as unprotected. DEF has reviewed the IRS rules extensively and believes the rules require utilities to use all of the book depreciation amounts included in its utility operations in the normalization ARAM calculations. The regulations require that "salvage" be taken into account when determining the depreciation amount. DEF's book depreciation "salvage" amount is a "net salvage" amount which means that COR is a component of the depreciation rate. A portion of book depreciation gets assigned to book tax basis differences (portions of a book asset that is depreciated for book purposes but not for tax purposes). Examples of this would be AFUDC debt, tax repair projects, taxable contributions in aid of construction (taxable CIAC), etc. Therefore, some of the COR gets assigned to the method/life protected deferred taxes and some gets assigned to the basis differences unprotected amounts. DEF believes this method does not result in a normalization violation as we are proposing that COR be normalized along with the other components of book depreciation. COR results in a deferred tax asset and this method is to the benefit of customers as it slows down the recovery of the regulatory asset created from

excess deferred taxes because the majority of the COR is showing up in protected deferred taxes which is recovered over a longer period of time than if deemed unprotected.

- a) **Does DEF have any written documents or summaries of its extensive review of IRS rules relating to cost of removal and ARAM normalization calculations? If “yes” please identify such documents and summaries.**
- b) **Is Duke Energy treating cost of removal related excess ADIT as being “protected” in any of its utility regulatory jurisdictions besides Florida? If so, identify which ones and identify the documents, testimony, exhibits and filings showing such treatment in each jurisdiction.**
- c) **Identify all analysis in Duke Energy’s possession relating to whether the cost of removal should be treated “as a basis difference which would result in COR being classified as unprotected.”**
- d) **Refer to the statement: “Some utilities are treating COR as a basis difference which would result in COR being classified as unprotected.” Identify each utility of which Duke Energy is aware that is treating COR as a basis difference and/or as being unprotected.**
- e) **Does the Company believe that the classification of excess ADIT related to cost of removal as either “protected” or “non-protected” should be the same for all Florida PSC-regulated public utilities that have cost of removal? If not, explain fully why not.**

**Answer:**

- a) Please see DEF’s Response to OPC ROG 29.
- b) Subject to, and without waiving DEF’s objections served concurrently with these responses, Duke Energy is treating all cost of removal consistently among all its regulatory jurisdictions. To date no testimony specifically discusses the treatment of cost of removal.
- c) Please see DEF’s Response to OPC ROG 29.
- d) DEF is aware that Tampa Electric and Florida Power and Light are treating COR as unprotected. DEF has also been involved in user groups where the topic was discussed and other utilities participating on the call said they were treating COR as unprotected but the names of those companies were not identified.
- e) DEF recognizes that this issue is complex and subject to interpretation at this time. Given this complexity, DEF believes that treating COR as protected is the least likely method to cause a normalization violation. If the IRS provides guidance that COR is unprotected then DEF will apply the appropriate amortization in accordance with the Settlement. If the IRS determines that it is protected then DEF will be in compliance.

31. Refer to the direct testimony of DEF witness Matt Gordon at page 8 which states as follows:

Q. What will DEF do if the IRS rules that COR is unprotected?

A. If a ruling or other guidance is issued by the IRS proclaiming that COR is not protected, then DEF will reclassify all COR excess ADIT amounts to unprotected. This will change the total amount of amortization of excess ADITs. Therefore, as further explained in Marcia Olivier's testimony, DEF would file updated schedules with the Commission and adjust the amortization of excess ADITs and the flow-back amount charged to storm costs retroactive to January 2018.

- a) **Is Duke Energy aware of any requests to the IRS concerning whether COR is protected or unprotected? If so, please identify all such ruling requests.**
- b) **Is Duke Energy aware of any "other guidance" from the the IRS concerning whether COR is protected or unprotected? If so, please identify all such "other guidance."**
- c) **When Duke Energy anticipate that any rulings or "other guidance" from the IRS concerning whether COR is protected or unprotected will be forthcoming?**
- d) **Does Duke Energy intend to seek any ruling or other guidance from the IRS concerning whether COR is protected or unprotected? If so, identify the Company's plans for seeking such guidance. If not, explain fully why not.**

**Answer:**

- a) On June 8, 2018, Southern California Edison submitted a draft letter seeking a Private Letter Ruling ("PLR") from the Internal Revenue Service to the California Public Utilities Commission seeking guidance on the issue of whether normalization rules apply to cost of removal ("COR") and whether COR should be treated as protected or unprotected, and other guidance related to COR. Other than that public information, Duke Energy is not aware of any private letter ruling requests ("PLR") that have been submitted to the IRS on whether COR is protected or unprotected.
- b) None other than PLR 8616018, which was discussed and attached to the response to the OPC's Fourth Set of Interrogatories to DEF (No. 29).
- c) Duke Energy is not aware of when or whether the IRS will issue any ruling or guidance on whether COR is protected or unprotected.

- d) Duke Energy does not intend to seek any ruling or other guidance from the IRS, since we believe our treatment is consistent with federal tax law requirements. In addition, as explained above, Duke Energy believes that SCE will be filing a PLR request.

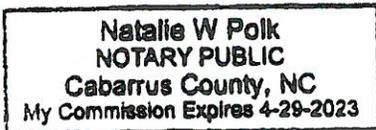
AFFIDAVIT

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I hereby certify that on this 10<sup>th</sup> day of July, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MATT GORDON, who is personally known to me, and he acknowledged before me that he provided the answers to interrogatory numbers 30 and 31, from CITIZEN'S FIFTH SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NOS. 30-31) in Docket No. 20180047-EI, and that the responses are true and correct based on his personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 10 day of July, 2018.



Matt Gordon  
Matt Gordon

Natalie W. Polk  
Notary Public  
State of North Carolina

My Commission Expires:

4-29-2023

# 11

## DEF's responses to OPC's 6th Set of Interrogatories No. 32.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 11  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
6th Set of Interrogatories No. 32[Bates Nos.  
00127-00130]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: July 11, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' SIXTH SET OF INTERROGATORIES (NO. 32)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Sixth Set of Interrogatories to DEF (No. 32) as follows:

**INTERROGATORIES**

32. In response to these questions, please refer to the 2010 Stipulation, Order No. PSC-10-0398-S-EI, Page 10, Paragraph 3 and the 2013 Stipulation, Order No. PSC-13-0598-FOF-EI, Page 32, Paragraph 20.
- a. Please explain any accounting opinion given that allowed the company to apply the annual credit to cost of removal in the 2010 stipulation (Order No. PSC-10-0398-S-EI, Page 10, Paragraph 3).
  - b. Please explain why FERC issued the accounting order received in 2011 and how it changed the accounting treatment that had been used in the 2010 stipulation.
  - c. Please explain how the accounting treatment of the annual credit to cost of removal changed in the 2013 Stipulation (Order No. PSC-13-0598-FOF-EI, Page 32, Paragraph 20).
  - d. Please explain any accounting change or difference in opinion in how Duke Energy Florida now treats cost of removal versus legacy Progress Florida.

**Answer:**

- a. DEF has not received a specific accounting opinion on this topic. Deloitte and Touche, LLC opines that our financial statements are materially correct but does not generally issue accounting opinions on specific topics.

- b. Please see the FERC Order attached in DEF's response to POD #16, part b. The order states; "While these adjustments may be acceptable for retail ratemaking purposes, they do not conform to the requirements for allocating the costs of utility plant over their service lives." There were two changes in the accounting treatment: 1) rather than reducing (debiting) the depreciation reserve in account 108, amounts were required to be recorded (debited) to a regulatory asset in account 182; and 2) rather than reducing (crediting) depreciation expense in account 403, amounts were required to be recorded (credited) to regulatory credits in account 407.4.
- c. The accounting treatment did not change in the 2013 settlement, except as explained in part b above.
- d. There is no change in how DEF treats cost of removal versus legacy Progress Energy Florida.

AFFIDAVIT

STATE OF FLORIDA

COUNTY OF PINELLAS

I hereby certify that on this 5 day of July, 2018, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MARCIA OLIVIER, who is personally known to me, and she acknowledged before me that she provided the answer to interrogatory number 32, from CITIZEN'S SIXTH SET OF INTERROGATORRIES TO DUKE ENERGY FLORIDA, LLC (NO. 32) in Docket No. 20180047-EI, and that the responses are true and correct based on her personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 5 day of July, 2018.



Marcia Olivier  
Marcia Olivier

Sarah Hirschman Libes  
Notary Public  
State of Florida

My Commission Expires:

3/23/2022

# 12

## DEF's responses to OPC's 1<sup>st</sup> Request for Production of Documents Nos. 1-5.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 12  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's 1st Request for  
Production of Documents Nos. 1-5[Bates Nos.  
00131-00177]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: April 23, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' FIRST REQUEST TO PRODUCE DOCUMENTS (NOS. 1-5)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") First Request to Produce Documents (Nos. 1-5) as follows:

1. Please provide a copy of any journal entries recorded in 2017 that were to reflect the impact of from the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017.

**Response:**

Please see the attached journal entries that were recorded for December 31, 2017, bearing bates numbers 20180047-DEF-00001 through 20180047-DEF-00002.

2. Please provide a copy of any journal entries recorded in 2018 that were to reflect the impact of from the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017 and explain why they were recorded in 2018 instead of 2017.

**Response:**

Please see the attached journal entries that were recorded as of February, 2018, bearing bates numbers 20180047-DEF-00003 through 20180047-DEF-00009. The amortization of the storm cost regulatory asset, accelerated CR 4&5 depreciation, and Excel schedule showing the amortization of federal EDIT were recorded in 2018 in accordance with the DEF Settlement agreement. The OATT entries represent a reserve for income tax collected that may be refunded to wholesale OATT customers.

3. Please provide all workpapers the Company has that would show any calculations in determining the excess deferred income taxes resulting from the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017.

**Response:**

Please see the attached work-paper to support excess deferred income taxes calculations, bearing bates numbers 20180047-DEF-00010 through 20180047-DEF-00023.

4. Please provide all workpapers the Company has that would show any calculations in determining the excess income taxes in base rates and how the flowback of those rates were determined as a result of the Tax Cuts and Jobs Act (TCJA) that was signed into law by President Trump on December 22, 2017.

**Response:**

Please see the documents provided in response to question 3, bearing bates numbers 20180047-DEF-00010 through 20180047-DEF-00023, as well as the attached documents bearing bates numbers 20180047-DEF-00024 through 20180047-DEF-00029. All of DEF's excess deferred income taxes are recorded in regulatory liabilities that are included in capital structure and are amortized in accordance with DEF's Second Revised and Restated Settlement Agreement.

5. Please provide a copy of any internally prepared documents the Company has that discuss the impact of the Tax Cuts and Jobs Act (TCJA), that discusses how the change should be accounted for, and/or that discusses any proposed ratemaking treatment.

**Response:**

Please see the attached work-papers to support excess deferred income taxes and the flow-back period, bearing bates numbers 20180047-DEF-00030 through 20180047-DEF-00050.

The documents bearing bates numbers 20180047-DEF-00044 through 20180047-DEF-00050 are privileged. A privilege log is attached.

## Journals Report - LATE\_TAX\_REFORM

Application: RPTG2017      User: SJai1@MSAD\_NAM      Date: 3/27/2018      Time: 1:08:31 PM

Scenario: Actuals      Year: 2017      Period: Dec      Value: <Entity Curr Adjs>

Journal Type: Regular      Security Class: [Default]      Status: Posted

Journal Group:      Balance Type: Balanced by  
Entity

Description: To record impacts related to the new tax reform legislation.

Entry

Duke Energy Florida  
2017 Journal entries for TCJA  
Debit/(Credit)

2017	<-----Year
12	<-----Period
CONS_JE	<--Enter Journal Entry Name (spaces not permitted, limited to 80 characters)
Enter description	<--Enter Journal Entry Description (limited to 255 characters)

Line	BU	Account	Account Description	Affiliate	Amount	PS Journal ID (if diff)
1	50220	0190001	Adit: Prepaid: Federal Taxes		(69,097.22)	
2	50220	0190001	Adit: Prepaid: Federal Taxes		(181,033,479.00)	
3	50240	0190001	Adit: Prepaid: Federal Taxes		(317,055.00)	
4	50250	0190001	Adit: Prepaid: Federal Taxes		(34,705.00)	
5	50220	0190155	Deferred Tax NOL		(60,873,085.00)	
6	50220	0190001	Adit: Prepaid: Federal Taxes		5,336,210.00	
7	50220	0281200	Deferred Federal Income Tax		-	
8	50220	0282100	Adit: PpandE: Federal Taxes		858,696,994.00	
9	50229	0282100	Adit: PpandE: Federal Taxes		(11,220,955.00)	
10	50250	0282100	Adit: PpandE: Federal Taxes		260,292.00	
11	50992	0282100	Adit: PpandE: Federal Taxes		(567,376.00)	
12	50220	0283100	Adit: Other: Federal Taxes		524,567,838.00	
13	50229	0283100	Adit: Other: Federal Taxes		11,220,955.00	
14	50220	0190001	Adit: Prepaid: Federal Taxes		(931,575.00)	
15	50220	0254036	Reg Liab Excess Fed ADIT		(1,025,534,486.16)	
16	50220	0254100	Regulatory Liability Inc Tax		3,568,553.00	
17	50220	0182320	Regulatory Asset Inc Tax		(113,528,501.00)	
18	50220	0411100	Dfit: Utility: Curr Year Cr		-	
19	50220	0411240	Dfit: Non Utility: Curr Yr Cr		(225,826,554.34)	
20	50250	0411240	Dfit: Non Utility: Curr Yr Cr		(225,587.00)	
21	50220	0190001	Adit: Prepaid: Federal Taxes		215,056,713.04	
22	50220	0190002	Adit: Prepaid: State Taxes		59,602,516.00	
23	50220	0254988	Current Regulatory Liabilities		(58,147,615.32)	
24	50220	0146000	Electric Interunit Account	50240	(317,055.00)	
25	50240	0146000	Electric Interunit Account	50220	317,055.00	
26	50220	0146000	Electric Interunit Account	50992	(567,376.00)	
27	50992	0146000	Electric Interunit Account	50220	567,376.00	
28					<u>(0.0000)</u>	

Report ID: PPSFGL05	PeopleSoft Financials	Page No.	1
<b>JOURNAL ENTRY DETAIL REPORT</b>		Run Date:	04/06/2018
		Run Time:	10:07:59 AM

<b>Unit:</b> 50220	<b>Ledger Group:</b> ACTUALS	<b>Foreign Currency:</b> USD
<b>Journal ID:</b> STRMAMORT	<b>Source:</b> 450	<b>Rate Type:</b> CRRNT
<b>Date:</b> 1/31/2018	<b>Reversal:</b> N	<b>Effective Date:</b> 1/31/2018
<b>Description:</b> To record the amortization of the reg asset based on currently estimated \$135/annually, beginning January 2018.	<b>Reversal Date:</b>	<b>Exchange Rate:</b> 1.00

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Sta is ics Amt	Rate Type	Rate	Foreign Amount	Base Amount
Line #	Process	Product	Project	Analysis Type	Activity	Affiliate							

**ACTUALS**

1	50220	0924200	99810	X60D	W220					CRRNT	1.00000000	11,250,000.00 USD	11,250,000.00 USD
1	Description: Storm Cost Amortization Reference: Open Item Key:												
2	50220	0186295	99810	X60D	W220					CRRNT	1.00000000	-11,250,000.00 USD	-11,250,000.00 USD
2	Description: Storm Cost Amortization Reference: Open Item Key:												

<u>Business Unit</u>	<u>Journal Status</u>	<u>Total Lines</u>	<u>Total Base Debits</u>	<u>Total Base Credits</u>
50220	P	2	11,250,000.00	11,250,000.00

End of Report

20180047-El Staff Hearing Exhibits 00136

Report ID: PPSFGL05	PeopleSoft Financials	Page No.	1
<b>JOURNAL ENTRY DETAIL REPORT</b>		Run Date:	04/06/2018
		Run Time:	09:58:55 AM

<b>Unit:</b> 50220	<b>Ledger Group:</b> ACTUALS	<b>Foreign Currency:</b> USD
<b>Journal ID:</b> STRMAMORT	<b>Source:</b> 450	<b>Rate Type:</b> CRRNT
<b>Date:</b> 2/28/2018	<b>Reversal:</b> N	<b>Effective Date:</b> 2/28/2018
<b>Description:</b> To record the amortization of the reg asset based on currently estimated \$135/annually, beginning January 2018.	<b>Reversal Date:</b>	<b>Exchange Rate:</b> 1.00

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Sta is ics Amt	Rate Type	Rate	Foreign Amount	Base Amount
Line #	Process	Product	Project	Analysis Type	Activity	Affiliate							

**ACTUALS**

1	50220	0924200	99810	X60D	W220					CRRNT	1.00000000	11,250,000.00 USD	11,250,000.00 USD
1	Description: Storm Cost Amortization Reference: Open Item Key:												
2	50220	0186295	99810	X60D	W220					CRRNT	1.00000000	-11,250,000.00 USD	-11,250,000.00 USD
2	Description: Storm Cost Amortization Reference: Open Item Key:												

<u>Business Unit</u>	<u>Journal Status</u>	<u>Total Lines</u>	<u>Total Base Debits</u>	<u>Total Base Credits</u>
50220	P	2	11,250,000.00	11,250,000.00

End of Report

4/6/2018

**Duke Energy Business Services, LLC**

Journal Entry Calculation Detail (Unit Detail) (Reporting)  
2018.02Base, 50220\_U Duke Energy Florida Utility

**Unit Code**

50220_U	Federal	0182320 - Regulatory Asset - Inc Tax	Base JE Profile-Utility - F_RGAL_182320-411100-PGN_FED_BS - FERC - FIT Regulatory Asset
50220_U	Federal	0411100 - DFIT: Utility: Curr Year CR	Base JE Profile-Utility - F_RGAL_182320-411100-PGN_FED_IS - FERC - FIT Regulatory Asset
50220_U	Federal	0254036 - Reg Liab - Excess FED ADIT	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190001-254036_FED_IS - F_RGAL_190001-254036_FED_BS
50220_U	State - ALL	0254036 - Reg Liab - Excess FED ADIT	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190002-254036_BS_IS - F_RGAL_190002-254036_BS_BS
50220_U	Federal	0190001 - ADIT: Prepaid: Federal Taxes	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190001-254036_FED_BS - F_RGAL_190001-254036_FED_IS
50220_U	State	0190002 - ADIT: Prepaid: State Taxes	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190002-254036_BS_BS - F_RGAL_190002-254036_BS_IS
50220_U	Federal	0254038 - Excess ADIT Grossup LT	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190001-254038_FED_IS - F_RGAL_190001-254038_FED_BS
50220_U	State - ALL	0254038 - Excess ADIT Grossup LT	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190002-254038_BS_IS - F_RGAL_190002-254038_BS_BS
50220_U	Federal	0190001 - ADIT: Prepaid: Federal Taxes	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190001-254038_FED_BS - F_RGAL_190001-254038_FED_IS
50220_U	State	0190002 - ADIT: Prepaid: State Taxes	Base JE Profile-Utility - F_RGAL_Fed_Rate Chng_Gross Up_190002-254038_BS_BS - F_RGAL_190002-254038_BS_IS

Report ID: PPSFGL05	PeopleSoft Financials	Page No. 1
<b>JOURNAL ENTRY DETAIL REPORT</b>		Run Date: 03/09/2018
		Run Time: 01:36:03 PM

<b>Unit:</b> 50220	<b>Ledger Group:</b> ACTUALS	<b>Foreign Currency:</b> USD
<b>Journal ID:</b> EDITRCLS	<b>Source:</b> 600	<b>Rate Type:</b> CRRNT
<b>Date:</b> 2/28/2018	<b>Reversal:</b> N	<b>Effective Date:</b> 2/28/2018
<b>Description:</b> To reclass the amortization amount for excess deferred taxes from 0182320 to 0254036	<b>Reversal Date:</b>	<b>Exchange Rate:</b> 1.00

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Sta is ics Amt	Rate Type	Rate	Foreign Amount	Base Amount
Line #	Process	Product	Project	Analysis Type	Activity	Affiliate							

**ACTUALS**

1	50220	0254036				001940000				CRRNT	1.00000000	9,814,611.00 USD	9,814,611.00 USD
1	Description: Reg Liab - Excess Fed ADIT												
						Reference:				Open Item Key:			
2	50220	0182320				001940000				CRRNT	1.00000000	-9,814,611.00 USD	-9,814,611.00 USD
2	Description: Regulatory Asset - Inc Tax												
						Reference:				Open Item Key:			

2

Business Unit	Journal Status	Total Lines	Total Base Debits	Total Base Credits
50220	V	2	9,814,611.00	9,814,611.00

End of Report

20180047-El Staff Hearing Exhibits 00139

Unit: 50120	Ledger Group: ACTUALS	Foreign Currency: USD
Journal ID: BIBILLTAX2	Source: 270	Rate Type: CRRNT
Date: 1/31/2018	Reversal: N	Effective Date: 1/31/2018
Description: DEF OATT TAX ACCRUAL	Reversal Date:	Exchange Rate: 1.00

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Statistics Amt	Rate Type	Rate	Foreign Amount	Base Amount
Line #	Process	Product	Project	Analysis Type	Activity	Affiliate							

**ACTUALS**

1	50220	0456104	99810	X60D	W220					CRRNT	1.00000000	630,080.00 USD	630,080.00 USD
Description:		DEF TAX ACCRUAL		Reference:		Open Item Key							
2	50220	0232002								CRRNT	1.00000000	630,080.00 USD	-630,080.00 USD
Description:		AP-Misc-Gen Acctg		Reference:		Open Item Key							

Business Unit	Journal Status	Total Lines	Total Base Debits	Total Base Credits
50220	V	2	630,080.00	630,080.00

End of Report

PREPARED BY: [Signature] 2-2-18  
 CHECKED BY: \_\_\_\_\_  
 APPROVED BY: [Signature]

Unit: 50220	Ledger Group: ACTUALS	Foreign Currency: USD
Journal ID: BILLLTAX2	Source: 270	Rate Type: CRRNT
Date: 2/23/2018	Reversal: N	Effective Date: 2/23/2018
Description: DEF OATT TAX ACCRUAL	Reversal Date:	Exchange Rate: 1.00

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Statistics Amt	Rate Type	Rate	Foreign Amount	Base Amount
Line #	Process	Product	Project	Analysis Type	Activity	Affiliate							

**ACTUALS**

1	50220	0456104	98810	X60D	W220					CRRNT	1.00000000	630 080.00 USD	630,080.00 USD
1													
	Description:	DEF TAX ACCRUAL				Reference:				Open Item Key:			
2	50220	0232002								CRRNT	1.00000000	-630 080.00 USD	-630,080.00 USD
2													
	Description:	AP-Misc-Gen Accig				Reference:				Open Item Key:			

Business Unit	Journal Status	Total Lines	Total Base Debits	Total Base Credits
50220	V	2	630 080.00	630 080.00

End of Report

PREPARED BY: *[Signature]* 2-23-18  
 CHECKED BY: *[Signature]*  
 APPROVED BY: *[Signature]* 2-26-18

Report ID: PPSFGL05	PeopleSoft Financials	Page No. 1
<b>JOURNAL ENTRY DETAIL REPORT</b>		Run Date: 04/09/2018
		Run Time: 04:57:36 PM

Unit: 50221      Ledger Group: ACTUALS      Foreign Currency: USD  
Journal ID: CR45DEPR      Source: 204      Rate Type: CRRNT  
Date: 2/28/2018      Reversal: N      Effective Date: 2/28/2018  
Description: To record monthly accelerated depreciation for Crystal River 4 & 5 related to the DEF Crystal River Settlement (This entry includes January and February accelerated depreciation).      Reversal Date:      Exchange Rate: 1.00

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Sta is ics Amt	Rate Type	Rate	Foreign Amount	Base Amount
Line #	Process	Product	Project	Analysis Type		Activity	Affiliate						

**ACTUALS**

1	50221	0407387	99810	CRN0	W220					CRRNT	1.00000000	8,333,333.34 USD	8,333,333.34 USD
1	Description: DEF CR4&5 Accelerated Deprecia      Reference:      Open Item Key:												
2	50221	0254087	99810	CRN0	W220					CRRNT	1.00000000	-8,333,333.34 USD	-8,333,333.34 USD
2	Description: DEF CR4&5 Accelerated Deprecia      Reference:      Open Item Key:												

Business Unit	Journal Status	Total Lines	Total Base Debits	Total Base Credits
50221	P	2	8,333,333.34	8,333,333.34

End of Report

20180047-El Staff Hearing Exhibits 00142

**Duke Energy Florida  
Excess ADIT Summary**

Line	Description	Reference	Protected	Unprotected	Total
1	<b><u>CALCULATION OF RETAIL/WHOLESALE SPLIT:</u></b>				
2	Excess ADIT		734,179,570	300,895,446	1,035,07
3	Less CR3 Reg Asset	line 156		(159,976,313)	(159,97
4	Less Solar Solutions	line 155		(225,587)	(22
5	Excess ADIT for Retail/OATT/Whls split	lines 2:3	<u>734,179,570</u>	<u>140,693,546</u>	<u>874,87</u>
6					
7	Retail Portion (flowback)	line 5 x 88.61485%	650,592,125	124,675,375	775,26
8	OATT Portion (flowback)	line 5 x 3.73%	27,384,898	5,247,869	32,63
9	Whls Fixed Contracts (earnings)	line 5 x 7.65515%	56,202,547	10,770,302	66,97
10	Total Excess ADIT	lines 7:9, also line 5	<u>734,179,570</u>	<u>140,693,546</u>	<u>874,87</u>
11					
12	<b><u>SUMMARY OF EXCESS ADIT:</u></b>				
13	<b>Retail &amp; OATT - Subject to Flowback</b>	lines 66 and 133	677,977,023	131,045,852	809,02
14	<b>To Earnings:</b>				
15	Non-utility/other	line 147		(1,122,608)	(1,12
16	Solar Solutions	line 155		225,587	22
17	CR3 Reg Asset	line 156		159,976,313	159,97
18	Whls Fixed Contract Portion	line 9, also lines 65 and 132	56,202,547	10,770,302	66,97
19	<b>Total to Earnings</b>	lines 15:18 also line 158	<u>56,202,547</u>	<u>169,849,594</u>	<u>226,05</u>
20	<b>Total Excess ADIT</b>	line 13 + line 19	734,179,570	300,895,446	1,035,07
21	Tax Grossups				274,65
22	Reg Asset (e.g. AFUDC Equity Gross-up)	line 168			113,52
23	Reg Liability (e.g. ITC Gross-up)	line 175			(3,56
24	Total Decrease in ADIT				<u>1,419,69</u>
25					
26					
27	<b><u>Total Excess ADIT Regulatory Liability - Protected:</u></b>				
28	AT_OTH_282_NC_TBBS	Other Non-Current After-Tax DTL for TBBS			50,96
29	T13A04	AFUDC Interest			(51
30	T13A08	Book Depreciation/Amortization			(256,17
31	T13A10	Adjustment To Book Depreciation			(6,55
32	T13A12	Book Gain/Loss on Property			(14
33	T13A14	Contributions in Aid (CIAC's)			(19,31
34	T13A16	Cost of Removal			6,52
35	T13A18	Capitalized Hardware/Software			(33
36	T13A19	After Tax ADC,M&E, ITC Temporary			(44,97
37	T13A26	Tax Interest Capitalized			(18,09
38	T13A28	Tax Depreciation/Amortization			701,49
39	T13A30	Tax Gains/Losses			150,51
40	T13A51	Nuclear Fuel Book Burned			(2,66
41	T13A75	Section 174 R&E Deduction			5,97
42	T13A77	Repairs 481(a) (Pursuant to 3115)			35,52
43	T13A80	Pollution Control			41,02
44	T13B01	Long Term Service Agreement			5,33
45	T13B09	Book Depreciation Charged to Other Accounts			(3,65
46	T13B22	Amort of Interco Gain			3,41
47	T13B23	Non-Cash Overhead Basis Adj			(6,66
48	T13B26	Equipment Repairs - Annual Adj			71,58
49	T13B31	Impairment of Plant Assets			(14,05
50	T13B32	T & D Repairs 481(a) (pursuant to 3115)			3,79
51	T13B33	T & D Repairs - Annual Adj.			49,76
52	T13B36	Internal Labor Costs 20180047-EI Staff Hearing Exhibits 00143			69
53	T13B42	Smart Grid Deferred Costs			3,65
54	T13B43	Section 481(a) Casualty Losses			(15,74

**Duke Energy Florida  
Excess ADIT Summary**

Line	Description	Reference	Protected	Unprotected	Tot
90	T11A02	Bad Debts - Tax over Book			(6)
91	T11B06	Surplus Materials Write-off Liab			
92	T11B08	Surplus Materials Write-Off Asset			(
93	T13B08	ASSET RETIREMENT OBLIGATION			(95,4
94	T13B28	LT Cap Lease Oblig-Tax Oper			1
95	T13B45	Asset Retirement Obligation - Coal Ash			(2,5
96	T13B47	LTSA - O&M Cost			3,6
97	T15A22	Mark to Market - LT			(1,2
98	T15A23	Mark to Market Reg - LT			1,0
99	T15A45	Amort Int Inc Tax Deficiency			(1,
100	T15A62	OCI Book Addback			9,
101	T15B07	Cash Flow Hedge - Reg Asset/Liab			6
102	T15B58	Storm Cost Deferral- Liab			(1,0
103	T17A02	Accrued Vacation			(4,1
104	T17A40	SEVERANCE RESERVE - LT			(2,
105	T17A54	MGP Sites			(1,2
106	T19A02	Deferred Compensation			(1,
107	T19A55	Workers Com Reserve			(1,6
108	T19A94	UNBILLED REVENUE - FUEL			(11,6
109	T19A95	Reserve for Claims			(
110	T19A96	Lawsuit Contingency			(1,
111	T19B01	FAS 5 Non-Income Tax Reserves			(7,8
112	T20A41	Rate Refunds			
113	T22A01	Emission Allowance Expense			4
114	T22A03	Gain on Emission Allowances			
115	T22A28	Retirement Plan Expense - Underfunded			(8,4
116	T22A29	Non-qualified Pension - Accrual			(5,9
117	T22A30	Retirement Plan Funding - Underfunded			2,6
118	T22A39	Unbilled Revenue			(6,
119	T22A56	Environmental Reserve			(
120	T22B13	ANNUAL INCENTIVE PLAN COMP			(3,8
121	T22B15	PAYABLE 401 (K) MATCH			(2,
122	T22B29	Tax Int Accrual - Non-cur Liab			(3,
123	T22B40	Generating Performance Incentive Factor			:
124	T22B42	Claim Reserve LT			(5,2
125	T22E02	OPEB Expense Accrual			(20,6
126	T22E06	FAS 112 Medical Expenses Accrual			(1,2
127	T22H09	Decommissioning Liability			(12,3
128	TFL050	FL Charitable Contribution Carryover			:
129	T20A38	Regulatory Asset - Deferred Plant Costs			11,2
130	Reclass from Protected (above)				61,9
131	Subtotal				141,8
132	Wholesale Generation Portion to earnings				(10,7
133	<b>Total Excess ADIT Regulatory Liability - Unprotected</b>				<b>131,0</b>
134					
135	<b><u>Earnings Credit/(Debit):</u></b>				
136	T12A04	Reverse Book Passthrough Earnings			
137	T15A66	OCI - Interest Rate Hedge			(9,
138	T15B07	Cash Flow Hedge - Reg Asset/Liab			(3,
139	T22B29	Tax Int Accrual - Non-cur Liab			3,
140	AT_OTH_282_NC_TBBS	Other Non-Current After 2018 OIL for STBS			(50,9
141	T13A04	AFUDC Interest			6,6

Total DEF

1/15/2018 10:26:15 AM			New Tax Rate	Old Tax Rate
<b>DEC</b>	Federal		21%	
SubConsolidated Deferred Balances	State		5.50%	
2018.01SEC Tax Reform, CSC4_FL	Effective State Tax Rate		25.345%	3
	Gross up factor		1.33949501	1.628
			19.85%	
Code	Name	Beginning Balance	Rate Change	
190001/2	ADIT: Prepaid: Taxes			
AT_OTH_190_NC_EPRI_Credit	Other Noncurrent After-tax DTA for EPRI Credit	4,012,808		
AT_OTH_190_NC_R&D_CREDIT	Other Noncurrent After-Tax DTA for R&D Credit	6,219,673		
AT_OTH_190_NC_Solar_ITC	Other Noncurrent After-tax DTA for Solar ITC	11,365,340		
AT_OTH_190_NC_ST	Other Non-Current AT ST DTA	150,749		
F_RGAL_190001-254100	FERC - FIT Adj Offset to Regulatory Asset (254100)	16		
F_RGAL_190001-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	5,019,858		(2.5
F_RGAL_190002-254100	FERC - SIT Adj Offset to Reg Liab	(16)		
F_RGAL_190002-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	834,712		(1
F_RGAL_ARAM_GROSSUP_190001-25410	FERC-FIT Adj Offset to Reg Liab-ARAM Gross-up	1,703,818		(8
F_RGAL_ARAM_GROSSUP_190002-25410	FERC-SIT Adj Offset to Reg Liab-ARAM Gross-up	32,223		
T11A02	Bad Debts - Tax over Book	1,969,798		(6
T11A18	Imputed Interest Income	0		
T11B06	Surplus Materials Write-off Liab	4,224		
T11B08	Surplus Materials Write-Off Asset	60,341		(
T13B08	ASSET RETIREMENT OBLIGATION	278,460,694		(95.5
T13B28	LT Cap Lease Oblig-Tax Oper	(337,770)		1
T13B45	Asset Retirement Obligation - Coal Ash	7,511,525		(2.5
T13B47	LTSA - O&M Cost	(10,551,634)		3.6
T15A22	Mark to Market - LT	3,690,432		(1.2
T15A23	Mark to Market Reg - LT	(3,070,700)		1.0
T15A45	Amort Int Inc Tax Deficiency	423,964		(1
T15A62	OCI Book Addback	(2,716,214)		9
T15B07	Cash Flow Hedge - Reg Asset/Liab	(619,732)		2
T15B58	Storm Cost Deferral- Liab	3,123,809		(1.0
T15B65	Storm Reserve	0		
T16A01	Joint Owner Settlement - NC	0		
T17A02	Accrued Vacation	12,109,407		(4.1
T17A30	Property Tax Reserves	0		
T17A40	SEVERANCE RESERVE - LT	661,049		(2
T17A54	MGP Sites	3,605,429		(1.2
T19A02	Deferred Compensation	481,237		(1
T19A55	Workers Com Reserve	4,731,964		(1.6
T19A94	UNBILLED REVENUE - FUEL	33,870,904		(11.6
T19A95	Reserve for Claims	155,264		(
T19A96	Lawsuit Contingency	355,221		(1
T19A98	Rate Settlement - LT	0		
T19B01	FAS 5 Non-Income Tax Reserves	22,765,906		(7.8
T20A41	Rate Refunds	14,916		
T22A01	Emission Allowance Expense	(1,193,910)		4
T22A03	Gain on Emission Allowances	300		
T22A28	Retirement Plan Expense - Underfunded	24,587,509		(8.4
T22A29	Non-qualified Pension - Accrual	17,388,781		(5.9
T22A30	Retirement Plan Funding - Underfunded	(7,713,412)		2.6
T22A39	Unbilled Revenue	1,892,341		(6
T22A56	Environmental Reserve	61,397		(
T22B13	ANNUAL INCENTIVE PLAN COMP	11,204,819		(3.8
T22B15	PAYABLE 401 (K) MATCH	642,646		(2
T22B29	Tax Int Accrual - Non-cur Liab	(6,697)		
T22B37	Nuclear Refueling Outage Reserve Current	0		
T22B40	Generating Performance Incentive Factor	(101,150)		
T22B42	Claim Reserve LT	15,430,000		(5.2
T22E02	OPEB Expense Accrual	80,319,358		(20.6
T22E06	FAS 112 Medical Expenses Accrual	3,717,634		(1.2

	Code	Name	Beginning Balance	Rate C
	F_RGAL_EQUITY_AFUDC_EXCESSADIT_2	FERC-FIT Offset to Reg Liab (182) Equity-AFUDC-Excess-ADIT	(132,486,264)	50
	F_RGAL_EQUITY_AFUDC_EXCESSADIT_2	FERC-SIT Offset to Reg Liab (182) Equity-AFUDC-Excess-ADIT	(22,030,974)	
	F_RGAL_SOLAR_ITC_BASIS_RED_282100	FERC-FIT Offset to Reg Liab (182) Solar Basis Reduction	75,002	
	T13A04	AFUDC Interest	(18,028,891)	6
	T13A08	Book Depreciation/Amortization	747,958,052	(256)
	T13A10	Adjustment To Book Depreciation	51,836,019	(17)
	T13A12	Book Gain/Loss on Property	365,541	
	T13A14	Contributions in Aid (CIAC's)	56,317,959	(19)
	T13A16	Cost of Removal	(19,028,840)	6
	T13A18	Capitalized Hardware/Software	967,696	
	T13A19	After Tax ADC,M&E, ITC Temporary	131,144,483	(44)
	T13A26	Tax Interest Capitalized	52,827,895	(18)
	T13A28	Tax Depreciation/Amortization	(2,176,015,552)	746
	T13A30	Tax Gains/Losses	(440,068,060)	150
	T13A51	Nuclear Fuel Book Burned	7,783,065	(2)
	T13A54	Free Basis ITC Federal Only	357,490	
	T13A75	Section 174 R&E Deduction	(17,433,045)	5
	T13A77	Repairs 481(a) (Pursuant to 3115)	(103,578,533)	35
	T13A80	Pollution Control	(119,603,040)	41
	T13B01	Long Term Service Agreement	(15,548,502)	5
	T13B09	Book Depreciation Charged to Other Accounts	10,665,598	(3)
	T13B22	Amort of Interco Gain	(9,951,587)	3
	T13B23	Non-Cash Overhead Basis Adj	19,442,888	(6)
	T13B26	Equipment Repairs - Annual Adj	(208,713,776)	71
	T13B31	Impairment of Plant Assets	40,986,255	(14)
	T13B32	T & D Repairs 481(a) (pursuant to 3115)	(11,057,278)	3
	T13B33	T & D Repairs - Annual Adj.	(145,106,162)	49
	T13B36	Internal Labor Costs	(2,026,550)	
	T13B42	Smart Grid Deferred Costs	(10,668,701)	3
	T13B43	Section 481(a) Casualty Losses	45,918,461	(15)
	T13B44	Capitalized OH - Transportation	(1,066,710)	
	T15B62	Reg Asset - COR	(185,481,694)	63
	T15B63	Reg Asset - Depreciation	11,809,930	(4)
	T22H11	Asset Retirement Costs - ARO	5,982,974	(2)
	T22H45	Asset Retirement Costs - Coal Ash	(4,120,685)	1
	TFL010	FL - Bonus Depreciation Adj.	31,431,067	6
	TFL080	FL - Depreciation Adj - ACRS VTGs	(21,058)	
	Total 282100/1		(2,309,610,635)	847
	283100/1	ADIT: Other		
	F_RGAL_EQUITY_AFUDC_GROSSUP_283	FERC-FIT Adj Offset to Reg Liab Equity-AFUDC-Gross-up	(83,415,727)	55
	F_RGAL_EQUITY_AFUDC_GROSSUP_283	FERC-SIT Adj Offset to Reg Liab Equity-AFUDC-Gross-up	(13,869,516)	6
	F_RGAL_GROSSUP_283100-182320-Solar	OTH NC After-tax DTA for Solar Basis Reduction Grossup	(878,469)	
	F_RGAL_GROSSUP_283101-182320-Solar	OTH NC After-tax DTA for Solar Basis Reduction Grossup	(146,080)	
	F_RGAL_SOLAR_ITC_BASIS_RED_GROSS	FERC-FIT Adj Offset to Reg Liab Solar ITC Basis Red Gross-up	40,387	
	F_RGAL_SOLAR_ITC_BASIS_RED_GROSS	FERC-SIT Adj Offset to Reg Liab Solar ITC Basis Red Gross-up	6,714	
	T11A23	Deferred Regulatory Cost - Non Current	(32,233,946)	11
	T12A04	Reverse Book Passthrough Earnings	(127,395)	
	T15A24	Loss on Reacquired Debt-Amort	(4,130,417)	1
	T15A58	2004 Ivan Storm Cleanup	(656,394)	
	T15B04	Reg Asset - Accr Pension FAS158 - FAS87Qual	118	
	T15B17	Reg Liab RSLI & Other Misc Dfd Costs	(67,628)	
	T15B29	Reg Asset-Pension Post Retirement PAA-FAS87Qual and Oth	(153,946,906)	52
	T15B37	Reg Asset-Pension Post Retirement PAA-FAS87NQ and Oth	(4,126,322)	1
	T15B38	Reg Asset-Pension Post Retirement PAA-FAS 106 and Oth	(18,607,666)	6
	T15B40	Reg Asset - Accr Pension FAS158 - FAS87NQ	(189,165)	
	T15B45	Reg Asset - Plant Related Retirements	(1,325,045)	
	T15B52	Storm Cost Deferral- Asset	(169,156,838)	58
	T19A58	Deferred Cost CR 3 - Reg. Asset	(466,446,430)	159
	T19A59	Dfd CR3 Dry Cask Storage Reg Asset	(42,480,937)	14
	T19A86	Deferred Fuel Asset - LT	(83,474,791)	28
	T20A38	Regulatory Asset - Deferred Plant Costs	(34,067,308)	11
	T22A23	Retirement Plan Expense - Overfunded	(40,068,719)	13
	T22H05	Non-Qualified Fund MTM Earnings	2,442,695	
	T22H07	Decommissioning Qualified Fund	(285,463,333)	97
	T22H12	ARO Regulatory Asset	(40,085,922)	12

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DEC

New Tax Rate Old Tax Rate

SubConsolidated Deferred Balances Report -  
Fed/State/FBOS (Reporting)

2018.01SEC Tax Reform, 50220\_UTILITY

Federal	21%	
State	5.50%	
Effective State Tax Rate	25.345%	
Gross up factor	1.33949501	1.62

Code	Name	Beginning Balance	Rate Ct
190001/2	ADIT: Prepaid: Taxes		
AT_OTH_190_NC_EPRI_Credit	Other Noncurrent After-tax DTA for EPRI Credit	4,012,808	
AT_OTH_190_NC_R&D_CREDIT	Other Noncurrent After-Tax DTA for R&D Credit	6,219,673	
AT_OTH_190_NC_Solar_ITC	Other Noncurrent After-tax DTA for Solar ITC	9,322,539	
AT_OTH_190_NC_ST	Other Non-Current AT ST DTA	150,749	
F_RGAL_190001-254100	FERC - FIT Adj Offset to Regulatory Asset (254100)	16	
F_RGAL_190001-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	5,019,858	(2,
F_RGAL_190002-254100	FERC - SIT Adj Offset to Reg Liab	(16)	
F_RGAL_190002-254100-Solar	Other Noncurrent After-tax DTA for Solar ITC Grossup	834,712	(
F_RGAL_ARAM_GROSSUP_190001-254100	FERC-FIT Adj Offset to Reg Liab-ARAM Gross-up	1,703,818	(
F_RGAL_ARAM_GROSSUP_190002-254100	FERC-SIT Adj Offset to Reg Liab-ARAM Gross-up	32,223	
T11A02	Bad Debts - Tax over Book	1,969,798	(67,
T11A18	Imputed Interest Income	0	
T11B06	Surplus Materials Write-off Liab	4,224	(
T11B08	Surplus Materials Write-Off Asset	60,341	(2)
T13B08	ASSET RETIREMENT OBLIGATION	278,359,503	(95,46
T13B28	LT Cap Lease Oblig-Tax Oper	(337,770)	11:
T13B45	Asset Retirement Obligation - Coal Ash	7,511,525	(2,57)
T13B47	LTSA - O&M Cost	(10,551,634)	3,61:
T15A22	Mark to Market - LT	3,690,432	(1,26:
T15A23	Mark to Market Reg - LT	(3,070,700)	1,05:
T15A45	Amort Int Inc Tax Deficiency	423,964	(14:
T15A62	OCI Book Addback	(2,716,214)	93
T15B07	Cash Flow Hedge - Reg Asset/Liab	(1,780,863)	61:
T15B58	Storm Cost Deferral- Liab	3,123,809	(1,07
T15B65	Storm Reserve	0	
T16A01	Joint Owner Settlement - NC	0	
T17A02	Accrued Vacation	12,109,407	(4,15:
T17A30	Property Tax Reserves	0	
T17A40	SEVERANCE RESERVE - LT	661,049	(22)
T17A54	MGP Sites	3,605,429	(1,23)
T19A02	Deferred Compensation	481,237	(16:
T19A55	Workers Com Reserve	4,731,964	(1,62:
T19A94	UNBILLED REVENUE - FUEL	33,870,904	(11,61:
T19A95	Reserve for Claims	155,264	(5:
T19A96	Lawsuit Contingency	355,221	(12
T19A98	Rate Settlement - LT	0	
T19B01	FAS 5 Non-Income Tax Reserves	22,765,906	(7,80
T20A41	Rate Refunds	14,916	(:
T22A01	Emission Allowance Expense	(1,193,910)	40:
T22A03	Gain on Emission Allowances	300	
T22A28	Retirement Plan Expense - Underfunded	24,587,509	(8,43:
T22A29	Non-qualified Pension - Accrual	17,388,781	(5,96:
T22A30	Retirement Plan Funding - Underfunded	(7,713,412)	2,64:
T22A39	Unbilled Revenue	1,892,341	(64:
T22A56	Environmental Reserve	61,397	(2
T22B13	ANNUAL INCENTIVE PLAN COMP	11,204,819	(3,84:
T22B15	PAYABLE 401 (K) MATCH	642,646	(22)
T22B29	Tax Int Accrual - Non-cur Liab	952,968	(32)
T22B37	Nuclear Refueling Outage Reserve Current	0	
T22B40	Generating Performance Incentive Factor	(101,150)	3-
T22B42	Claim Reserve LT	15,430,000	(5,29:
T22E02	OPEB Expense Accrual	60,419,358	(20,68
T22E06	FAS 112 Medical Expenses Accrual	3,717,634	(1,27:

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SubConsolidated Deferred Balances Report -  
Fed/State/FBOS (Reporting)

	New Tax Rate	Old Tax Rate
Federal	21%	
State	5.50%	
Effective State Tax Rate	25.345%	
Gross up factor	1.33949501	1.621

2018.01SEC Tax Reform, 50220\_UTILITY

Code	Name	Beginning Balance	Rate Ch
F_RGAL_282100-182320	FERC - FIT Adj Offset to Regulatory Liability (182320)	0	
F_RGAL_282101-182320	FERC - SIT Adj Offset to Regulatory Liability (182320)	0	
F_RGAL_ARAM_EXCESSADIT_282100-254100	FERC-FIT Adj Offset to Reg Liab-ARAM Excess ADIT	3,047,000	
F_RGAL_EQUITY_AFUDC_EXCESSADIT_282100-182	FERC-FIT Offset to Reg Liab (182) Equity-AFUDC-Excess-ADIT	(132,486,264)	50.8
F_RGAL_EQUITY_AFUDC_EXCESSADIT_282101-182	FERC-SIT Offset to Reg Liab (182) Equity-AFUDC-Excess-ADI	(22,030,974)	(5
F_RGAL_SOLAR_ITC_BASIS_RED_282100-182320	FERC-FIT Offset to Reg Liab (182) Solar Basis Reduction	75,002	
T13A04	AFUDC Interest	1,487,099	(5
T13A08	Book Depreciation/Amortization	746,944,924	(256,7
T13A10	Adjustment To Book Depreciation	19,118,836	(6,5
T13A12	Book Gain/Loss on Property	416,243	(7
T13A14	Contributions in Aid (CIAC's)	56,317,959	(19,3
T13A16	Cost of Removal	(19,028,840)	6,5
T13A18	Capitalized Hardware/Software	967,696	(3
T13A19	After Tax ADC,M&E, ITC Temporary	131,144,483	(44,5
T13A26	Tax Interest Capitalized	52,770,420	(18,0
T13A28	Tax Depreciation/Amortization	(2,045,357,639)	701,4
T13A30	Tax Gains/Losses	(440,068,060)	150,5
T13A51	Nuclear Fuel Book Burned	7,783,065	(2,6
T13A75	Section 174 R&E Deduction	(17,433,045)	5,5
T13A77	Repairs 481(a) (Pursuant to 3115)	(103,578,533)	35,5
T13A80	Pollution Control	(119,603,040)	41,0
T13B01	Long Term Service Agreement	(15,548,502)	5,3
T13B09	Book Depreciation Charged to Other Accounts	10,665,598	(3,6
T13B22	Amort of Interco Gain	(9,951,587)	3,4
T13B23	Non-Cash Overhead Basis Adj	19,442,888	(6,6
T13B26	Equipment Repairs - Annual Adj	(208,713,776)	71,5
T13B31	Impairment of Plant Assets	40,986,255	(14,0
T13B32	T & D Repairs 481(a) (pursuant to 3115)	(11,057,278)	3,7
T13B33	T & D Repairs - Annual Adj.	(145,106,162)	49,7
T13B36	Internal Labor Costs	(2,026,550)	6
T13B42	Smart Grid Deferred Costs	(10,668,701)	3,6
T13B43	Section 481(a) Casualty Losses	45,918,461	(15,7
T13B44	Capitalized OH - Transportation	(1,066,710)	3
T15B62	Reg Asset - COR	(185,481,694)	63,6
T15B63	Reg Asset - Depreciation	11,809,930	(4,0
T22H11	Asset Retirement Costs - ARO	6,068,218	(2,0
T22H45	Asset Retirement Costs - Coal Ash	(4,120,685)	1,4
TFL010	FL - Bonus Depreciation Adj.	31,325,798	6,7
TFL080	FL - Depreciation Adj - ACRS VTGs	(21,058)	
Total 282100/1		(2,313,154,373)	858,2
283100/1	ADIT: Other		
F_RGAL_EQUITY_AFUDC_GROSSUP_283100-182321	FERC-FIT Adj Offset to Reg Liab Equity-AFUDC-Gross-up	(83,415,727)	55,7
F_RGAL_EQUITY_AFUDC_GROSSUP_283101-182321	FERC-SIT Adj Offset to Reg Liab Equity-AFUDC-Gross-up	(13,869,516)	6,7
F_RGAL_GROSSUP_283100-182320-Solar	OTH NC After-tax DTA for Solar Basis Reduction Grossup	(878,469)	6
F_RGAL_GROSSUP_283101-182320-Solar	OTH NC After-tax DTA for Solar Basis Reduction Grossup	(146,080)	
F_RGAL_SOLAR_ITC_BASIS_RED_GROSSUP_283100-182320	FERC-FIT Adj Offset to Reg Liab Solar ITC Basis Red Gross-up	40,387	
F_RGAL_SOLAR_ITC_BASIS_RED_GROSSUP_283101-182320	FERC-SIT Adj Offset to Reg Liab Solar ITC Basis Red Gross-up	6,714	
T11A23	Deferred Regulatory Cost - Non Current	(32,233,946)	11,0
T12A04	Reverse Book Passthrough Earnings	(132,550)	
T15A24	Loss on Reacquired Debt-Amort	(4,130,417)	1,4
T15A58	2004 Ivan Storm Cleanup	(656,394)	2
T15B04	Reg Asset - Accr Pension FAS158 - FAS87Qual	118	
T15B17	Reg Liab RSLI & Other Misc Dfd Costs	(67,628)	
T15B29	Reg Asset-Pension Post Retirement PAA-FAS87NQ and Oth	(60,048,906)	52,7
T15B37	Reg Asset-Pension Post Retirement PAA-FAS87NQ and Oth	(4,126,322)	1,4



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DEF - Non Utility

**DEC**

SubConsolidated Deferred Balances  
2018.01SEC Tax Reform,

Code	Name	Beginning Balance	Rate Change	Ending Balance
190001/2	ADIT: Prepaid: Taxes			
T15B07	Cash Flow Hedge - Reg Asset/Liab	1,161,131	(398,231)	762,900
T22B29	Tax Int Accrual - Non-cur Liab	(959,665)	329,134	(630,530)
Total 190001/2		201,466	(69,097)	132,370
190155	Deferred Tax - NOL			
Total 190155		0	0	0
190156	Deferred Tax_State NOLs			
Total 190156		0	0	0
282100/1	ADIT: PP&E			
AT_OTH_282_NC_TBBS	Other Non-Current After-Tax DTL for TBE	0	(50,969,336)	(50,969,336)
T13A04	AFUDC Interest	(19,515,953)	6,693,352	(12,822,601)
T13A08	Book Depreciation/Amortization	678,490	(232,700)	445,789
T13A12	Book Gain/Loss on Property	(50,702)	17,389	(33,313)
T13A26	Tax Interest Capitalized	57,475	(19,712)	37,763
T13A28	Tax Depreciation/Amortization	(129,298,787)	44,345,378	(84,953,409)
Total 282100/1		(148,129,477)	(165,629)	(148,295,107)
283100/1	ADIT: Other			
T12A04	Reverse Book Passthrough Earnings	5,155	(1,768)	3,387
Total 283100/1		5,155	(1,768)	3,387

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0190001	(69,097)
0283100	(1,768)
0282100	(165,629)
0411200	236,494

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**DEC**

Deferred Balances Report - Fed/State/FBOS (Reporting)  
2018.01SEC Tax Reform, 50229 Duke Energy Florida (EC)

Code	Name	Beginning Balance	Rate Change	Ending Balance
190001/2	ADIT: Prepaid: Taxes			
Total 190001/2		0	0	0
282100/1	ADIT: PP&E			
T13A10	Adjustment To Book Depreciation	32,717,183	(11,220,955)	21,496,228
Total 282100/1		32,717,183	(11,220,955)	21,496,228
283100/1	ADIT: Other			
T20A38	Regulatory Asset - Deferred Plant Costs	(32,717,183)	11,220,955	(21,496,228)
Total 283100/1		(32,717,183)	11,220,955	(21,496,228)
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>

0282100	(11,220,955)
0283100	11,220,955
0254036 - Protected	11,220,955
0254036 - Unprotected	(11,220,955)

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**DEC**

Deferred Balances Report - Fed/State/FBOS  
2018.01SEC Tax Reform, 50250 Duke Energy

Code	Name	Beginning Balance	Rate Change	Ending Balance
190001/2	ADIT: Prepaid: Taxes			
AT_OTH_190_NC_Solar_ITC	Other Noncurrent After-tax DTA for Solar ITC	2,042,801	0	2,042,801
T13B08	ASSET RETIREMENT OBLIGATION	101,191	(34,705)	66,486
Total 190001/2		2,143,992	(34,705)	2,109,287
282100/1	ADIT: PP&E			
T13A04	AFUDC Interest	(36)	12	(24)
T13A08	Book Depreciation/Amortization	334,638	(114,770)	219,868
T13A28	Tax Depreciation/Amortization	(1,359,126)	466,137	(892,989)
T13A54	Free Basis ITC Federal Only	357,490	(142,996)	214,494
T22H11	Asset Retirement Costs - ARO	(85,244)	29,236	(56,008)
TFL010	FL - Bonus Depreciation Adj.	105,269	22,673	127,942
Total 282100/1		(647,009)	260,292	(386,717)
<b>Total</b>		1,496,983	225,587	1,722,570

<b>JE</b>	
0190001	(34,705)
0282100	260,292
0411200	(225,587)

Wholesale Fixed Rate Customer Calc.

**DE- Florida**  
**Summary of Excess Deferred Tax**

Total Excess Deferred Tax		1,034,849,429
CR3 Securitization		159,976,313
Adjusted Deferred Tax		<u>874,873,116</u>
OATT Rate Customer 3.73%	32,632,767	
Retail Customer - 88.61%	775,267,499	<u>807,900,267</u>
Wholesale Fixed Rate Customer		<b><u>66,972,849</u></b>

CR3 Securitization		(159,976,313)
Wholesale Fixed Rate Customer		<u>(66,972,849)</u>
<b>Total P&amp;L Impact</b>		<b><u>(226,949,162)</u></b>
Non Utility & Non Reg P&L		10,907

Total Protected & Unprotected Balance		(875,995,722.00)	
Protected		(734,179,568.00)	84%
Unprotected		(141,816,154.00)	16%

Wholesale Fixed Rate Customer	Protected	56,130,522.51	
	unprotected	10,842,326.83	

Wholesale rate in Unprotected Balance

			JE	
Unprotected - 190	178,782,623	-5%		(9,767,118.00)
Unprotected - 283	(313,221,393)	-5%		17,205,588
Unprotected - 282	(61,791,681)	-13%		7,925,286
Unprotected NOL - 190	60,873,085	-8%		(5,034,812)
Unprotected NOL - 190	(5,336,210)	-8%		441,358
Wholesale Fixed Rate Customer Ratio	<u>(140,693,576)</u>			<u>10,770,302</u>

Wholesale rate in protected Balance

Protected NOL - 282	(734,179,568.00)	-8%	56,202,547.00	
	-	0%	-	
Wholesale Fixed Rate Customer Ratio	<u>(734,179,568.00)</u>		<u>56,202,547.00</u>	

**Duke Energy Florida**  
**Summary of Solar ITC Rate Change**  
**OneSource Tax Provision and PeopleSoft Entries Needed**  
**December 31, 2017**

Last Updated by - SJ  
 Date - 01/15/18

@ Tax Rate 21%

@ Tax

Entry Summary

**Federal ITC**

**Record ITC, 50% basis reduction and Gross-up**

- 1a. Recognize Federal ITC
- 1b. Recognize Federal ITC Pt. 2
- 1c. Defer Federal ITC
- 2a. Gross Up Federal ITC
- 2b. Gross Up Fed ITC State Rate
- 3a. Reduce Fed Tax Basis by 50%
- 3b. Reduce Fed Tax Basis by 50% Pt. 2
- 4a. Gross-Up Fed Basis Reduction
- 4b. Gross-Up Fed Basis Reduction Pt. 2

- Dr. 236/Cr. 409
- Dr. 410/Cr. 255
- Dr. 190/Cr. 236
- Dr. 190/Cr. 254
- Dr. 190/Cr. 254
- Dr. 410/Cr. 282
- Dr. 182/Cr. 411
- Dr. 182/Cr. 283
- Dr. 182/Cr. 283

Activity	Deferred Only	Balance Sheet Only
(9,322,538)		
	(9,322,538)	
9,322,538		
		2,478,143
		686,812
	(978,867)	
	978,867	
		(260,205)
		(72,115)

Activity	Deferred
(9,322,538)	
	(9,322,538)
9,322,538	
	(1,630,000)
	1,630,000

Duke Energy Florida  
AFUDC Equity  
December 31, 2017

Tax Rate:	New Tax Rate	Old Tax Rate
Federal Tax Rate	21.00%	35.00%
State Tax Rate	5.50%	5.50%
Federal Tax Rate - Net of FBOS	19.85%	33.08%
Effective Tax Rate	25.35%	38.58%
Net of tax factor	1.33949501	1.628001628
Net of tax factor	74.66%	61.43%

**AFUDC Equity**

FAS 109 Reg Asset - AFUDC Equity Balance in EPIS	380,088,430.10	380,088,430.10
FAS 109 Reg Asset - AFUDC Equity Amort @ 12-1992	26,600,907.48	17,475,375.84
FAS 109 Reg Asset - 34% to 35% Property	4,565,002.96	4,565,002.96
<b>Total AFUDC Equity Amortization</b>	<b>411,254,340.54</b>	<b>402,128,808.91</b>
Tax Rate	25.3450%	38.5750%
Tax Effect End of Yr Bal	104,232,413	155,121,188
Gross Up Factor	133.9495%	162.8002%
Reg. Asset Balance	139,618,797	252,537,547
Bal. Per Books	256,196,645	256,196,645
Difference	(116,577,848)	(3,659,098)

AFUDC Cost Recovery	1,587,020	1,587,020
Solar Reg. Asset	2,533,889	2,533,889
2017 true ups	-	(383,000)
Variance	(120,698,757)	78,810

Rate Change Impact by Accounts:	As per above Calc.	As per OTP	State Difference
Change in Account 282	50,888,775	50,284,825	603,950
Change in Account 283	62,029,975	61,898,859	131,116
Change in Account 182	(112,918,750)		

Duke Energy Florida  
Tax Adjustments Related to ARAM  
As of December 2017

Tax Rate:	New Tax Rate		Old Tax Rate	Rate Change
Federal Tax Rate		21 00%	35 00%	
State Tax Rate		5 50%	5 50%	
Federal Tax Rate - Net of FBOS		19 85%	33 08%	
Effective Tax Rate		25 35%	38 58%	
Net of tax factor		1 33949501	1 628001628	
Net of tax factor		74 66%	61 43%	
ARAM Amortization ytd	F_ARAM_282100_411100	3,047,000	3,047,000	
Divided by (1- 2535)		<u>74 66%</u>	<u>61 43%</u>	
Gross Up		4,081,441	4,960,521	
Times Deferred Tax Rate		<u>21 00%</u>	<u>35 00%</u>	
Regulatory Liability on ARAM		<u>857,103</u>	<u>1,736,182</u>	(879,080)
	Fed	809,962	1,640,692	(830,730)
	State	47,141	95,490	(48,349)

Entries needed:	Debit	Credit	Debit	Credit
F_RGAL_ARAM_EXCESSADIT_282100_25410254100		(3,047,000)		(3,047,000)
0282100	3,047,000		3,047,000	
F_RGAL_ARAM_GROSSUP_190001_254100254100		(857,103)		(1,736,182)
0190001	857,103		1,736,182	
F_ARAM_282100-411100		(3,047,000)		(3,047,000)
0282100				
0411100	3,047,000		3,047,000	

20180047-EI Staff Hearing Exhibits 00156

As per settlement below, Unprotected ADIT will flowback to the customers over 5 years period.

adjusted operating income impacts of Tax Reform noted above. If the Tax Reform law or act is silent on the flow-back period, and there are no other statutes or rules that govern the flow-back period, then there is a rebuttable presumption that the following flow-back period(s) will apply: (1) if the cumulative regulatory liability is less than \$200 million, the flow-back period will be five years; or (2) if the cumulative regulatory liability is greater than \$200 million, the flow-back period will be ten years. DEF reserves the right to demonstrate by clear and convincing evidence that such five or ten year maximum period (as applicable) is not in the best interest of DEF's customers and should be increased to no greater than 50 percent of the remaining life of the assets associated with the Excess Deferred Taxes (referred to as the "50

**Combined Method/Life and PP&E Other**

	DEF
2018 ARAM RATE	5.34%
2019 ARAM RATE	5.25%

**Method/Life Only**

	DEF
2018 ARAM RATE	4.82%
2019 ARAM RATE	4.62%

**PP&E Other Only**

	DEF
2018 ARAM RATE	8.74%
2019 ARAM RATE	9.28%

DUKE ENERGY REGULATED UTILITIES  
 ESTIMATED ARAM WITH 21% FEDERAL RATE  
 TAX YEARS 2018 & 2019

**TOTAL REG LIABILITY**

	DEF
2017 Est Reg Liability	(782,220,202)
2018 ARAM	41,806,004
2018 Est Reg Liability	(740,414,198)
<b>% change 2018</b>	<b>5.34%</b>
2019 ARAM	41,063,249
2019 Est Reg Liability	(699,350,949)
<b>% change 2019</b>	<b>5.25%</b>

**METHOD/LIFE ONLY**

	DEF
2017 Est Reg Liability	(676,776,223)
2018 ARAM	32,593,292
2018 Est Reg Liability	(644,182,931)
<b>% change 2018</b>	<b>4.82%</b>
2019 ARAM	31,282,526
2019 Est Reg Liability	(612,900,405)
<b>% change 2019</b>	<b>4.62%</b>

**Not Method/Life**

	DEF
2017 Est Reg Liability	(105,443,979)
2018 ARAM	9,212,712
2018 Est Reg Liability	(96,231,267)
<b>% change 2018</b>	<b>8.74%</b>
2019 ARAM	9,780,723
2019 Est Reg Liability	(86,450,544)
<b>% change 2019</b>	<b>9.28%</b>

2017 ACTIVITY - PRE-TAX

PowerTax Deferred Tax Recovery By Type Report  
 Rpt # 216 1/10/2018 1:09 PM  
 DE Florida [Tax]  
 PGN ARAM Test Case  
 Tax Year: 2017

Grouped By: Total Tax Classes

Jurisdiction: Fed	Tax Recovery			Book Recovery			Basis Diff	Current Difference		Orig
	Depreciation	Loss/(Gain)	Tax Total	Depreciation	Loss/(Gain)	Book Total	Orig Diff	Depreciation	Loss/(Gain)	
<b>Fed</b>										
DEF Fed Job Creation PY Adjmt	\$3,612,049	\$0	\$3,612,049	\$0	\$0	\$0	\$0	\$3,612,049	\$0	
DEF Fed Load Mgmt Devices	(\$1,977)	\$0	(\$1,977)	\$0	\$0	\$0	\$0	(\$1,977)	\$0	
DEF Fed PGN FPC Basis	\$6,446,117	\$0	\$6,446,117	\$0	\$0	\$0	\$0	\$6,446,117	\$0	
DEF Fed RAR Adjustment	(\$15,236)	\$0	(\$15,236)	\$0	\$0	\$0	\$0	(\$15,236)	\$0	
DEF Fed TAX ADJ FED	(\$3,355,119)	\$0	(\$3,355,119)	\$0	\$0	\$0	\$0	(\$3,355,119)	\$0	
Tax Overhead	\$6,690,752	\$0	\$6,690,752	\$0	\$0	\$0	\$0	\$6,690,752	\$0	
<b>Total Tax Classes</b>	<b>\$387,352,165</b>	<b>\$34,711,499</b>	<b>\$422,063,665</b>	<b>\$605,524,967</b>	<b>\$10,584,737</b>	<b>\$616,109,704</b>	<b>\$0</b>	<b>(\$218,172,802)</b>	<b>\$24,126,762</b>	
Company/JurSubtotal:	\$387,352,165	\$34,711,499	\$422,063,665	\$605,524,967	\$10,584,737	\$616,109,704	\$0	(\$218,172,802)	\$24,126,762	
Less:										
Adjust for Partial Normalization	\$0	\$0	\$0	\$0	\$0	\$0				(\$194,046,040)
Accum Reserve Adjustments	\$0	\$0	\$0	\$0	\$0	\$0				
Transfer Activity	\$0	\$0	\$0	\$0	\$0	\$0				
Company/Jur Total:	\$387,352,165	\$34,711,499	\$422,063,665	\$605,524,967	\$10,584,737	\$616,109,704				

2018 BEGINNING DEFERRED TAX BALANCE AT THE NEW RATE - 21%

DE Florida [Tax]  
 PowerTax Deferred Tax Summary Report - Beginning FAS109  
 Rpt # 259 1/10/2018 1:10 PM  
 PGN ARAM Test Case

Grouped By: Total Tax Classes

Jurisdiction: Fed	Beginning Difference	Current Difference	Ending Difference	Beginning APB11 DFIT Balance	Current DFIT	Ending APB11 DFIT Balance	Beg FAS109 Liability @ Stat Rate	Regulator Asset Before Gross-Up
Tax Year: 2018								
DEF Fed TAX ADJ FED	(\$21,044,869)	(\$5,259,037)	(\$26,303,906)	(\$7,365,704)	(\$1,840,663)	(\$9,206,367)	(\$4,419,422)	\$0
Tax Overhead	(\$90,925,035)	\$1,275,242	(\$89,649,792)	(\$31,823,762)	\$446,335	(\$31,377,427)	(\$19,094,257)	\$0
<b>Total Tax Classes</b>	<b>\$5,748,251,094</b>	<b>(\$262,758,199)</b>	<b>\$5,485,492,895</b>	<b>\$1,955,550,504</b>	<b>(\$93,753,133)</b>	<b>\$1,861,797,371</b>	<b>\$1,207,132,730</b>	<b>\$33,802,420</b>
Jurisdiction Totals:	\$5,748,251,094	(\$262,758,199)	\$5,485,492,895	\$1,955,550,504	(\$93,753,133)	\$1,861,797,371	\$1,207,132,730	\$33,802,420

REG LIAB

2018 ACTIVITY - PRE-TAX

PowerTax Deferred Tax Recovery By Type Report  
 Rpt # 216 1/10/2018 1:10 PM

Less:						
Adjust for Partial Normalization	\$0	\$0	\$0	\$0	\$0	\$0
Accum Reserve Adjustments	\$0	\$0	\$0	\$0	\$0	\$0
Transfer Activity	\$0	\$0	\$0	\$0	\$0	\$0
Company/Jur Total:	\$350,757,937	\$0	\$350,757,937	\$613,516,136	\$0	\$613,516,136

\$262,758,199

2018 ENDING DEFERRED TAX BALANCE AT THE NEW RATE - 21%

PowerTax Deferred Tax Summary Report  
Rpt # 257 1/9/2018 9:15 AM  
PGN ARAM Test Case  
DE Florida [Tax]

Grouped By: Total Tax Classes

Jurisdiction: Fed	Beginning Difference	Current Difference	Ending Difference	Beginning APB11 DFIT Balance	Current DFIT	Ending APB11 DFIT Balance	End FAS109 Liability @ Stat Rate	Regulatory Asset Before Gross-Up	F
Tax Year: 2018									
DEF Fed TAX ADJ FED	(\$21,044,888.58)	(\$5,259,037.04)	(\$26,303,905.62)	(\$7,365,704.02)	(\$1,840,662.98)	(\$9,206,367.00)	(\$5,523,820.18)	\$0.00	\$3,
Tax Overhead	(\$90,925,034.68)	\$1,275,242.34	(\$89,649,792.34)	(\$31,823,761.95)	\$446,334.84	(\$31,377,427.11)	(\$18,826,456.39)	(\$0.01)	\$12,
<b>Total Tax Classes</b>	<b>\$5,748,251,093.56</b>	<b>(\$262,758,199.05)</b>	<b>\$5,485,492,894.51</b>	<b>\$1,955,550,504.01</b>	<b>(\$93,753,132.57)</b>	<b>\$1,861,797,371.44</b>	<b>1,151,953,507.85</b>	<b>\$30,570,334.12</b>	<b>(\$740,4</b>
Jurisdiction Totals:	\$5,748,251,093.56	(\$262,758,199.05)	\$5,485,492,894.51	\$1,955,550,504.01	(\$93,753,132.57)	\$1,861,797,371.44	1,151,953,507.85	\$30,570,334.12	(\$740,4

REG LIAB (7)

2019 ACTIVITY - PRE-TAX

PowerTax Deferred Tax Recovery By Type Report  
Rpt # 216 1/10/2018 1:15 PM  
DE Florida [Tax]  
PGN ARAM Test Case  
Tax Year: 2019

Grouped By: Total Tax Classes

Jurisdiction: Fed	Tax Recovery			Book Recovery			Basis Diff	Current Difference		Orig
	Depreciation	Loss/(Gain)	Tax Total	Depreciation	Loss/(Gain)	Book Total	Orig Diff	Depreciation	Loss/(Gain)	

2019 ENDING DEFERRED TAX BALANCE AT THE NEW RATE - 21%

PowerTax Deferred Tax Summary Report  
Rpt # 257 1/9/2018 9:24 AM  
PGN ARAM Test Case  
DE Florida [Tax]

Grouped By: Total Tax Classes

Jurisdiction: Fed	Beginning Difference	Current Difference	Ending Difference	Beginning APB11 DFIT Balance	Current DFIT	Ending APB11 DFIT Balance	End FAS109 Liability @ Stat Rate	Regulatory Asset Before Gross-Up	F Li
Tax Year: 2019									
DEF Fed TAX ADJ FED	(\$26,308,905.62)	(\$4,219,289.50)	(\$30,528,195.12)	(\$9,206,387.00)	(\$1,475,751.31)	(\$10,682,138.31)	(\$6,409,870.98)	\$0.00	\$4.
Tax Overhead	(\$89,649,792.34)	\$2,061,492.92	(\$87,588,299.42)	(\$31,377,427.11)	\$721,522.51	(\$30,655,904.60)	(\$18,393,542.88)	(\$0.01)	\$12.
<b>Total Tax Classes</b>	<b>\$5,485,492,894.51</b>	<b>(\$289,343,811.05)</b>	<b>\$5,196,149,083.46</b>	<b>\$1,861,797,371.44</b>	<b>(\$98,379,515.61)</b>	<b>\$1,763,417,855.83</b>	<b>1,091,191,307.53</b>	<b>\$27,124,401.02</b>	<b>(\$689.3)</b>
Jurisdiction Totals:	\$5,485,492,894.51	(\$289,343,811.05)	\$5,196,149,083.46	\$1,861,797,371.44	(\$98,379,515.61)	\$1,763,417,855.83	1,091,191,307.53	\$27,124,401.02	(\$689.3)

REG LIAB (6)

DE Florida [Tax]  
PowerTax Deferred Tax Summary Report - Beginning FAS109  
Rpt # 259 1/18/2018 9:44 AM  
ARAM PGN Test Case

Grouped By: Total Tax Classes

Jurisdiction: Fed	Beginning Difference	Current Difference	Ending Difference	Beginning APB11 DFIT Balance	Current DFIT	Ending APB11 DFIT Balance	Beg FAS109 Liability @ Stat Rate	Regulatory Asset Before Gross-Up
Tax Year: 2018								
DEF Fed M/L	\$4,851,648,788	(\$183,756,866)	\$4,667,891,922	\$1,698,077,076	(\$71,489,488)	\$1,626,587,588	\$1,018,846,246	(\$0)
Depreciation Difference	\$4,851,648,788	(\$183,756,866)	\$4,667,891,922	\$1,698,077,076	(\$71,489,488)	\$1,626,587,588	\$1,018,846,246	(\$0)

PowerTax Deferred Tax Summary Report  
Rpt # 257 1/18/2018 9:45 AM  
ARAM PGN Test Case  
DE Florida [Tax]

Grouped By: Total Tax Classes

Jurisdiction: Fed	Beginning Difference	Current Difference	Ending Difference	Beginning APB11 DFIT Balance	Current DFIT	Ending APB11 DFIT Balance	End FAS109 Liability @ Stat Rate	Regulatory Asset Before Gross-Up
Tax Year: 2018								
DEF Fed M/L	\$4,851,648,788	(\$183,756,866)	\$4,667,891,922	\$1,698,077,076	(\$71,489,488)	\$1,626,587,588	\$980,257,304	(\$0)
Depreciation Difference	\$4,851,648,788	(\$183,756,866)	\$4,667,891,922	\$1,698,077,076	(\$71,489,488)	\$1,626,587,588	\$980,257,304	(\$0)

Memo

DEF's Response to OPC's 1st PODs (1-5)  
Q5

Date: February 8, 2018  
To: Deloitte  
From: Javier Portuondo  
Subject: Duke Energy Florida (DEF) Excess Accumulated Deferred Income Taxes (ADIT) Not Subject to Refund

The following excess ADIT amounts resulting from the 2017 Tax Cuts and Jobs Act are not subject to refund to ratepayers:

1. **CR3 Regulatory Asset \$159,976,313**: This amount represents the excess ADIT on the CR3 regulatory asset that was securitized in June 2016. DEF's 2017 Settlement Agreement (approved by the FPSC in Order No. PSC-2017-0451-AS-EI on Nov 20, 2017) Paragraph 5.e. states:

DEF shall continue to exclude the following amounts related to CR3 from all earnings surveillance reports: (1) revenues associated with the recovery of the CR3 Regulatory Asset including the components referenced in Paragraph 9 and the amount of the excluded portion of the asset referenced in the first sentence of Paragraph 32; (2) rate base and Operating and Maintenance ("O&M") expense amounts (including, but not limited to, all amounts that have been deferred to or recorded in regulatory assets and liabilities); and (3) cost of capital accounts with specific adjustments for items including, but not limited to, deferred income taxes, with all other CR3-related items removed from capital structure on a pro-rata basis. All costs that are being recovered as part of the nuclear asset-recovery bonds shall be excluded from the earnings surveillance reports.

Exclusion from all earnings surveillance reports is synonymous with exclusion from retail cost of service filings. Since the excess ADIT on the CR3 Regulatory Asset will not be returned to customers, this amount was recorded in December 2017 as a credit to income tax expense.

2. **Wholesale Generation Sales \$66,972,849**: This amount represents the excess ADIT allocated to wholesale electricity sales contracts. These contracts are all fixed rate contracts, and as such, they do not have provisions to flow back excess ADIT to customers.

Sincerely,

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Javier J. Portuondo  
(Managing Director of Rates & Regulatory Strategy- FL)

Cc: Stephen DeMay – SVP Tax and Treasurer  
Harry Sideris – Florida State President  
Bill Currens – SVP Chief Accounting Officer and Controller

2/13/18

DEF Rates and Regulatory Strategy  
Tax Reform Flow Back White Paper

**Issue:** The Tax Cuts and Jobs Act (TCJA), effective January 2018, lowers the corporate federal income tax rate from 35% to 21%. What are the impacts to DEF and customers, and what is the amount and process for flowing back the savings to customers? What will the initial and ongoing journal entries be?

**2017 Settlement:** DEF's 2017 Revised and Restated Settlement Agreement ("Settlement") includes provisions in Paragraph 16 (see Attachment A) that address tax reform as follows:

- **Federal Income Tax Expense Reduction:**  
In the first year that tax reform becomes effective (2018), DEF will use its retail-adjusted forecasted earnings surveillance report (filed in March with the FPSC and based on the 2017 12&0 v3, which is the version that will include removal of the storm surcharge and removal of the tax savings reduction to base rates as further explained below) to calculate the impact on FPSC-adjusted retail net operating income with and without tax reform. Exhibit 6 to the Settlement (see Attachment D) provides a template for DEF to complete and submit to the FPSC. Per the Settlement, the savings will be flowed back to customers via a one-time base rate decrease until the next rate case (which is effective after Dec 2021), except that DEF may retain up to the lower of 40% of the tax benefit or \$50 million pretax to accelerate the depreciation of CR4&5.
- **Excess Accumulated Deferred Federal Income Taxes (ADFIT):**  
The flow back period must be consistent with law. However, if there are no laws governing the flow-back period, then if excess ADIT is less than \$200 million, the flow-back period is 5 years and if excess ADIT is greater than \$200 million, the flow-back period is 10 years.

**2018 Settlement Implementation Stipulation:** On Feb. 6, 2018, the FPSC approved an Implementation Stipulation (see Attachment B) that allows DEF to apply the savings from the TCJA to the storm reserve deficiency that resulted from Hurricane Irma in September 2017. DEF will file for approval of the TCJA savings in April 2018 and file for the final amount of storm costs in May 2018. Beginning in January 2018, DEF will debit O&M expense and credit the storm reserve as an offset to the TCJA savings. Once the Commission approves the final tax savings and storm costs (later in 2018), DEF will true-up the O&M expense entries back to January 2018 to reflect the amount of Commission-approved tax savings. (Note, DEF will also adjust the storm reserve balance to reflect the final Commission-approved storm costs, with an offset likely to O&M expense.) DEF will continue to make these journal entries until all Commission-approved storm costs have been recovered, expected to be sometime in 2021, at which time DEF will provide a one-time base rate decrease to reflect the exact amount of tax savings that will have been approved by the Commission in 2018.

**Federal Income Tax Expense Reduction:** DEF will complete the template in Exhibit 6 to the Settlement (see Attachment D) and submit it to the FPSC in April for review and approval. DEF's forecasted earnings surveillance report calculates retail base rate earnings after adjusting out wholesale, retail pass through clauses, AFUDC debt/equity, expenses deemed non-recoverable by the FPSC, and non-regulated earnings. A very preliminary estimate of the tax savings impact on revenue requirements is shown in Attachment E. The

2/13/18

DEF Rates and Regulatory Strategy  
Tax Reform Flow Back White Paper

pretax benefit shown on line 51 is \$140 million, of which DEF will retain \$50 million to accelerate CR4&5 depreciation and return \$90 million to customers. Absent the Implementation Stipulation, a one-time rate reduction would have been implemented to reduce revenues by this \$90 million (plus the amount of excess ADIT flow back as explained below). As a result of the Implementation Stipulation, DEF will instead recover the storm reserve deficiency by debiting O&M expense for this amount (plus the excess ADIT flow back amount) and crediting the storm reserve as described in the "2018 Settlement Implementation Stipulation" section above.

Income tax expense on retail clause earnings in 2018 is projected to be approx. \$3-4 million. Any tax reform favorable impact would be passed through to customers dollar for dollar each year. There are no provisions in the Settlement to retain any tax favorability in pass-through clauses.

Any retail base rate increases during the term of the Settlement (i.e. multi-year, SoBRAs and Citrus GBRAs) that DEF implements must reflect the new statutory tax rate.

Wholesale customers are made up of OATT sales (under formula rates) and electricity sales (under fixed price contracts). The OATT formula rates will be adjusted to reflect the appropriate federal corporate income tax rate, but the fixed price contracts will not be amended. Any prospective wholesale fixed price contracts will reflect the appropriate corporate income tax rate.

**Excess Accumulated Deferred Income Taxes (ADIT) at Dec 2017:** The Tax Department has identified the amount of excess ADIT as of Dec 2017 that is:

- protected (depreciation related, protected by IRS normalization regulations) vs. unprotected,
- likely to be returned to customers (regulatory liability) vs. not likely to be returned to customers (earnings), and
- the gross-up amount per FAS 109 (debit ADIT, credit regulatory liability)

See Attachment F for a breakdown of the December 2017 journal entry to record the excess ADIT. Line 5 shows the estimated retail amount and line 6 shows the estimated OATT amount of protected and unprotected excess ADIT.

The excess ADIT amounts that were taken directly to earnings (see lines 18 and 45) include two main components that are not subject to flow back as follows:

- **Deferred CR3 Regulatory Asset \$159,976,313 (see line 27)** – This amount represents the excess ADIT on the CR3 regulatory asset that was securitized in June 2016. Settlement Paragraph 5.e. (see Attachment C) states:

"DEF shall continue to exclude the following amounts related to CR3 from all earnings surveillance reports...and (3) cost of capital amounts with specific adjustments for items including, but not limited to, deferred income taxes, with all other CR3-related items removed from capital structure on a pro-

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rata basis. All costs that are being recovered as part of the nuclear asset-recovery bonds shall be excluded from the earnings surveillance reports.”

Exclusion from all earnings surveillance reports is synonymous with exclusion from retail rate cases. Since the excess ADIT on the CR3 Regulatory Asset will not be returned to customers, this amount was recorded in December 2017 as a credit to income tax expense.

- Wholesale Generation Sales \$66,972,849 (see line 25) – This amount represents the excess ADIT allocated to wholesale electricity sales contracts. These contracts are all fixed rate contracts, and as such, they do not have any provisions to flow back excess ADIT to customers.

**Ongoing Journal Entries:** The following represents an example of day 1 and ongoing journal entries related to excess ADIT:

Excess FIT:	Balance Sheet			Income Statement	
	190 - ADFIT	282 - ADFIT	254 - Reg Liab	411 - DFIT	
ADIT @ 12/31/17		1,000			
Day 1 - Move Base Excess		400	400		
Day 1 - Gross Up Excess	106		106		
Day 2 - Amortize Base Excess			80		80
Day 2 - Amortize Gross Up	21		21		
Balances at 12/31/18	85	600	405		80

Simplifying Assumptions: All ADIT is in account 282, and all is unprotected and will be amortized over 5 years.

The retail amortization and flow back of the protected ADIT will be calculated by the Tax department based on the first year ARAM. The retail amortization and flow back of the unprotected portion will be calculated straight line over 5 years, since the retail balance is less than \$200 million (see “2017 Settlement” section above). The calculation of the total retail flow back amounts, including both the excess ADIT and the refund of the annual tax savings per Settlement Exhibit 6, is shown in the first table in Attachment G. The second table in Attachment G provides the ongoing annual net income impact of all JE’s related to TCJA and storm.

**Tentative Timeline for Filing TCJA Savings with FPSC:**

Date	Action
04/30/2018	File petition reflecting tax savings calculation with supporting detail
May-Jun 2018	Period for data requests
07/24/2018	Staff recommendation
08/07/2018	Agenda
08/21/2018	PAA Order approving petition
09/11/2018	Consummating Order if no protest within 21 days

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Attachment A (1 of 2)  
2017 Settlement Agreement Paragraph 16

Federal Corporate Income Tax Changes:

16.

a. Federal or state corporate income tax changes ("Tax Reform") can take many forms, including changes to tax rates, changes to deductibility of certain costs, and changes to the timing of deductibility of certain costs. Therefore the impact of Tax Reform could impact the effective tax rate recognized by DEF in FPSC adjusted reported net operating income and the measurement of existing and prospective deferred federal income tax assets and liabilities reflected in the FPSC adjusted capital structure. When Congress last reduced the maximum federal corporate income tax rate in the Tax Reform Act of 1986, it included a transition rule that, as an eligibility requirement for using accelerated depreciation with respect to public utility property, specified the method and period for returning to customers the portion of the resulting excess deferred income taxes attributable to the use of accelerated depreciation. To the extent Tax Reform includes a transition rule applicable to excess deferred federal income tax assets and liabilities ("Excess Deferred 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 will be governed by the Tax Reform transition rule.

b. If Tax Reform is enacted before DEF's next general base rate proceeding, DEF will quantify the impact of Tax Reform on its Florida Jurisdictional base revenue requirement as projected in DEF's forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective. DEF will also adjust base rate adjustments that have not yet gone into effect to specifically account for Tax Reform. The impacts of Tax Reform on base revenue requirements will be flowed back to retail customers, except that each year throughout the term of this 2017 Second Revised and Restated Settlement Agreement 40% of such impacts, up to \$50 million pre-tax, would be recorded as an acceleration of depreciation expense associated with Crystal River Units 4 and 5, thereby reducing the FPSC-adjusted net operating income impact of Tax Reform by up to the after-tax impact of this accelerated depreciation. All remaining base rate impacts of Tax Reform will be flowed back to customers, within 120 days of when the Tax Reform becomes law, through a one-time adjustment to base rates upon a thorough review of the effects of the tax reform on base revenue requirements. This one-time adjustment shall be accomplished through a uniform percentage decrease to customer, demand and energy base rate charges, excluding delivery voltage credits, for all retail customer classes. Any effects of tax reform on retail revenue requirements from the effective date through the date of the one-time base rate adjustment shall be flowed back to customers through the CCR Clause on the same basis as used in any base rate adjustment. An illustration is included as Exhibit 6. If Tax Reform results in an increase in base revenue requirements, DEF will utilize deferral accounting as permitted by the Commission, thereby neutralizing the FPSC adjusted net operating income impact of the Tax Reform to a net zero, through the Term of this 2017 Second Revised and Restated Settlement Agreement. In this situation, DEF shall defer the revenue requirement impacts to a regulatory asset to be considered for prospective recovery in a change to base rates to be addressed in DEF's next base rate proceeding or in a limited scope proceeding before the Commission no sooner than the

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Attachment A (2 of 2)  
2017 Settlement Agreement Paragraph 16

expiration of this 2017 Second Revised and Restated Settlement Agreement.

c. Excess Deferred Taxes shall be deferred to a regulatory asset or liability which shall be included in FPSC adjusted capital structure and flowed back to customers over a term consistent with law. If the same Average Rate Assumption Method used in the Tax Reform Act of 1986 is prescribed, then the regulatory asset or liability will be flowed back to customers over the remaining life of the assets associated with the Excess Deferred Taxes subject to the provisions related to FPSC adjusted operating income impacts of Tax Reform noted above. If the Tax Reform law or act is silent on the flow-back period, and there are no other statutes or rules that govern the flow-back period, then there is a rebuttable presumption that the following flow-back period(s) will apply: (1) if the cumulative regulatory liability is less than \$200 million, the flow-back period will be five years; or (2) if the cumulative regulatory liability is greater than \$200 million, the flow-back period will be ten years. DEF reserves the right to demonstrate by clear and convincing evidence that such five or ten year maximum period (as applicable) is not in the best interest of DEF's customers and should be increased to no greater than 50 percent of the remaining life of the assets associated with the Excess Deferred Taxes (referred to as the "50 Percent Period"). The relevant factors to support DEF's demonstration include, but are not limited to, the impact the flow-back period would have on DEF's cash flow and credit metrics or the optimal capitalization of DEF's jurisdictional operations in Florida. If DEF can demonstrate, by clear and convincing evidence, that limiting the flow-back period to the 50 Percent Period, in conjunction with the other Tax Reform provisions related to deferred taxes within this 2017 Revised and Restated Settlement Agreement, will be the sole basis for causing a full notch credit downgrade by each of the major rating agencies (i.e. Standard & Poor's and Moody's), the Commission shall be authorized to permit a longer flow-back period.

Attachment B (1 of 2)  
2018 Settlement Implementation Stipulation

Implementation Stipulation

1. The 2017 Second Revised and Restated Settlement Agreement ("Agreement") was approved by the Commission in Order No. PSC-2017-0451-AS-EU. As explained more fully below, the signatories to the Agreement enter into this Stipulation to implement specific provisions related to the timing of rate treatment of certain events contemplated in the Agreement that have become manifest (i.e., storm restoration costs and federal tax reform).
2. Paragraph 38(c) of the Agreement grants Duke Energy Florida, LLC ("DEF") the right to recover, on an interim basis, storm damage costs sixty days after filing a petition with the Commission. Pursuant to this paragraph, on December 28, 2017, DEF filed for the recovery of \$513 million estimated for storm damage costs associated with Hurricanes Irma and Nate and replenishment of DEF's retail storm damage reserve to the level specified in the Agreement. To reduce rate impacts to customers, DEF proposed to recover this amount over three years, resulting in approximately \$171 million of costs to be recovered from customers annually starting in March 2018. The Commission has opened Docket No. 20170272-EI to consider DEF's request.
3. Paragraph 16 of the Agreement provides a mechanism for calculating and implementing the impact of tax reform on DEF's rates, which will inure to the benefit of customers on the effective date of tax reform changes. On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("Tax Act") into law. Part of the Tax Act includes a reduction in the corporate tax rate from 35 percent to 21 percent. DEF, using the methodologies set forth in Paragraphs 16(b) and 16(c) of the Agreement, has preliminarily estimated the impact of the Tax Act to result in a reduction in revenue requirements of approximately \$135 million per year (after taking into account the \$50 million accelerated depreciation of Crystal River ("CR") Units 4 and 5 as expressly provided in the Agreement). DEF and the other signatories to the Agreement agree that the \$135 million estimated annual Tax Act revenue requirement impact is based on preliminary data and is subject to final true-up. As specified in the Agreement, DEF is obligated to reduce customer base rates within 120 days of the December 22, 2017 enactment date, or by April 21, 2018, upon a thorough review of the effects of the Tax Act on base revenue requirements to account for the impacts of the Tax Act. Any final true-up associated with further refinement of the estimate and recognition of the pre-implementation will be reflected in the amount recognized consistent with paragraph 5 below.
4. The storm damage costs are allocated to customer rate classes in the same manner as base rates. Absent this Implementation Stipulation, DEF would be authorized to increase rates by an average of \$171 million per year starting in March 2018, and would subsequently reduce base rates at a later date in 2018 by an estimated \$135 million per year. The Signatory Parties seek to avoid this volatility in customer rates and agree that DEF should effectively utilize the annual Tax Act benefits to avoid implementing the charge to customers for storm damage costs that they would have otherwise been obligated to pay. To accomplish this goal, DEF shall, after Commission approval of the tariff, withdraw the tariff sheets it filed with its December 28, 2017 filing (i.e., the tariff surcharge shall never become effective). Because those tariff sheets also included the impact of the Asset Securitization Charge True-Up (Docket 2015071-EI), DEF shall

Attachment B (2 of 2)

2018 Settlement Implementation Stipulation (cont.)

simultaneously submit revised tariff sheets to reflect only the changes associated with the Asset Securitization Charge True-Up.

5. Based on the current storm restoration cost estimates, which are subject to change pending a final Commission order in Docket No. 20170272-EI and the yet-to-be filed docket regarding the Tax Act, DEF projects that the full estimated storm costs shall be recovered by approximately mid-2021. The signatories agree that DEF shall be entitled to record a monthly storm reserve accrual equal to one-twelfth of the annual Commission-approved revenue requirement impact of the Tax Act and credit the retail storm reserve from January 2018 through full recovery of the final Commission-approved actual storm recovery amount, and that a specific condition of the net bill impacts of this stipulation is that the Commission will issue an order explicitly authorizing such action. The signatories agree that once the final Commission-approved actual storm recovery amount has been recovered, DEF shall reduce base rates in the manner prescribed in the Agreement and commensurate with the Commission-approved Tax Act savings beginning in the month following the final month of storm recovery (including reserve replenishment). DEF agrees to file tariff sheets at least 60 days before this date to reflect the reduced rates.
6. All signatories maintain and do not waive their rights to raise any argument that is allowed under the Agreement with respect to the reasonable and prudent level of storm damage costs and the calculation of the Tax Act impacts. It is the intent of the parties, and a condition of this stipulation, that the two distinct proceedings contemplated in Paragraphs 38(c) and 16 shall be conducted as if this stipulation did not exist and that final determinations of actual storm costs and tax savings be made independently and separately.
7. The parties intend that the storm damage costs be transparent and ascertainable on a stand alone basis and that the benefits of the Tax Act impacts be transparent and ascertainable on a stand alone basis. DEF shall file quarterly a storm cost overview which accounts and reports on the storm damage costs, the costs remaining to be satisfied, the projected date such costs will be satisfied and the amount of Tax Act savings applied to storm damage costs.

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Attachment C

2017 Settlement Agreement Paragraph 5.e.

e. DEF shall continue to exclude the following amounts related to CR3 from all earnings surveillance reports: (1) revenues associated with the recovery of the CR3 Regulatory Asset including the components referenced in Paragraph 9 and the amount of the excluded portion of the asset referenced in the first sentence of Paragraph 32; (2) rate base and Operating and Maintenance ("O&M") expense amounts (including, but not limited to, all amounts that have been deferred to or recorded in regulatory assets and liabilities); and (3) cost of capital accounts with specific adjustments for items including, but not limited to, deferred income taxes, with all other CR3-related items removed from capital structure on a pro-rata basis. All costs that are being recovered as part of the nuclear asset-recovery bonds shall be excluded from the earnings surveillance reports.

**Attachment D**  
**2017 Settlement Exhibit 6**

Second Revised and Restated  
Stipulation and Settlement Agreement  
Exhibit 6  
Page 1 of 1

**Methodology of Income Tax Change (Illustrative)**

		Scenario A	Scenario B	Scenario C	Scenario D	
<b>INCOME TAX INPUTS AND ASSUMPTIONS</b>						
2	New federal statutory tax rate	Input	35%	30%	30%	20%
3	Current federal statutory tax rate	Given	35%	35%	35%	35%
4	Current State statutory tax rate	Given	5.5%	5.5%	5.5%	5.5%
5	New combined federal & state statutory tax rate	Line 2 + Line 4 - (Line 2 x Line 4)	38.6%	33.9%	33.9%	24.4%
6	Current combined federal & state statutory tax rate	Line 3 + Line 4 - (Line 3 x Line 4)	38.6%	38.6%	38.6%	38.6%
7	Disallowed Interest (or other) expense deduction	Input	-	200	-	-
<b>PARAGRAPH 12 - MULTIYEAR INCREASE</b>						
10	Base rate revenue increase	Given	67	67	67	67
11	Income tax at current statutory tax rate	Line 6 x Line 10	26	26	26	26
12	FPSC Adjusted NOI impact	Line 10 - Line 11	41	41	41	41
13	Gross up factor at new statutory tax rate	1 - Line 5	61.4%	66.2%	66.2%	75.6%
14	Revenue requirement at new statutory tax rate	Line 12 / Line 13	67	62	62	54
<b>PARAGRAPH 16 - TAX REFORM SHARING</b>						
<b>Step 1 - Calculate income tax expense BEFORE tax reform</b>						
18	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	1,200	1,200	1,200	1,200
19	Less interest expense	Input	(200)	(200)	(200)	(200)
20	Permanent differences	Input	(50)	(50)	(50)	(50)
21	FPSC adjusted taxable income	Sum of Lines 18 through 20	950	950	950	950
22	Current combined statutory tax rate	Line 6	38.6%	38.6%	38.6%	38.6%
23	Income tax expense	Line 21 x Line 22	366	366	366	366
<b>Step 2 - Calculate income tax expense AFTER tax reform</b>						
26	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	1,200	1,200	1,200	1,200
27	Less interest expense	Input	(200)	-	(200)	(200)
28	Permanent differences	Input	(50)	(50)	(50)	(50)
29	FPSC adjusted taxable income	Sum of Lines 26 through 28	950	1,150	950	950
30	New combined statutory tax rate	Line 5	38.6%	33.9%	33.9%	24.4%
31	Income tax expense	Line 29 x Line 30	366	389	322	232
<b>Step 3 - Calculate impact on FPSC Adjusted NOI</b>						
34	Income tax expense BEFORE tax reform - Step 1	Line 23	366	366	366	366
35	Income tax expense AFTER tax reform - Step 2	Line 31	366	389	322	232
36	Difference - FPSC Adjusted NOI increase/(decrease) from tax reform	Line 34 - Line 35	-	(23)	45	135
<b>Step 4 - Calculate adjustment for base rate increases implemented at new combined statutory tax rate</b>						
39	Multi-year increase	Line 14	67	62	62	54
40	Solar base rate adjustment	Input	tbd	tbd	tbd	tbd
41	GBRA	Input	tbd	tbd	tbd	tbd
42	Subtotal	Sum Lines 39 through 41	67	62	62	54
43	Change in combined statutory tax rate	Line 5 - Line 6	0.0%	-4.7%	-4.7%	-14.2%
44	Adj. for base rate increases at new combined statutory tax rate	Line 42 x Line 43	-	(3)	(3)	(8)
<b>Step 5 - Calculate net favorable/(unfavorable) FPSC adjusted NOI impact</b>						
47	Impact on NOI - Step 3	Line 36	-	(23)	45	135
48	Impact on NOI - Step 4	Line 44	-	(3)	(3)	(8)
49	Net favorable/(unfavorable) FPSC adjusted NOI impact - after tax	Line 47 + Line 48	-	(26)	42	127
50	Divide by one minus new combined statutory tax rate	1 - Line 5	61%	66%	66%	76%
51	Net favorable/(unfavorable) FPSC adjusted NOI impact - pretax	Line 49 / Line 50	-	(39)	63	168
<b>Step 6 - Calculate annual pretax impacts</b>						
54	Annual CRA&S accelerated depreciation	If Line 51 > 0, then Line 51 x 40%, up to \$50m	-	-	25	50
55	Annual flowback to customers	If Line 51 > 0, then Line 51 - Line 54	-	-	38	118
56	Annual deferral to Regulatory Asset	If Line 51 < 0, then Line 51	-	(39)	-	-
57	Total	Sum Lines 54 through 56, ties to Line 51	-	(39)	63	168

**Attachment E**

**Example Tax Flow Back Using 2017 8&4v2 for 2018 Forecasted Surveillance (\$ millions)**

Methodology of Income Tax Change (Illustrative) (\$ millions)			8&4v2 2018 Surveillance
<b>INCOME TAX INPUTS AND ASSUMPTIONS</b>			
2	New federal statutory tax rate	Input	21 000%
3	Current federal statutory tax rate	Given	35 000%
4	Current State statutory tax rate	Given	5 500%
5	New combined federal & state statutory tax rate	Line 2 + Line 4 - (Line 2 x Line 4)	25 345%
6	Current combined federal & state statutory tax rate	Line 3 + Line 4 - (Line 3 x Line 4)	38 575%
7	Disallowed interest (or other) expense deduction	Input	-
<b>PARAGRAPH 12 - MULTIYEAR INCREASE</b>			
10	Base rate revenue increase	Given	-
11	Income tax at current statutory tax rate	Line 6 x Line 10	-
12	FPSC Adjusted NOI impact	Line 10 - Line 11	-
13	Gross up factor at new statutory tax rate	1 - Line 5	74.655%
14	Revenue requirement at new statutory tax rate	Line 12 / Line 13	-
<b>PARAGRAPH 16 - TAX REFORM SHARING</b>			
<b>Step 1 - Calculate income tax expense BEFORE tax reform</b>			
18	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	1,026
19	Less interest expense	Input	(218)
20	Permanent differences	Input	1
21	FPSC adjusted taxable income	Sum of Lines 18 through 20	808
22	Current combined statutory tax rate	Line 6	38 575%
23	Income tax expense	Line 21 x Line 22	312
<b>Step 2 - Calculate income tax expense AFTER tax reform</b>			
26	FPSC adjusted NOI before tax (per Forecasted Surveillance)	Input	1,026
27	Less interest expense	Input	(218)
28	Permanent differences	Input	1
29	FPSC adjusted taxable income	Sum of Lines 26 through 28	808
30	New combined statutory tax rate	Line 5	25 345%
31	Income tax expense	Line 29 x Line 30	205
<b>Step 3 - Calculate impact on FPSC Adjusted NOI</b>			
34	Income tax expense BEFORE tax reform - Step 1	Line 23	312
35	Income tax expense AFTER tax reform - Step 2	Line 31	205
36	Difference - FPSC Adjusted NOI increase/(decrease) from tax reform	Line 34 - Line 35	107
<b>Step 4 - Calculate adjustment for base rate increases implemented at new combined statutory tax rate</b>			
39	Multi-year increase	Line 14	-
40	Solar base rate adjustment	Input	tbd
41	GBRA	Input	20
42	Subtotal	Sum Lines 39 through 41	20
43	Change in combined statutory tax rate	Line 5 - Line 6	-13 230%
44	Adj. for base rate increases at new combined statutory tax rate	Line 42 x Line 43	(3)
<b>Step 5 - Calculate net favorable/(unfavorable) FPSC adjusted NOI impact</b>			
47	Impact on NOI - Step 3	Line 36	107
48	Impact on NOI - Step 4	Line 44	(3)
49	Net favorable/(unfavorable) FPSC adjusted NOI impact - after tax	Line 47 + Line 48	104
50	Divide by one minus new combined statutory tax rate	1 - Line 5	74.655%
51	Net favorable/(unfavorable) FPSC adjusted NOI impact - pretax	Line 49 / Line 50	140
<b>Step 6 - Calculate annual pretax impacts</b>			
54	Annual CR4&5 accelerated depreciation	If Line 51 > 0, then Line 51 x 40%, up to \$50m	50
55	Annual flowback to customers	If Line 51 > 0, then Line 51 - Line 54	90
56	Annual deferral to Regulatory Asset	If Line 51 < 0, then Line 51	-
57	Total	Sum Lines 54 through 56, ties to Line 51	140

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Attachment F  
Tax Day 1 Excess ADIT Journal Entry Summary

Duke Energy Florida Excess ADIT Summary					
Line	Description	Protected	Unprotected	Total	Notes
1	Total Excess ADIT	734,179,570	300,669,859	1,034,849,429	
2	Less CR3		(159,976,313)	(159,976,313)	
3	Total Excess ADIT	734,179,570	140,693,546	874,873,116	
4					
5	Retail Portion	650,592,125	124,675,375	775,267,499	88.61485%
6	OATT Portion	27,384,898	5,247,869	32,632,767	3.73000%
7	Whis Fixed Contracts	56,202,547	10,770,302	66,972,849	7.65515%
8	Total Excess ADIT	734,179,570	140,693,546	874,873,116	
9					
10	Total Retail & OATT	677,977,023	129,923,244	807,900,267	Should tie to lines 14 & 15
11	Total Whis Fixed Contracts	56,202,547	10,770,302	66,972,849	See line 25
12	Total Excess ADIT	734,179,570	140,693,546	874,873,116	
13					
14	Protected (subject to flow back)			673,455,593	
15	Unprotected (subject to flow back)			135,567,282	
16	Subtotal			809,022,875	254036 & 254988
17	Tax Grossups			274,659,229	254036 & 254988
18	Earnings <sup>(1)</sup>			226,052,141	0411240
19	Reg Asset (e.g. AFUDC Equity Gross-up) <sup>(2)</sup>			113,528,500	0182320
20	Reg Liability (e.g. ITC Gross-up) <sup>(3)</sup>			(3,568,553)	0254100
21	Total Decrease in ADFIT			1,419,694,192	190/281/282/283
22					
23					
24	<sup>(1)</sup> Earnings Credit/(Debit)				
25	Misc			66,972,849	BU 50220 - Utility
26	T12A04			45,461	BU 50220 - Utility
27	T19A58			159,976,313	BU 50220 - Utility
28	T15A66			(931,575)	BU 50220 - Utility
29	T15B07			(398,231)	BU 50220 - Non-Utility
30	T22B29			329,134	BU 50220 - Non-Utility
31	AT_OTH_282_NC_TBBS			(50,969,336)	BU 50220 - Non-Utility
32	T13A04			6,693,352	BU 50220 - Non-Utility
33	T13A08			(232,700)	BU 50220 - Non-Utility
34	T13A12			17,389	BU 50220 - Non-Utility
35	T13A26			(19,712)	BU 50220 - Non-Utility
36	T13A28			44,345,378	BU 50220 - Non-Utility
37	T12A04			(1,768)	BU 50220 - Non-Utility
38	T13B08			(34,705)	BU 50250
39	T13A04			12	BU 50250
40	T13A08			(114,770)	BU 50250
41	T13A28			466,137	BU 50250
42	T13A54			(142,996)	BU 50250
43	T22H11			29,236	BU 50250
44	TFLD10			22,673	BU 50250
45				226,052,141	
46					
47	<sup>(2)</sup> Reg Asset (e.g. AFUDC Equity Gross-up)				
48	F_RGAL_EQUITY_AFUDC_GROSSUP_283100-182320			(55,708,377)	182320/283100
49	F_RGAL_EQUITY_AFUDC_GROSSUP_283101-182320			(6,190,482)	182320/283100
50	F_RGAL_GROSSUP_283100-182320-Solar			(618,264)	182320/283100
51	F_RGAL_GROSSUP_283101-182320-Solar			(73,964)	182320/283100
52	AT_OTH_282_NC_Solar			(652,588)	182320/282100
53	F_RGAL_EQUITY_AFUDC_EXCESSADIT_282100-182320			(50,872,840)	182320/282100
54	F_RGAL_EQUITY_AFUDC_EXCESSADIT_282101-182320			588,015	182320/282100
55				(113,528,500)	
56					
57	<sup>(3)</sup> Reg Liability (e.g. ITC Gross-up)				
58	F_RGAL_190001-254100-Solar			2,541,715	254100/1900001
59	F_RGAL_190002-254100-Solar			147,900	254100/1900001
60	F_RGAL_ARAM_GROSSUP_190001-254100			893,856	254100/1900001
61	F_RGAL_ARAM_GROSSUP_190002-254100			(14,918)	254100/1900001
				3,568,553	

Attachment G  
Ongoing Impacts of TCJA

<b>DEF Preliminary Estimate of Retail Projected Annual Flow Back Amount:</b>		
1	Excess ADIT - Protected	\$650,592,125
2	Divide by 25 yrs *	26,023,685
3	Gross up to pretax amount (divide by 1 - 25.345%)	<u>34,858,596</u>
4		
5	Excess ADIT - Unprotected	124,675,375
6	Divide by 5 yrs per Settlement	24,935,075
7	Gross up to pretax amount (divide by 1 - 25.345%)	<u>33,400,408</u>
8		
9	Total Annual Excess ADIT Flow Back	68,259,005
10	Add Annual Impact on Net Income per Settlement Exhibit 6 Line 55	89,750,220
11	Total Annual Projected Flow Back	<u>\$158,009,225</u>
12		
13	* Will be based on ARAM, but used 25 yrs as a temporary proxy.	

<b>Annual Est. Income Statement Impacts of the Retail portion of TCJA offset by Storm O&amp;M:</b>		
		<u>Debit/(Credit)</u>
14	Storm O&M Expense - total flow back amount above	\$158,009,225
15	CR4&5 Accelerated Depreciation - Exhibit 6 Line 54 (Attachment E)	50,000,000
16	Pretax Income	<u>208,009,225</u>
17		
18	Income Tax Expense - Pretax Income x 25.345%	(52,719,938)
19	Income Tax Expense Reduction - Exhibit 6 Line 49 (Attachment E)	(104,330,527)
20	Amortization of Excess ADIT - Line 2 + Line 6	(50,958,760)
21	Tax Expense	<u>(208,009,225)</u>
22		
23	Net Income Impact	<u>\$0</u>

Duke Energy Tax Department  
Excess Deferred Taxes – Justification for using ARAM for Cost of Removal

The following explains our reasoning for thinking that, to the extent a utility uses net salvage value (i.e., gross salvage less costs of removal) to calculate its regulatory depreciation expense, a normalization violation would clearly result from not including costs of removal as an offset to the excess ADIT to which ARAM is applied:

The TCJA defines “protected” excess ADIT as the amount that becomes excess (due to the corporate tax rate reduction) in the reserve for deferred taxes attributable to differences between tax depreciation deductions allowable under Section 168 and the depreciation deductions that would have been allowable under Section 167 “using the method (including the period, first and last year convention, and salvage)” used to compute regulatory tax and depreciation expense. TCJA Section 13001(d)(3)(A), by cross-reference to Section 168(i)(9)(A)(ii).

The regulations promulgated under Section 167 stipulate that salvage value must be taken into account in determining the depreciation deduction under Section 167 either by a reduction of the amount subject to depreciation or by a reduction in the rate of depreciation. Furthermore, such regulations allow the use of either gross salvage or net salvage, provided that the practice is consistently followed and the treatment of the costs of removal is consistent with the practice adopted. Treas. Reg. Section 1.167(a)-1(c)(1).

Under ARAM, the annual excess ADIT amortization is the product of (i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property (the applicable average rate), and (ii) the amount of the timing differences that reverse during the year. The calculation is made as of the beginning of the year in which timing differences in the vintage account begin to reverse, that is, the first year in which the tax depreciation taken with respect to the vintage account is less than the amount of depreciation reflected in the regulated books of account computed on the tax basis. Thus, under ARAM, protected excess ADIT pertaining to a particular vintage or vintage account are not flowed-through to ratepayers until such time as the timing differences in the particular vintage account reverse. Moreover, it is a normalization violation to adopt any accounting treatment that, directly or indirectly, circumvents the rule set forth in the previous sentence. Section 2.04 of Rev. Proc. 88-12.

Thus, if a utility that uses net salvage value to calculate its regulatory depreciation expense does not include costs of removal as an offset to the excess ADIT to which ARAM is applied, there would be instances in which the average rate would be applied to an overstated amount of timing differences that reverse during the year, resulting excess ADIT pertaining to particular vintages being flowed-through to ratepayers more rapidly or to a greater extent than permitted under the TCJA (i.e., a normalization violation). This reasoning is consistent with the IRS's position/conclusion reflected in PLR 8616018.

**DUKE ENERGY FLORIDA, LLC - PRIVILEGE LOG**  
**OPC'S FIRST REQUEST FOR PRODUCTION OF DOCUMENTS (1-5)**

No.	BATES NOS.	PAGES	AUTHOR	RECIPIENT CC:	POD No.	DOC DATE	TITLE & SUMMARY	PRIVILEGE
1.	20180047-DEF-00044 thru 00047	4	Dwight L. Jacobs at the request of Alex Glenn, Esq.	N/A	5	12/04/17	Duke Energy Mitigation Summary on income tax reform mitigation strategies by jurisdiction	Attorney-Client Privileged; Business Confidential: Prepared at Request of Counsel for the purpose of providing Legal advice to the Company
2.	20180047-DEF-00048 thru 00050	3	Dwight L. Jacobs at the request of Alex Glenn, Esq.	N/A	5	12/2017	Possible Tax Mitigation Impacts at Duke Energy on following assumptions on cash flows and earnings by jurisdiction.	Privileged and Confidential: Prepared at the Request of Counsel for the purpose of providing Legal advice to the Company
3.								
4.								
5.								

20180047-EI Staff Hearing Exhibits 00177

# 13

## DEF's responses to OPC's 2nd Request for Production of Documents No. 6-8.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 13  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
2nd Request for Production of Documents  
No. 6-8[Bates Nos. 00178-00180]

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: April 30, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' SECOND REQUEST TO PRODUCE DOCUMENTS (NOS. 6-8)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Second Request to Produce Documents (Nos. 6-8) as follows:

*Expediting the responses to requests in bold below would help facilitate a timely resolution of this matter:*

6. **Please provide a copy of the Company's cost of service study file in Excel from its last rate case with formulas and cross references intact.**

**Response:**

Please see DEF's response to OPC's Interrogatory No. 18.

7. **Please provide a copy of any journal entries and journal entry workpapers showing how the Company identified and recorded amounts of EADIT as of December 31, 2017.**

**Response:**

Please see DEF's response to OPC's 1<sup>st</sup> PODs, numbers 1 and 3.

8. **From the Company's last rate case, please provide a copy of the Company's documents showing whether or not the Company included income tax debit/credit associated with the domestic production activities deduction under Section 199 of the Internal Revenue Code. If available in Excel, please provide with formulas and cross references intact.**

**Response:**

Minimum Filing Requirement C-22 shows a reduction to income tax expense as a permanent difference for the Section 199 manufacturer's deduction of \$26 million for the 2010 projected test period. <http://www.psc.state.fl.us/library/filings/2009/02437-2009/02437-2009.pdf>

# 14

## DEF's responses to OPC's 3rd Request for Production of Documents No. 9.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 14  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
3rd Request for Production of Documents No.  
9[Bates Nos. 00181-00182]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: June 4, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' THIRD REQUEST FOR PRODUCTION OF DOCUMENTS (NO. 9)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Third Request for the Production of Documents (No. 9) as follows:

*Expediting the responses to requests in **bold** below would help facilitate a timely resolution of this matter:*

9. **Please provide the Excel files related to Interrogatory No. 25.**

**Response:**

Please see the attached documents in response to Interrogatory No. 25 bearing bates numbers 20180047-DEF-00115 through 20180047-DEF-00184.

# 15

## DEF's responses to OPC's 4<sup>th</sup> Request for Production of Documents No. 10.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 15  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
4th Request for Production of Documents No.  
10[Bates Nos. 00183-00201]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: June 22, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' FOURTH REQUEST TO PRODUCE DOCUMENTS (NO. 10)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Fourth Request to Produce Documents (No. 10) as follows:

10. Please produce any and all analyses prepared by or for the Company showing the calculation of the amount of excess ADIT created by the federal Tax Cuts and Jobs Act related to recording Cost of Removal. Please produce all documents related to the referenced analyses.

**Response:**

Please see the attached documents bearing bates numbers 20180047-DEF-000185  
through 20180047-DEF-000201.

ASSIGNED_TAX_SEGMENT	Values		
	Sum of RWIP_ALLOC_CHG_SIGN_MATCH_GL	Sum of RWIP_SALVAGE	Sum of RWIP_COR
DEF - Regulated Electric	43,996,083.72	(153,730,462.82)	197,726,546.54
<b>Grand Total</b>	<b>43,996,083.72</b>	<b>(153,730,462.82)</b>	<b>197,726,546.54</b>

















12/1/2017	PE Florida	10	DEF - Regulated Electric	DE Florida [Tax]	50226	50226-PE Florida Power Delivery	0108000 - Accumulated DD&A-F
12/1/2017	PE Florida	10	DEF - Regulated Electric	DE Florida [Tax]	50221	50221-PE Florida Fossil	0108000 - Accumulated DD&A-F
12/1/2017	PE Florida	10	DEF - Regulated Electric	DE Florida [Tax]	50221	50221-PE Florida Fossil	0108000 - Accumulated DD&A-F
12/1/2017	PE Florida	10	DEF - Regulated Electric	DE Florida [Tax]	50226	50226-PE Florida Power Delivery	0108000 - Accumulated DD&A-F
12/1/2017	PE Florida	10	DEF - Regulated Electric	DE Florida [Tax]	50220	50220-PE Florida Other	0108000 - Accumulated DD&A-F

SQL Statement which produced this data:

```
select * from
( SELECT
--- Fixed Assets/Matt/SQL
--- Toad_Tax_RWIP_On_Depr_Ledger_Yearend
---
    depr_ledger.gl_post_mo_yr,
    company_closing_rollup.description closing_rollup_desx,
    csa.closing_rollup_id,
    tax_segment.assigned_tax_segment,
    csb.description Powertax_Company,
    csa.company_id,
    csa.description company_desx,
    reserve_acct.description reserve_acct_desx,
    depr_group.description depr_group_desx,
    sum(nvl(depr_ledger.rwip_Cost_Of_Removal * -1,0)) rwip_COR,
    sum(nvl( ( depr_ledger.rwip_salvage_cash + rwip_salvage_returns + rwip_reserve_credits ) * -1,0)) rwip_salvage,
    sum(nvl(depr_ledger.rwip_allocation * -1,0)) rwip_alloc_Chg_Sign_Match_GL
FROM depr_ledger,
    depr_group ,
    company_setup csa ,
    company_setup csb ,
    gl_account reserve_acct,
    company_closing_rollup,
    (SELECT
        company_setup.company_id,
        pp_tree.override_parent_description Assigned_Tax_Segment
    FROM pp_tree,
        company_setup
    WHERE
        company_setup.company_id = pp_tree.child_id (+)
        and pp_tree_type_id = 11 /* 11 is the PMG BU Tree */
        and pp_tree_category_id = 1 /* 1 is the company category)*/ ) Tax_Segment
WHERE
```

```
depr_ledger.depr_group_id = depr_group.depr_group_id (+)
and depr_group.company_id = csa.company_id (+)
and depr_group.company_id = tax_segment.company_id (+)
and csa.powertax_company_id = csb.company_id (+)
and depr_group.reserve_acct_id = reserve_acct.gl_account_id (+)
and csa.closing_rollup_id = company_closing_rollup.closing_rollup_id (+)
```

---

```
and (depr_ledger.gl_post_mo_yr = to_date('12/2017', 'mm/yyyy') or depr_ledger.gl_post_mo_yr = to_date('12/2016', 'mm/yyyy'))
```

GROUP BY

```
depr_ledger.gl_post_mo_yr,
company_closing_rollup.description,
tax_segment.assigned_tax_segment,
csa.closing_rollup_id,
csb.description, --- powertax company
csa.company_id,
csa.description,
reserve_acct.description,
depr_group.description ) PMG_Tbl1
```

```
where pmg_tbl1.rwip_alloc_chg_sign_match_gl <> 0
---- and upper(closing_rollup_desx) like '%PIED%';
```

Source: P:\AA\_Tax\_Depreciation\AA\_Common\2017\Toad Reports\[Toad\_GL\_With\_Acct\_GAAPTree\_201801\_Ran20180214.xlsx

INPUT\_YTD\_YYYYMM

201801

ASSIGNED\_TAX\_SEGMENT  
DEF - Regulated Electric

ACCT\_ID ACCOUNT\_DESX  
0108301 Accum Depreciation COR

Values  
Sum of BEG\_BAL Sum of ACTIVITY  
(516,972,359.68) (2,610,754.22)

**Cost of Removal (COR) in book accounting accumulated depreciation accounts (0108)**

	12/31/2017 Not Classified <u>RWIP COR</u> <u>(A)</u>	12/31/2017 Classified COR <u>0108301</u> <u>(B)</u>	*Final Dismantle* 12/31/2017 Classified COR <u>0108320</u> <u>(C)</u>	12/31/2017 Classified COR <u>0108306 thru 309</u> <u>(D)</u>	<u>Total 0108</u> <u>(E=A+B+C+D)</u>	<u>Reg Asset in 0282</u> <u>(F)</u>	<u>Total</u> <u>(G)</u>
DEF **1 With 480	197,726,546.54	(517,007,961.61)	(161,973,371.18)	(61,585,272.46)	(542,840,058.71)	480,833,943.00	(62,006,115.71)
DEF **1 Without 480	197,726,546.54	(517,007,961.61)	(161,973,371.18)	(61,585,272.46)	(542,840,058.71)	-	(542,840,058.71)
DEF **1 480 only	-	-	-	-	-	480,833,943.00	480,833,943.00

Note: This analysis is COR only. Gross Salvage is not tracked separately by the book accountants.

\*\*1 -DEF was overaccrued for Cost of Removal. So they created a regulatory asset (Acct 0182415). Dr. Reg Asset / Cr. Depr Exp  
At next rate case we will ask for amortization of that reg asset. Dr. Depr Exp / Cr. Reg Asset

\*\*2 - The two percentages don't add up to 100% because a portion of excess deferred taxes are related to flowthru items.

For GAAP it is netted against COR Reserve.

## Cost of Removal (COR) in book accounting accumulated depreciation accounts (0108)

	12/31/2017 Not Classified <u>RWIP COR</u>	12/31/2017 Classified COR <u>0108301</u>	<u>Reg Asset in 0282</u>	<u>Total</u>	Federal <u>Tax Rate Change</u>	<u>Tax Impact</u>	<u>PPE Otl</u>
DEF **1	197,726,546.54	(519,583,113.90)	480,833,943.00	158,977,375.64	14.00%	22,256,832.59	7.55%

Note: This analysis should also include the salvage component buried in book accumulated depreciation. However, the salvage amount is not tracked separ.

\*\*1 -DEF was overaccrued for Cost of Removal. So they created a regulatory asset. Dr. Reg Asset / Cr. COR.  
At next rate case we will ask for amortization of that reg asset. Dr. Depr Exp / Cr. Reg Asset

For GAAP it is netted against COR Reserve.

Source File: P:\AA\_Tax\_Depreciation\TBBS\2016\[Toad\_Tax\_Deferred\_Tax\_All\_2016\_Ran20170830\_V4.xlsx]

FAS109 Deferred Taxes at 12/31/2016 (This would be the answer that tells us what the correct RTP entry would ne

Sum of FAS109 Change

LKU Protected/Not Protected	<u>DEF Tax - Elec</u>
PP&E Flow Thru	(23,788,586.28)
PP&E Flow Thru Non-Utility	
PP&E Other	(59,750,007.97)
PP&E Not Protected Caleb	
PP&E Not Protected Non-Utility	155,592.61
PP&E Method/Life	<u>(708,023,557.29)</u>
Grand Total	<u>(791,406,558.92)</u>

PP&E Flow Thru	3.006%
PP&E Flow Thru Non-Utility	0.000%
PP&E Other	7.550%
PP&E Not Protected Caleb	0.000%
PP&E Not Protected Non-Utility	-0.020%
PP&E Method/Life	<u>89.464%</u>
	<u>100.000%</u>

    PP&E Flow Thru  
 PP&E Flow Thru Non-Utility  
         PP&E Other  
 PP&E Not Protected Caleb  
 PP&E Not Protected Non-Utility  
         PP&E Method/Life  
 Grand Total

    PP&E Flow Thru  
 PP&E Flow Thru Non-Utility  
         PP&E Other  
 PP&E Not Protected Caleb  
 PP&E Not Protected Non-Utility  
         PP&E Method/Life  
 Grand Total

PowerPlant Depr 1033

Sum of COR\_CALC\_END\_BAL  
 POWERTAX\_COMPANY\_DESX

ASSIGNED_TAX_SEGMENT	COR_RESERVE_ACCT_ID	GL_ACCT_COR_RES_DESX
DEF - Regulated Electric	108155	0108155 - FAS143CC
DEF - Regulated Electric	108301	0108301 - Accum Depreciation COR
DEF - Regulated Electric	108306	0108306 - NRADDECORW
DEF - Regulated Electric	108307	0108307 - NRADDECORR
DEF - Regulated Electric	108308	0108308 - NUCLEARCOR
DEF - Regulated Electric	108309	0108309 - NORADDECOR
DEF - Regulated Electric	108320	0108320 - FINDISMCOR
DEF - Regulated Electric	108499	0108499 - ARO Asset Accum Depreciat
DEF - Regulated Electric	111100	0111100 - Acc Prov-Amor Elec Plt In
DEF - Regulated Electric	119301	0119301 - ADOU
DEF - Regulated Electric	122000	0122000 - Dd&A-Nonutil Prop-Gen
DEF - Regulated Electric Total		
DE Florida [Tax]		
DE Florida [Tax] Total		
Grand Total		

Sum of LIFE\_SLV\_CALC\_END\_BAL  
 POWERTAX\_COMPANY\_DESX

ASSIGNED_TAX_SEGMENT	RESERVE_ACCT_ID	GL_ACCT_DEPR_RES_DESX
DEF - Regulated Electric	108000	0108000 - Accumulated DD&A-PP&E
DEF - Regulated Electric	108155	0108155 - FAS143CC
DEF - Regulated Electric	108306	0108306 - NRADDECORW
DEF - Regulated Electric	108307	0108307 - NRADDECORR
DEF - Regulated Electric	108308	0108308 - NUCLEARCOR
DEF - Regulated Electric	108309	0108309 - NORADDECOR
DEF - Regulated Electric	108315	0108315 - ACCDEPRASH
DEF - Regulated Electric	108499	0108499 - ARO Asset Accum Depreciat
DEF - Regulated Electric	111100	0111100 - Acc Prov-Amor Elec Plt In
DEF - Regulated Electric	119301	0119301 - ADOU
DEF - Regulated Electric	122000	0122000 - Dd&A-Nonutil Prop-Gen
DEF - Regulated Electric Total		
DE Florida [Tax]		
DE Florida [Tax] Total		
Grand Total		

# 16

## DEF's responses to OPC's 5<sup>th</sup> Request for Production of Documents Nos. 11-15.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 16  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
5th Request for Production of Documents  
Nos. 11-15[Bates Nos. 00202-00204]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: July 2, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' FIFTH REQUEST TO PRODUCE DOCUMENTS (NOS. 11-15)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Fifth Request to Produce Documents (Nos. 11-15) as follows:

**BOLDED REQUESTS INDICATE PRIORITY ITEMS:**

- 11. Please provide all documents identified in your response to OPC Interrogatory No. 30(a).**

**Response:**

Please see DEF's documents provided in response to OPC's Interrogatory number 29, bearing bates numbers 20180047-DEF-000185 through 20180047-DEF-000257.

- 12. Please provide all documents identified in your response to OPC Interrogatory No. 30(b).**

**Response:**

Subject to, and without waiving DEF's objections served concurrently with these responses, DEF does not have any documents responsive to this request.

- 13. Please provide all documents identified in your response to OPC Interrogatory No. 30(c).**

**Response:**

Please see DEF's Response to OPC's Request for Production of Documents, number 11.

- 14. Please provide all documents identified in your response to OPC Interrogatory No. 30(d).**

**Response:**

DEF does not have any documents responsive to this request.

15. **Please provide all documents identified in your response to OPC Interrogatory No. 31.**

**Response:**

DEF does not have any documents responsive to this request.

# 17

## DEF's responses to OPC's 6<sup>th</sup> Request for Production of Documents No. 16.

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 17  
PARTY: Staff  
DESCRIPTION: DEF's responses to OPC's  
6th Request for Production of Documents No.  
16[Bates Nos. 00205-00249]

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: July 11, 2018

**DUKE ENERGY FLORIDA, LLC'S RESPONSE TO  
CITIZENS' CORRECT SIXTH REQUEST TO PRODUCE DOCUMENTS (NO. 16)**

Duke Energy Florida, LLC ("DEF"), responds to the Citizens of the State of Florida, through the Office of the Public Counsel's ("Citizens" or "OPC") Corrected Sixth Request to Produce Documents (No. 16) as follows:

**PRODUCTION OF DOCUMENTS**

16. In response to these questions, please refer to the 2010 Stipulation, Order No. PSC-10-0398-S-EI, Page 10, Paragraph 3 and the 2013 Stipulation, Order No. PSC-13-0598-FOF-EI, Page 32, Paragraph 20.
- a. Please provide all accounting opinions received relative to the treatment of cost of removal in the 2010 stipulation.
  - b. Please provide a copy of the FERC Order received in 2011 referenced in the 2013 Stipulation.
  - c. Please provide all accounting opinions received relative to the treatment of cost of removal in the 2013 Stipulation.
  - d. Please provide all accounting opinions received relative to the treatment of cost of removal as protected or unprotected that supports the Company's method.
  - e. Please provide the Accounting Pronouncements that support the Company's treatment of cost of removal as protected or unprotected.
  - f. Please provide any Internal Revenue Codification that supports the Company's treatment of cost of removal as protected or unprotected.
  - g. Please provide any document, including internal company guidelines, containing the policies related to recording cost of removal for accounting, depreciation and tax purposes.

**Response:**

- a. There are no documents responsive to this request.
- b. Please see attached documents bearing bates numbers 20180047-DEF-000258 through 20180047-DEF-000287.
- c. There are no documents responsive to this request.
- d. There are no documents responsive to this request.
- e. There are no documents responsive to this request.
- f. Please see DEF's response to OPC's interrogatory number 29.
- g. Please see attached documents bearing bates numbers 20180047-DEF-000288 through 20180047-DEF-000299.

136 FERC ¶ 61,033  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;  
Marc Spitzer, Philip D. Moeller,  
John R. Norris, and Cheryl A. LaFleur.

Florida Power Corporation

Docket No. ER11-3584-000

ORDER ON RETAIL ADJUSTMENTS TO DEPRECIATION RESERVES

(Issued July 15, 2011)

1. On May 16, 2011, pursuant to section 205 of the Federal Power Act (FPA),<sup>1</sup> Florida Power Corporation (Florida Power) filed to reflect the impact of retail rate depreciation reserve<sup>2</sup> adjustments on Florida Power's Open Access Transmission Tariff (OATT) formula rates. In this order, we reject the adjustments and instead direct Florida Power to account for the retail rate adjustments as regulatory assets, as discussed below.

**I. Background**

2. On February 28, 2011, in Docket No. ER11-2584, the Commission issued an order accepting Florida Power's proposed depreciation rates included in Schedule 10 of Florida Power's OATT.<sup>3</sup> These depreciation rates were the same as those approved by the Florida Public Service Commission (Florida Commission) in 2010.<sup>4</sup> Protestors in Docket No. ER11-2584 argued that Florida Power should be required to supplement that filing to

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<sup>1</sup> 16 U.S.C. § 824d (2006).

<sup>2</sup> As used here, the term "depreciation reserve" refers to amounts recorded in Florida Power's Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

<sup>3</sup> *Florida Power Corp.*, 134 FERC ¶ 61,145, at P 3 (2011) (February 28 Order).

<sup>4</sup> *In re: Petition for Increase in Rates by Progress Energy Florida, Inc.*, Docket No. 090079-EI, at 45-46 (Fla. Pub. Serv. Comm'n Mar. 5, 2010 and June 18, 2010).

reflect the Florida Commission's approval of adjustments necessary to eliminate theoretical depreciation reserve imbalances (excess depreciation reserves).<sup>5</sup> They argued that those adjustments will have a wholesale rate effect beyond that included in Florida Power's filing. Florida Power argued, however, that the actual quantitative rate impact of those adjustments would not be available for Commission consideration until April 2011, after it filed its 2010 FERC Form No. 1.<sup>6</sup> The Commission agreed with the protestors that, consistent with Order No. 618,<sup>7</sup> additions or deductions to depreciation expense to reflect any theoretical reserve amortization would require an FPA section 205 filing because such amortization would affect the remaining life calculations typically used to determine subsequent depreciation rates.<sup>8</sup> The Commission emphasized that it was only approving the proposed depreciation rates and not any adjustments to eliminate the theoretical depreciation reserve surplus.<sup>9</sup> Florida Power committed to make a FPA section 205 filing to account for these adjustments after its FERC Form No. 1 data became available and before filing its 2010 Annual Update for its OATT formula rate.

## II. Florida Power's Filing

3. In the instant filing, Florida Power submits the 2010 impact of the retail depreciation reserve adjustments on its OATT formula rate. Florida Power states that it reduced the cost of removal portion of its depreciation reserve for production and distribution accounts, pursuant to Florida Commission orders and a retail Stipulation and Settlement Agreement dated May 10, 2010 that was accepted by the Florida Commission.<sup>10</sup> This Settlement Agreement states in part:

[Florida Power] will have the discretion to reduce depreciation expense (cost of removal) by up to \$150 million in 2010, up to \$250 million in 2011, and up to any remaining

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<sup>5</sup> The theoretical depreciation reserve balance is "the calculated balance that would be in the reserve if the life and salvage estimates now considered appropriate had always been applied." *Id.*

<sup>6</sup> FERC February 28 Order, 134 ¶ 61,145 at P 12.

<sup>7</sup> *Depreciation Accounting*, Order No. 618, FERC Stats. & Regs. ¶ 31,104, at 31,695, n.25 (2000) (Order No. 618).

<sup>8</sup> FERC February 28 Order, 134 ¶ 61,145 at P 20.

<sup>9</sup> *Id.*

<sup>10</sup> Transmittal Letter, Attachment 1 at 3 (Settlement Agreement).

balance in 2012 during the term of this Agreement until the earlier of (a) [Florida Power's] depreciation (cost of removal) reserve reaches zero, or (b) the term of this Agreement expires. In the event [Florida Power] reduces depreciation expense (cost of removal) by less than the caps set forth in this paragraph, [Florida Power] may carry forward (i.e. increase the cap by) any used depreciation (cost of removal) reserve amounts in subsequent years during the term of this Agreement.<sup>11</sup>

Because the Settlement Agreement grants Florida Power discretion to reduce depreciation expense up to a specified amount in 2010, 2011, and 2012, Florida Power asserts that it does not know whether and to what extent the adjustments to depreciation reserves will impact the OATT formula rate for service in 2011 and 2012.<sup>12</sup>

4. Florida Power states that it has recorded total 2010 depreciation reserve reductions of \$65,840,613, consisting of a \$33,296,538 reduction to the production plant depreciation reserve and a \$32,544,075 reduction to its distribution plant depreciation reserve.<sup>13</sup> These depreciation reserve reductions result in reduced amounts of allocated deferred income taxes attributable to wholesale rate base and, consequently, result in a wholesale rate increase of \$79,986 under the OATT formula rate for 2010.<sup>14</sup>

5. Florida Power further explains that it implemented the retail depreciation reduction for 2010 effective January 1, 2010. Accordingly, Florida Power requests waiver of the Commission's prior notice requirements to permit an effective date of January 1, 2010.<sup>15</sup> In support of this waiver, Florida Power explains that, on June 1, 2011, it will complete its Annual Update and true up of the OATT formula rate for 2010 transmission service, and that such true up will be completed using the 2010 FERC Form No. 1 data, which incorporates the depreciation adjustments described in this filing. Therefore, Florida Power is implementing the depreciation adjustments consistent with the OATT formula

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<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at n.8.

<sup>13</sup> *Id.* at 3.

<sup>14</sup> *Id.* The depreciation reserve is an offset to plant in service. Therefore a decrease in reserve results in an increase in rate base.

<sup>15</sup> *Id.* at 4.

rate. Florida Power notes that the Commission has granted waiver of its notice requirements in several similar cases.<sup>16</sup>

### III. Notice of Filing and Responsive Pleadings

6. Notice of Florida Power's filing was published in the *Federal Register*, 76 Fed. Reg. 30,330 (2011), with interventions or protests due on or before June 6, 2011. Timely motions to intervene were filed by Florida Municipal Power Agency and Seminole Electric Power Cooperative, Inc.

### IV. Discussion

#### A. Procedural Matters

7. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

#### B. Substantive Matters

8. As explained below, the Commission finds that Florida Power's adjustment of its depreciation reserves is not in accordance with the Commission's accounting and reporting requirements. We also find that Florida Power must recognize the economic effects of the Florida Commission's rate actions as regulatory assets in Account 182.3, Other Regulatory Assets, rather than as adjustments to its depreciation reserve.

9. In Order No. 618 and in the February 28 Order, the Commission stated that the cost of property used in utility operations should be allocated in a "systematic and rational manner" to periods during which the property is used in utility operations, i.e., over the property's remaining estimated useful service life.<sup>17</sup> For this reason, changes in asset depreciation estimates, including cost of removal, should be made prospectively over the

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<sup>16</sup> *Id.* (citing *South Carolina Electric and Gas Co.*, 132 FERC ¶ 61,043 (2010); *Duke Energy Carolinas, LLC*, 130 FERC ¶ 61,079 (2010)).

<sup>17</sup> See FERC February 28 Order, 134 ¶ 61,145 at P 19; Order No. 618, FERC Stats. & Regs. ¶ 31,104 at 31,694-95. Additionally, the Commission's Uniform System of Accounts provides, in part, that, "[u]tilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the *service value* of depreciable property to the service life of the property." General Instruction No. 2, Depreciation Accounting, 18 C.F.R. Part 101 (2011) (emphasis added). "Service value" refers to "the difference between original cost and net

(continued...)

Docket No. ER11-3584-000

asset's remaining life. Florida Power proposes to adjust its depreciation reserves by \$65,840,613 in 2010 and intends to adjust its depreciation reserves by varying amounts in 2011 through 2013 rather than allocating the excess depreciation reserves over the remaining service lives of the related utility plant. While these adjustments may be acceptable for retail ratemaking purposes, they do not conform to our requirements for allocating the costs of utility plant over their service lives. Accordingly, we will direct Florida Power to reinstate all such adjustments to its depreciation reserves (Account 108). Florida Power must also re-file its 2010 FERC Form No. 1 to reflect the restatement of its depreciation reserves. Additionally, because Florida Power's OATT Formula Rate automatically incorporates the revised plant amounts, we will direct Florida Power to recalculate wholesale formula rate billings<sup>18</sup> to reflect the reinstatement of the depreciation reserves and refund with interest all amounts improperly collected from wholesale customers.

10. Additionally, we find that the adjustments approved by the Florida Commission should be recognized in Florida Power's accounts and FERC Form No. 1 financial statements as regulatory assets. The Commission's Uniform System of Accounts for public utilities provides for the use of regulatory assets and liabilities to account for, *inter alia*, rate actions of regulatory agencies that differ from the Commission's accounting requirements.<sup>19</sup> Specifically, Account 182.3, Other Regulatory Assets, provides for amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. Therefore, Florida Power must debit Account 182.3 and credit Account 407.4, Regulatory Credits, for the above discussed adjustments that are reflected in its retail rate orders.

The Commission orders:

(A) Florida Power's proposed adjustments to its depreciation reserves are hereby rejected, and Florida Power is hereby directed to reinstate amounts improperly removed from Account 108, as discussed in the body of this order.

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salvage value of electric plant." Definition No. 37, Service Value, 18 C.F.R. Part 101 (2011). The "net salvage value" is the "salvage value of property retired less the cost of removal." Definition No. 19, Net Salvage Value, 18 C.F.R. Part 101 (2011).

<sup>18</sup> Florida Power Corp., OATT, Schedule 10 (1.0.0), Section 1.

<sup>19</sup> See Definition No. 31, Regulatory Assets and Liabilities, 18 C.F.R. Part 101 (2011).

Docket No. ER11-3584-000

(B) Florida Power is hereby directed to record a regulatory asset to record the economic effects of the Florida Commission's retail rate order, as discussed in the body of this order.

(C) Florida Power is hereby directed to refund with interest all amounts improperly collected from wholesale customers, as discussed in the body of this order.

(D) Florida Power is hereby directed to file a refund report with the Commission within 30 days after making the refunds.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

OFFICE OF ENERGY MARKET REGULATION

In Reply Refer To:  
Florida Power Corporation  
Docket No. ER11-3584-000

Issued: 11/21/11

Bruder, Gentile & Marcoux, L.L.P.  
1701 Pennsylvania Ave., N.W.  
Suite 900  
Washington, D.C. 20006 5807

Attention: Laura R. Chipkin, Counsel for  
Florida Power Corporation

Reference: Compliance Refund Report

Dear Ms. Chipkin:

On August 30, 2011, you submitted, on behalf of Florida Power Corporation (Florida Power) a Compliance Refund Report, in compliance with the Commission's July 15, 2011 order in the above captioned proceeding<sup>1</sup> for transmission service under the PEF Open Access Transmission Tariff (OATT).

Pursuant to the authority delegated to the Director, Division of Electric Power Regulation – East, under 18 C.F.R. §375.307, your submittal is accepted for filing.

The filing was noticed on September 16, 2011, with comments, interventions and protests due on or before September 26, 2011. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2011)), to the extent that any timely filed motions to intervene and any motion to intervene out-of-time were filed before the issuance date of this order, such interventions are granted. Granting late interventions at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties.

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<sup>1</sup> See, *Florida Power Corporation*, 136 FERC ¶ 61,033 (July 15, 2011).

Docket No. ER11-3584-000

This action does not constitute approval of any service, rate, charge, classification, or any rule, regulation, contract, or practice affecting such rate or service provided for in the filed documents; nor shall such action be deemed as recognition of any claimed contractual right or obligation affecting or relating to such service or rate; and such action is without prejudice to any findings or orders which have been or may hereafter be made by the Commission in any proceeding now pending or hereafter instituted by or against Florida Power.

This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of the issuance of this order, pursuant to 18 C.F.R. § 385.713.

Sincerely,

Jignasa Gadani, Director  
Division of Electric Power  
Regulation -- East

# BRUDER, GENTILE & MARCOUX, L.L.P.

ATTORNEYS AT LAW

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*Laura R. Chipkin\**  
*lrchipkin@brudergentile.com*

\* MEMBER OF NJ BAR; DC PRACTICE  
LIMITED TO FEDERAL AGENCIES

December 16, 2011

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: *Florida Power Corporation;*  
*Compliance Filing;*  
*Docket No. ER11-3584-\_\_\_\_\_***

Dear Secretary Bose:

Florida Power Corporation, doing business as Progress Energy Florida, Inc. ("PEF"), hereby submits this compliance filing in accordance with the Federal Energy Regulatory Commission's ("Commission") November 21, 2011 order in the above-captioned proceeding. *Florida Power Corp.*, 137 FERC ¶ 61,150 (2011) ("November 21 Order").

## BACKGROUND

On May 16, 2011 in Docket No. ER11-3584-000, PEF filed revisions to its Open Access Transmission Tariff ("OATT") to reflect the impact of retail rate adjustments. On July 15, 2011, the Commission issued an order rejecting PEF's proposed adjustments to its depreciation reserves in Account 108, directing instead that PEF account for retail rate adjustments as regulatory assets in Accounts 182.3 and 407.4. *Florida Power Corp.*, 136 FERC ¶ 61,033 at PP 9-10 (2011) ("July 15 Order"). The Commission also required that PEF re-file its 2010 FERC Form No. 1 to reflect the restatement of its depreciation reserves.<sup>1</sup>

On August 15, 2011, PEF filed a request for clarification and, in the alternative, request for rehearing of the Commission's July 15 Order. In its request, PEF proposed an alternative approach that

<sup>1</sup> 136 FERC ¶ 61,033 at PP 9-10.

The Honorable Kimberly D. Bose  
December 16, 2011  
Page 2

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would document the effects of the revised account balances through explanatory footnotes. In the November 21 Order, the Commission denied PEF's request for clarification and rehearing, and it directed PEF to re-file its 2010 FERC Form No. 1 with the corrected account balances in the accounts shown on the affected form schedules.<sup>2</sup> The Commission directed PEF to re-file its 2010 FERC Form No. 1 within 30 days after the date of the November 21 Order, which is no later than December 21, 2011.

### COMPLIANCE FILING

As directed by the Commission's November 21 Order, PEF has today electronically re-filed its 2010 FERC Form No. 1 in the Commission's Form 1 Submission System (FOSS) to reflect the appropriate adjustments to PEF's Accounts 108, 182.3 and 407.4. Also, for the Commission's ease of reference, PEF attaches to this transmittal letter the specific pages of its 2010 FERC Form No. 1 that have been revised to reflect appropriate adjustments to PEF's Accounts 108, 182.3 and 407.4.

PEF thanks the Commission for its consideration of this compliance filing. Please contact the undersigned if you have any questions.

Very truly yours,

*/s/ Laura R. Chipkin*

Antonia A. Frost  
Laura R. Chipkin

Counsel for Florida Power Corporation, d/b/a  
Progress Energy Florida, Inc.

Attachment

cc: Official Service List in Docket No. ER11-3584-000

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<sup>2</sup> November 21 Order at P 13.

**PEF'S REVISED**  
**2010 FERC FORM NO. 1 PAGES**

THIS FILING IS

Item 1:  An Initial (Original) Submission OR  Resubmission No. \_\_\_\_\_

Form 1 Approved  
OMB No. 1902-0021  
(Expires 12/31/2011)  
Form 1-F Approved  
OMB No. 1902-0029  
(Expires 12/31/2011)  
Form 3-Q Approved  
OMB No. 1902-0205  
(Expires 05/31/2014)



# FERC FINANCIAL REPORT

## FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141.1 and 141.400. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature

Exact Legal Name of Respondent (Company)

Florida Power Corporation

Year/Period of Report

End of 2010/Q4

20180047-DEF-000269

**FERC FORM NO. 1/3-Q:  
REPORT OF MAJOR ELECTRIC UTILITIES, LICENSEES AND OTHER**

**IDENTIFICATION**

01 Exact Legal Name of Respondent Florida Power Corporation		02 Year/Period of Report End of 2010/Q4	
03 Previous Name and Date of Change (if name changed during year) / /			
04 Address of Principal Office at End of Period (Street, City, State, Zip Code) 299 First Avenue North, St. Petersburg, FL, 33701			
05 Name of Contact Person Cynthia S. Lee		06 Title of Contact Person Manager-Reg/Prop Accounting	
07 Address of Contact Person (Street, City, State, Zip Code) 299 First Avenue North, St. Petersburg, FL, 33701			
08 Telephone of Contact Person, Including Area Code (727) 820-5535	09 This Report Is (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission		10 Date of Report (Mo, Da, Yr) / /

**ANNUAL CORPORATE OFFICER CERTIFICATION**

The undersigned officer certifies that:

I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.

01 Name Mark Mulhern	03 Signature  Mark Mulhern	04 Date Signed (Mo, Da, Yr) 04/08/2011
02 Title Chief Financial Officer		

Title 18, U.S.C. 1001 makes it a crime for any person to knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.

20180047-DEF-000270

Name of Respondent Florida Power Corporation	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 11	Year/Period of Report End of 2010/Q4
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**COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)**

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
<b>1</b>	<b>UTILITY PLANT</b>			
2	Utility Plant (101-106, 114)	200-201	13,190,725,920	12,473,619,790
3	Construction Work in Progress (107)	200-201	966,834,559	1,082,411,047
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		14,157,560,479	13,556,030,837
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	4,919,393,761	4,759,528,699
6	Net Utility Plant (Enter Total of line 4 less 5)		9,238,166,718	8,796,502,138
7	Nuclear Fuel in Process of Ref., Conv., Enrich., and Fab. (120.1)	202-203	75,539	26,474
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		168,406,133	132,623,301
9	Nuclear Fuel Assemblies in Reactor (120.3)		105,710,022	105,562,569
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	80,115,391	80,115,391
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		194,076,303	158,096,953
14	Net Utility Plant (Enter Total of lines 6 and 13)		9,432,243,021	8,954,599,091
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
<b>17</b>	<b>OTHER PROPERTY AND INVESTMENTS</b>			
18	Nonutility Property (121)		10,809,073	10,325,667
19	(Less) Accum. Prov. for Depr. and Amort. (122)		6,275,244	5,884,688
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	0	0
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	28,014,671	31,257,301
24	Other Investments (124)		2,211,709	2,470,887
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		590,973,263	530,993,182
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets - Hedges (176)		3,354,275	8,486,197
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		629,087,747	577,648,546
<b>33</b>	<b>CURRENT AND ACCRUED ASSETS</b>			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		15,752,414	15,170,689
36	Special Deposits (132-134)		0	0
37	Working Fund (135)		0	0
38	Temporary Cash Investments (136)		232,098,643	0
39	Notes Receivable (141)		41,804	100,117
40	Customer Accounts Receivable (142)		296,601,262	281,202,799
41	Other Accounts Receivable (143)		137,513,127	17,570,949
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		25,499,419	10,328,664
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		10,662,991	7,910,622
45	Fuel Stock (151)	227	350,104,163	362,905,373
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	271,475,133	263,796,878
49	Merchandise (155)	227	402,450	618,787
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	33,389,505	43,654,063
			20180047-DEF-000271	

<b>Name of Respondent</b> Florida Power Corporation	<b>This Report Is:</b> (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	<b>Date of Report</b> (Mo, Da, Yr) / /	<b>Year/Period of Report</b> End of 2010/Q4
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**COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS) (Continued)**

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		28,014,671	31,257,301
54	Stores Expense Undistributed (163)	227	8,606,921	8,181,652
55	Gas Stored Underground - Current (164.1)		0	0
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		0	0
57	Prepayments (165)		19,619,801	7,883,109
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		8,726	0
60	Rents Receivable (172)		58,032	48,924
61	Accrued Utility Revenues (173)		87,499,861	66,155,172
62	Miscellaneous Current and Accrued Assets (174)		140,441,556	138,750,000
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		13,670,550	24,630,649
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176)		3,354,275	8,486,198
67	Total Current and Accrued Assets (Lines 34 through 66)		1,561,078,574	1,188,507,620
68	<b>DEFERRED DEBITS</b>			
69	Unamortized Debt Expenses (181)		45,804,109	38,880,876
70	Extraordinary Property Losses (182.1)	230a	5,098,978	10,501,360
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,749,573,126	1,391,578,564
73	Prelim. Survey and Investigation Charges (Electric) (183)		10,860,643	8,998,726
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	44,833,905	19,440,537
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		18,243,610	19,606,719
82	Accumulated Deferred Income Taxes (190)	234	618,811,877	541,048,062
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,493,226,248	2,030,054,844
85	<b>TOTAL ASSETS (lines 14-16, 32, 67, and 84)</b>		<b>14,115,635,590</b>	<b>12,750,810,101</b>

20180047-DEF-000272

Name of Respondent Florida Power Corporation	This Report is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2010/Q4
FOOTNOTE DATA			

**Schedule Page: 110 Line No.: 5 Column: c**

In FERC Docket ER11-3584-000, dated July 15, 2011, the FERC found that PEF must recognize certain economic effects of the Florida Public Service Commission's (FPSC) rate actions in Docket 090079-EI, March 5, 2010 and June 18, 2010, as Other Regulatory Assets (account 182.3), rather than as adjustments to its Accumulated Depreciation reserves (account 108). As such, PEF was directed to reinstate the adjustments to Accumulated Depreciation reserves and resubmit its 2010 FERC Form 1.

**Schedule Page: 110 Line No.: 72 Column: c**

page 110, line 5	Accumulated Reserve, 108	4,919,393,761
page 110, line 6	Net Utility Plant, subtotal	9,238,166,718
page 110, line 14	Net Utility Plant, subtotal	9,432,243,021
page 110, line 72	Other Regulatory Assets, 182.3	1,749,573,126
page 110, line 84	Total Deferred Debits, subtotal	2,493,226,248

Name of Respondent Florida Power Corporation	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of <u>2010/Q4</u>
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**STATEMENT OF INCOME**

**Quarterly**

1. Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
2. Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
4. Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
5. If additional columns are needed, place them in a footnote.

**Annual or Quarterly if applicable**

5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility column in a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	5,253,982,000	5,250,621,713		
3	Operating Expenses					
4	Operation Expenses (401)	320-323	3,520,880,078	3,261,691,813		
5	Maintenance Expenses (402)	320-323	220,248,642	211,820,795		
6	Depreciation Expense (403)	336-337	326,580,571	330,920,466		
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337	2,053,167	2,729,761		
8	Amort. & Depl. of Utility Plant (404-405)	336-337	3,144,525	2,278,734		
9	Amort. of Utility Plant Acq. Adj. (406)	336-337	-276,440	-411,097		
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)		638,639,579	1,234,778,290		
13	(Less) Regulatory Credits (407.4)		802,027,640	958,852,417		
14	Taxes Other Than Income Taxes (408.1)	262-263	361,778,872	347,094,510		
15	Income Taxes - Federal (409.1)	262-263	-43,797,196	124,552,573		
16	- Other (409.1)	262-263	-4,290,596	20,553,896		
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	357,140,026	-40,769,823		
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	24,927,696	-108,700,108		
19	Investment Tax Credit Adj. - Net (411.4)	266	-1,545,996	-4,545,996		
20	(Less) Gains from Disp. of Utility Plant (411.6)					
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)		19,334,751	18,381,829		
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		4,572,934,647	4,658,903,442		
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117, line 27		681,047,353	591,718,271		



**STATEMENT OF INCOME FOR THE YEAR (continued)**

Line No.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL		Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
			Current Year (c)	Previous Year (d)		
27	Net Utility Operating Income (Carried forward from page 114)		681,047,353	591,718,271		
28	Other Income and Deductions					
29	Other Income					
30	Nonutility Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)					
32	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)					
33	Revenues From Nonutility Operations (417)		21,723,002	21,420,987		
34	(Less) Expenses of Nonutility Operations (417.1)		11,262,747	11,352,887		
35	Nonoperating Rental Income (418)		-795,430	-631,347		
36	Equity in Earnings of Subsidiary Companies (418.1)	119	220	143		
37	Interest and Dividend Income (419)		597,376	714,187		
38	Allowance for Other Funds Used During Construction (419.1)		28,298,437	91,216,283		
39	Miscellaneous Nonoperating Income (421)		1,953,478	5,754,583		
40	Gain on Disposition of Property (421.1)		-5,092,219	899,067		
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		35,422,117	108,021,016		
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)		8,933			
44	Miscellaneous Amortization (425)		785,846	822,181		
45	Donations (426.1)		9,191,821	7,465,280		
46	Life Insurance (426.2)		-2,720,922	-5,623,798		
47	Penalties (426.3)		-676,805			
48	Exp. for Certain Civic, Political & Related Activities (426.4)		3,554,084	2,301,607		
49	Other Deductions (426.5)		1,818,397	1,400,185		
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		11,961,354	6,365,455		
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263	52,430	58,407		
53	Income Taxes-Federal (409.2)	262-263	217,158	696,329		
54	Income Taxes-Other (409.2)	262-263	339,208	-898,760		
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277	17,796,768	57,680,279		
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234, 272-277	24,346,583	57,283,973		
57	Investment Tax Credit Adj.-Net (411.5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		-5,941,019	252,282		
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		29,401,782	101,403,279		
61	Interest Charges					
62	Interest on Long-Term Debt (427)		248,559,251	232,834,558		
63	Amort. of Debt Disc. and Expense (428)		5,398,285	5,079,383		
64	Amortization of Loss on Reaquired Debt (428.1)		1,363,109	1,363,109		
65	(Less) Amort. of Premium on Debt-Credit (429)					
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)		178,682	2,755,141		
68	Other Interest Expense (431)		15,546,420	16,012,707		
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		13,487,623	27,105,862		
70	Net Interest Charges (Total of lines 62 thru 69)		257,558,124	230,939,036		
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		452,891,011	462,182,514		
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		452,891,011	462,182,514		

20180047-DEF-000276

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
Florida Power Corporation	(1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2010/Q4
FOOTNOTE DATA			

**Schedule Page: 114 Line No.: 6 Column: g**

In FERC Docket ER11-3584-000, dated July 15, 2011, the FERC found that PEF must recognize certain economic effects of the Florida Public Service Commission's (FPSC) rate actions in Docket 090079-EI, March 5, 2010 and June 18, 2010, as Other Regulatory Assets (account 182.3), rather than as adjustments to its Accumulated Depreciation reserves (account 108). As such, PEF was directed to reinstate the adjustments to Accumulated Depreciation reserves and resubmit its 2010 FERC Form 1.

Name of Respondent Florida Power Corporation		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2010/Q4
SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS FOR DEPRECIATION, AMORTIZATION AND DEPLETION				
Report in Column (c) the amount for electric function, in column (d) the amount for gas function, in column (e), (f), and (g) report other (specify) and in column (h) common function.				
Line No.	Classification (a)	Total Company for the Current Year/Quarter Ended (b)	Electric (c)	
1	Utility Plant			
2	In Service			
3	Plant in Service (Classified)	12,929,612,528	12,927,081,288	
4	Property Under Capital Leases	207,307,069	207,307,069	
5	Plant Purchased or Sold			
6	Completed Construction not Classified			
7	Experimental Plant Unclassified			
8	Total (3 thru 7)	13,136,919,597	13,134,388,357	
9	Leased to Others			
10	Held for Future Use	35,771,935	35,771,935	
11	Construction Work in Progress	966,834,559	966,834,559	
12	Acquisition Adjustments	18,034,388	18,034,388	
13	Total Utility Plant (8 thru 12)	14,157,560,479	14,155,029,239	
14	Accum Prov for Depr, Amort, & Depl	4,919,393,761	4,917,717,650	
15	Net Utility Plant (13 less 14)	9,238,166,718	9,237,311,589	
16	Detail of Accum Prov for Depr, Amort & Depl			
17	In Service:			
18	Depreciation	4,791,009,765	4,791,009,765	
19	Amort & Depl of Producing Nat Gas Land/Land Right			
20	Amort of Underground Storage Land/Land Rights			
21	Amort of Other Utility Plant	130,030,475	128,354,364	
22	Total In Service (18 thru 21)	4,921,040,240	4,919,364,129	
23	Leased to Others			
24	Depreciation			
25	Amortization and Depletion			
26	Total Leased to Others (24 & 25)			
27	Held for Future Use			
28	Depreciation			
29	Amortization			
30	Total Held for Future Use (28 & 29)			
31	Abandonment of Leases (Natural Gas)			
32	Amort of Plant Acquisition Adj	-1,646,479	-1,646,479	
33	Total Accum Prov (equals 14) (22,26,30,31,32)	4,919,393,761	4,917,717,650	

Name of Respondent Florida Power Corporation	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2010/Q4
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**SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS  
FOR DEPRECIATION, AMORTIZATION AND DEPLETION**

Gas (d)	Other (Specify) (e)	Other (Specify) (f)	Other (Specify) (g)	Common (h)	Line No.
					1
					2
	2,531,240				3
					4
					5
					6
					7
	2,531,240				8
					9
					10
					11
					12
	2,531,240				13
	1,676,111				14
	855,129				15
					16
					17
					18
					19
					20
	1,676,111				21
	1,676,111				22
					23
					24
					25
					26
					27
					28
					29
					30
					31
					32
	1,676,111				33

Name of Respondent Florida Power Corporation	This Report is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2010/Q4
FOOTNOTE DATA			

**Schedule Page: 200 Line No.: 14 Column: b**

In FERC Docket ER11-3584-000, dated July 15, 2011, the FERC found that PEF must recognize certain economic effects of the Florida Public Service Commission's (FPSC) rate actions in Docket 090079-EI, March 5, 2010 and June 18, 2010, as Other Regulatory Assets (account 182.3), rather than as adjustments to its Accumulated Depreciation reserves (account 108). As such PEF was directed to reinstate the adjustments to Accumulated Depreciation reserves and resubmit its 2010 FERC Form 1.

**Schedule Page: 200 Line No.: 18 Column: b**

		Column (b)	Column (c)
Page 200, line 14, col (b) & (c)	Accumulated Provision	4,919,393,761	4,917,717,650
Page 200, line 15, col (b) & (c)	Net EPIS	9,238,166,718	9,237,311,589
Page 200, line 18, col (b) & (c)	Depreciation	4,791,009,765	4,791,009,765
Page 200, line 22, col (b) & (c)	Total In-Service	4,921,040,240	4,919,364,129
Page 200, line 33, col (b) & (c)	Total Accumulated Prov.	4,919,393,761	4,917,717,650

Name of Respondent Florida Power Corporation	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2010/Q4
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**ACCUMULATED PROVISION FOR DEPRECIATION OF ELECTRIC UTILITY PLANT (Account 108)**

1. Explain in a footnote any important adjustments during year.
2. Explain in a footnote any difference between the amount for book cost of plant retired, Line 11, column (c), and that reported for electric plant in service, pages 204-207, column 9d), excluding retirements of non-depreciable property.
3. The provisions of Account 108 in the Uniform System of accounts require that retirements of depreciable plant be recorded when such plant is removed from service. If the respondent has a significant amount of plant retired at year end which has not been recorded and/or classified to the various reserve functional classifications, make preliminary closing entries to tentatively functionalize the book cost of the plant retired. In addition, include all costs included in retirement work in progress at year end in the appropriate functional classifications.
4. Show separately interest credits under a sinking fund or similar method of depreciation accounting.

**Section A. Balances and Changes During Year**

Line No.	Item (a)	Total (c+d+e) (b)	Electric Plant in Service (c)	Electric Plant Held for Future Use (d)	Electric Plant Leased to Others (e)
1	Balance Beginning of Year	4,634,764,465	4,634,764,465		
2	Depreciation Provisions for Year, Charged to				
3	(403) Depreciation Expense	326,580,572	326,580,572		
4	(403.1) Depreciation Expense for Asset Retirement Costs	2,053,167	2,053,167		
5	(413) Exp. of Elec. Plt. Leas. to Others				
6	Transportation Expenses-Clearing	6,126,773	6,126,773		
7	Other Clearing Accounts				
8	Other Accounts (Specify, details in footnote):				
9	Fuel Stock - Oil & Rail Cars	1,113,380	1,113,380		
10	TOTAL Deprec. Prov for Year (Enter Total of lines 3 thru 9)	335,873,892	335,873,892		
11	Net Charges for Plant Retired:				
12	Book Cost of Plant Retired	168,274,143	168,274,143		
13	Cost of Removal	57,369,414	57,369,414		
14	Salvage (Credit)	39,897,927	39,897,927		
15	TOTAL Net Chrgs. for Plant Ret. (Enter Total of lines 12 thru 14)	185,745,630	185,745,630		
16	Other Debit or Cr. Items (Describe, details in footnote):				
17	Transfers/Adjustments	6,117,038	6,117,038		
18	Book Cost or Asset Retirement Costs Retired				
19	Balance End of Year (Enter Totals of lines 1, 10, 15, 16, and 18)	4,791,009,765	4,791,009,765		

**Section B. Balances at End of Year According to Functional Classification**

20	Steam Production	1,333,319,080	1,333,319,080		
21	Nuclear Production	594,812,585	594,812,585		
22	Hydraulic Production-Conventional				
23	Hydraulic Production-Pumped Storage				
24	Other Production	686,331,785	686,331,785		
25	Transmission	503,368,837	503,368,837		
26	Distribution	1,565,989,569	1,565,989,569		
27	Regional Transmission and Market Operation				
28	General	107,187,909	107,187,909		
29	TOTAL (Enter Total of lines 20 thru 28)	4,791,009,765	4,791,009,765		

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
Florida Power Corporation	(1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2010/Q4
FOOTNOTE DATA			

**Schedule Page: 219 Line No.: 3 Column: b**

In FERC Docket ER11-3584-000, dated July 15, 2011, the FERC found that PEF must recognize certain economic effects of the Florida Public Service Commission's (FPSC) rate actions in Docket 090079-EI, March 5, 2010 and June 18, 2010, as Other Regulatory Assets (account 182.3), rather than as adjustments to its Accumulated Depreciation reserves (account 108). As such, PEF was directed to reinstate the adjustments to Accumulated Depreciation reserves and it will be recording the cumulative effect of these adjustments in its August 2011 general ledger and prospectively as ordered.

**Schedule Page: 219 Line No.: 29 Column: b**

Page 219, line 3, col (b) & (c)	Depreciation Expense	326,580,572
Page 219, line 10, col (b) & (c)	Total Depreciation Provision	335,873,892
Page 219, line 19, col (b) & (c)	Balance End of Year - Accum Prov.	4,791,009,765
Page 219, line 20, col (b) & (c)	Steam Production AP Balance	1,333,319,080
Page 219, line 21, col (b) & (c)	Nuclear production AP Balance	594,812,585
Page 219, line 24, col (b) & (c)	Other Production AP Balance	686,331,785
Page 219, line 26, col (b) & (c)	Distribution AP Balance	1,565,989,569
Page 219, line 29, col (b) & (c)	Total Accumulated Provision	4,791,009,765

Name of Respondent Florida Power Corporation	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2010/Q4
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**OTHER REGULATORY ASSETS (Account 182.3)**

- Report below the particulars (details) called for concerning other regulatory assets, including rate order docket number, if applicable.
- Minor items (5% of the Balance in Account 182.3 at end of period, or amounts less than \$100,000 which ever is less), may be grouped by classes.
- For Regulatory Assets being amortized, show period of amortization.

Line No.	Description and Purpose of Other Regulatory Assets  (a)	Balance at Beginning of Current Quarter/Year  (b)	Debits  (c)	CREDITS		Balance at end of Current Quarter/Year  (f)
				Written off During the Quarter/Year Account Charged  (d)	Written off During the Period Amount  (e)	
1	Accumulated Deferred Taxes - FAS 109	213,121,182	11,363,346	4101000	3,328,165	221,156,363
2	as temporary differences occur.					
3						
4	Load Control Switches - Investment	16,394,365	3,297,959	1823320	650,660	19,041,664
5	Load Control Switches - Amortization	( 5,407,590)	656,513	9080120	3,583,723	-8,334,800
6						
7	Interest on Tax Deficiency	2,614,336	4,365,903	4310024	1,827,227	5,153,012
8						
9	Deferred Fuel Expense -Wholesale	5,120,765	12,271,389	5572002	12,345,407	5,046,747
10	Deferred Fuel Expense - Current Year		349,950,428	5572002	122,558,895	227,391,533
11	Deferred Capacity Expense - Prior Year		47,718,468	5572001	47,718,468	
12	Deferred Capacity Expense - Current Year	45,610,686	10,753,117	5572001	56,363,803	
13						
14	Accrued Environmental Cost Recovery	19,302,001	10,770,051	2284800	16,714,258	13,357,794
15						
16	Florida Minimum Pension Liability	450,694,390	141,850,753	2283151-70	65,804,860	526,740,283
17						
18	Regulatory Asset Derivative MTM Oil	347,685,056	200,208,130	2543015-17	163,925,400	383,967,786
19						
20	Regulatory Asset - FAS 143 Asbestos	1,562,099	4,523,685	4074002	1,543,873	4,541,911
21	Regulatory Asset - FAS 143 Landfill	5,424,649	455,097	4074002		5,879,746
22						
23	Deferred Levy - 2010 Regulatory Asset	273,889,606	32,268,788	4073005	68,886,896	237,271,498
24	Deferred Levy Nuclear - Current Year		6,291,389	4073005	6,291,389	
25	Deferred Levy Nuclear - Prior Year	1,597,887	6,182,058	4073005	1,161,653	6,618,292
26	Deferred CR3 NCR - Current Year	778,918	5,484,335	4073005	6,117,961	145,292
27	Deferred CR3 NCR - Prior Year		1,195,620	4073005	1,195,620	
28						
29	Regulatory Asset - 2009 Pension	33,805,589	1,277,351	9260001	1,277,351	33,805,589
30						
31	Regulatory Asset - Medicare Part D	( 22,052,277)	22,052,277			
32						
33	Base Rate Regulatory Asset	1,436,902		1730030-40	1,436,902	
34						
35	Rate Case Expense Regulatory Asset		2,599,737	4073702	649,934	1,949,803
36						
37	Regulatory Asset - Cost of Removal		65,840,613			65,840,613
38						
39						
40						
41						
42						
43						
44	<b>TOTAL</b>	1,391,578,564	941,377,007			504,823,145

20180047-EI-000283

Name of Respondent Florida Power Corporation	This Report is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2010/Q4
FOOTNOTE DATA			

**Schedule Page: 232 Line No.: 37 Column: f**

In FERC Docket ER11-3584-000, dated July 15, 2011, the FERC found that PEF must recognize certain economic effects of the Florida Public Service Commission's (FPSC) rate actions in Docket 090079-EI, March 5, 2010 and June 18, 2010, as other Regulatory Assets (account 182.3), rather than as adjustments to its Accumulated Depreciation reserves (account 108). As such, PEF was directed to reinstate the adjustments to Accumulated Depreciation reserves and resubmit its 2010 FERC Form 1.

Name of Respondent Florida Power Corporation	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2010/Q4
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**DEPRECIATION AND AMORTIZATION OF ELECTRIC PLANT (Account 403, 404, 405)**  
(Except amortization of acquisition adjustments)

1. Report in section A for the year the amounts for : (b) Depreciation Expense (Account 403; (c) Depreciation Expense for Asset Retirement Costs (Account 403.1; (d) Amortization of Limited-Term Electric Plant (Account 404); and (e) Amortization of Other Electric Plant (Account 405).

2. Report in Section 8 the rates used to compute amortization charges for electric plant (Accounts 404 and 405). State the basis used to compute charges and whether any changes have been made in the basis or rates used from the preceding report year.

3. Report all available information called for in Section C every fifth year beginning with report year 1971, reporting annually only changes to columns (c) through (g) from the complete report of the preceding year.  
Unless composite depreciation accounting for total depreciable plant is followed, list numerically in column (a) each plant subaccount, account or functional classification, as appropriate, to which a rate is applied. Identify at the bottom of Section C the type of plant included in any sub-account used.  
In column (b) report all depreciable plant balances to which rates are applied showing subtotals by functional Classifications and showing composite total. Indicate at the bottom of section C the manner in which column balances are obtained. If average balances, state the method of averaging used.  
For columns (c), (d), and (e) report available information for each plant subaccount, account or functional classification Listed in column (a). If plant mortality studies are prepared to assist in estimating average service Lives, show in column (f) the type mortality curve selected as most appropriate for the account and in column (g), if available, the weighted average remaining life of surviving plant. If composite depreciation accounting is used, report available information called for in columns (b) through (g) on this basis.

4. If provisions for depreciation were made during the year in addition to depreciation provided by application of reported rates, state at the bottom of section C the amounts and nature of the provisions and the plant items to which related.

**A. Summary of Depreciation and Amortization Charges**

Line No.	Functional Classification (a)	Depreciation Expense (Account 403) (b)	Depreciation Expense for Asset Retirement Costs (Account 403.1) (c)	Amortization of Limited Term Electric Plant (Account 404) (d)	Amortization of Other Electric Plant (Acc 405) (e)	Total (f)
1	Intangible Plant			2,844,570		2,844,570
2	Steam Production Plant	73,831,832	1,719,050			75,550,882
3	Nuclear Production Plant	17,711,028	291,459			18,002,487
4	Hydraulic Production Plant-Conventional					
5	Hydraulic Production Plant-Pumped Storage					
6	Other Production Plant	70,509,628				70,509,628
7	Transmission Plant	38,807,709				38,807,709
8	Distribution Plant	107,186,776				107,186,776
9	Regional Transmission and Market Operation					
10	General Plant	18,533,598	42,658	299,955		18,876,211
11	Common Plant-Electric					
12	<b>TOTAL</b>	<b>326,580,571</b>	<b>2,053,167</b>	<b>3,144,525</b>		<b>331,778,263</b>

**B. Basis for Amortization Charges**

Name of Respondent Florida Power Corporation	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2010/Q4
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DEPRECIATION AND AMORTIZATION OF ELECTRIC PLANT (Continued)

C. Factors Used in Estimating Depreciation Charges

Line No.	Account No. (a)	Depreciable Plant Base (In Thousands) (b)	Estimated Avg. Service Life (c)	Net Salvage (Percent) (d)	Applied Depr. rates (Percent) (e)	Mortality Curve Type (f)	Average Remaining Life (g)
12							
13							
14							
15							
16							
17							
18							
19							
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21							
22							
23							
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28							
29							
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50							

Name of Respondent Florida Power Corporation	This Report is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2010/Q4
FOOTNOTE DATA			

**Schedule Page: 336 Line No.: 12 Column: f**

In FERC Docket ER11-3584-000, dated July 15, 2011, the FERC found that PEF must recognize certain economic effects of the Florida Public Service Commission's (FPSC) rate actions in docket 090079-EI, March 5, 2010 and June 18, 2010, as Other Regulatory Assets (account 182.3), rather than as adjustments to its Accumulated Depreciation reserves (account 108). As such, PEF was directed to reinstate the adjustments to Accumulated Depreciation reserves and resubmit its 2010 FERC Form 1.

	Column (b)	Column (f)
Page 336, line 2, col (b)&(f) Steam Production Plant	73,831,832	75,550,882
Page 336, line 3, col (b)&(f) Nuclear Production Plant	17,711,028	18,002,487
Page 336, line 6, col (b)&(f) Other Production Plant	70,509,628	70,509,628
Page 336, line 8, col (b)&(f) Distribution Plant	107,186,776	107,186,776
Page 336, line 22, col (b)&(f) Total Depr. & Amort Expense	326,580,571	331,778,263

To: Accounting Files  
Subject: Cost of Removal and Depreciation Regulatory Accounts  
Date: September 12, 2011

**Background:**

Docket 090079-EI, March 5, 2010: As part of the 2009 rate case, a theoretical depreciation reserve surplus of approximately \$667M was identified, meaning that depreciation previously recognized was greater than would have been required if the latest useful life estimates were applied retrospectively. As part of determining revenue requirements, the FPSC ordered PEF to record a \$23M credit to depreciation to adjust the depreciation reserve surplus over 4 years (less than the remaining useful life) but did not provide guidance for specific implementation. In order to determine where the depreciation adjustment should be recorded the following three factors were considered:

1. As this is a retail issue, use the function with the highest retail jurisdiction factor – Distributions
2. Within Distribution, select a FERC account that has the greatest reserve surplus after the theoretical reserve transfers required per the rate case order (365 Overhead Conductors and Devices)
3. Ensure that the FERC selected in #2 has an actual plant life reserve sufficient to absorb the \$23M depreciation required. As of April, 2010 the plant life balance in FERC 365 was \$167M (sufficient to cover the \$23M)

Therefore, based on the factors above, we have recorded the monthly deprecation credit (cumulative \$10M through August) in the FERC account 108, included in accumulated depreciation.

Docket 090079-EI June 18, 2010: As part of the settlement agreement, the FPSC ordered PEF to record a credit to depreciation up to a specified amount per year, to adjust specifically, the Cost of Removal portion of depreciation reserve imbalances (\$535M of the total \$667M identified above) over 3 years. The amortization period will be significantly less than the remaining useful life.

**Issue:**

In FERC Docket ER11-3584-000, dated July 15, 2011, the FERC found that PEF must recognize the economic effects of the Florida Public Service Commission's (FPSC) rates actions in Docket 090079-EI, March 5, 2010 and June 18, 2010 (see above), as Other Regulatory Assets (account 182.3), rather than as adjustments to its Accumulated Depreciation reserves (account 108). As such, Florida Power was directed to reflect the adjustment to reinstate the depreciation reserves and will be recording the cumulative effect (\$203M) in August 2011 general ledger and prospectively as ordered.

The two components of the Other Regulatory Assets recorded are:

1. Cost of Removal adjustment
2. Depreciation – Plant Life reserve adjustment

This memo will discuss the GAAP impact of recording the Regulatory Asset for the two items noted above.

**Guidance:**

**Deloitte and Touche : Energy & Resources 2010 Accounting, Financial Reporting, and Tax  
Nonlegal Cost of Removal**

Estimated cost of removal is generally recognized as an element of depreciation expense for regulatory purposes. However, on the basis of SEC guidance, costs of removal that are not a legal requirement are considered a regulatory liability under U.S. GAAP because this expense is recognized sooner than would be required or permitted

under general U.S. GAAP. As a result, if the regulator orders or agrees to an adjustment of this regulatory liability, there are no U.S. GAAP restrictions that would prohibit the reversal of previously recorded accumulated cost of removal so that negative cost of removal amortization could be permitted as long as the reversal matches rate treatment.

**PWC Public Utilities ARM:**

**252 Depreciation as a regulatory asset or liability**

As a result of regulator action in certain jurisdictions, some enterprises have implemented accelerated and decelerated cost recovery of their utility plant... We believe that if the depreciation method is not changed for U.S. GAAP financial reporting purposes (which would ordinarily require a change in accounting principle in accordance with ASC 250), a change in depreciation methods for ratemaking purposes would give rise to a regulatory asset or liability (with the offsetting debit to revenue for the excess or a credit to expense reflected as reduced regulatory depreciation as compared to straight-line depreciation under U.S. GAAP). Technically, the resulting regulatory asset or liability should be reflected separately on the balance sheet rather than as a balance recorded within accumulated depreciation.

**Accounts**

Cost of Removal Expense

The majority of the costs to be recorded for FERC purposes as regulatory assets from accumulated depreciation relate to Cost of Removal (Cumulative \$194M of the total \$203M). We note that the ongoing Cost of Removal Reserves not included in the base rate settlement agreement are required to be recorded as a regulatory liability for GAAP purposes (see guidance above). Additionally, we believe the portion of the Cost of Removal Reserves specifically identified in the dockets above, that are to be recorded in regulatory assets for FERC (instead of Accumulated Depreciation), should be netted against the other Cost of Removal Reserves and recorded net on the GAAP balance sheet (in the regulatory liabilities section) as we have not changed the GAAP nature of the underlying reserves. Specifically, the regulator has ordered an adjustment to a reserve only allowable as a regulatory liability under GAAP (as noted in the guidance above).

Depreciation – Plant Life Reserve Adjustment

The remaining costs to be recorded as regulatory assets from accumulated depreciation relate to reductions in depreciation expense as required by our regulators (cumulative \$10M of \$203M). In this instance, the regulator has ordered a reduction in depreciation expense as a result of changes in useful life estimates over a period of time much shorter than the remaining estimated useful life. Under GAAP, if a useful life estimate is updated, depreciation expense will be adjusted prospectively on a straight line basis to recognize the impact of the change in estimate evenly over the remaining estimated useful life. As noted in the guidance above, when a regulator orders a change in depreciation method but the financial reporting method is unchanged, a regulatory asset should be set up. As is the case, we believe a regulatory asset should be set up to capture the cumulative \$10M plus the remaining \$0.5M monthly amortization.

**Financial Reporting**

We will set up 2 FERC accounts (182). The first account will include the Cost of Removal charges noted above. We will map this account in Hyperion to regulatory liabilities (to eliminate manual monthly entries). The second account will include the depreciation expense adjustment noted above. We will map this account to regulatory assets (no FERC to GAAP entry necessary).

**Progress Energy Florida**

**Process to reopen Accounting Records to restate December, 2010**

**August, 2011**

Progress Energy Florida's (PEF) has concluded that to comply with the FERC order to restate its 2010 FERC Form 1, PEF would have to reopen closed historic accounting periods and updating our documentation of our financial statements for each impacted period. PEF's process to reopen closed accounting records is resource intensive and is driven by internal control considerations as outlined in our Sarbanes Documentation. PEF has determined that the earliest accounting period requiring restatement would be September of 2010, thus the process to restate the 2010 FERC Form 1 would entail opening a total of 11 accounting periods (September, 2010 – July, 2011). The resources to complete this would involve individuals in various departments including: information technology (i.e., Business Technology), corporate accounting, tax, regulatory and property accounting and general accounting. An overview of the process is as follows: Business Technology resources would be required to open, and then subsequently close (once adjustments are complete), each accounting period in the system. This would entail a blackout period of all processing of current business activities until the accounting periods were successfully opened and closed. Entries would be prepared by an analyst, and reviewed by the appropriate manager, to make the reclassification. Once the entries were prepared and reviewed, the entry would be posted, by an analyst, into the PEF Oracle Accounting System. FERC Financial statements would then be generated. These financials statements would be reviewed for accuracy. Once FERC Financial Statements have been completed, they would be submitted to Business Technology, along with updated close checklists, prepared by an analyst, and reviewed/approved by the Assistant Controller. Once FERC statements have been submitted, then these financials would be uploaded into our consolidated accounting system by Business Technology. Once these financials are in the consolidated accounting system, which is GAAP based, then FERC to GAAP adjustments would be prepared by an analyst and reviewed, to adjust the reclassification on a GAAP basis (note, the requested change to our FERC financials have no impact to our GAAP financial statements; this reclass would result in an additional FERC to GAAP adjustment to get back to what was originally reported for GAAP financial statements). Once FERC to GAAP adjustments have been completed, then the Business Technology group would reload the adjustments, and GAAP financial statements would be generated and reviewed. As a result supporting account reconciliations and account roll forward documentation would need to be updated for select accounting periods as needed. Because this process would be completed for each of the eleven accounting periods, this entire process could take approximately 3-5 days, involving approximately 10 employees or more, in several departments.

## **PEF Cost of Removal 1Q13 approach**

### **Background**

With the approval of the Stipulation and Settlement Agreement (the Settlement) as filed with the FPSC of May 10, 2009 and approved on June 18, 2010, the FPSC provided PEF the flexibility to effectively amortize the remaining depreciation reserve surplus of \$667 million identified in PEF's base rate proceeding (FPSC Order No. PSC-10-0131-FOF-EI), up to "the amount of the cost of removal liability." This flexibility was constrained only by (1) the retail level of cost of removal liability (the COR liability) (2) annual caps, adjusted for any prior year carry over or unused cap and (3) reported ROE limits. This policy addresses what guidelines should be followed by PEF in implementing this Settlement and recording adjustments to COR liabilities.

### **Terms and Conditions of the Settlement**

Paragraph 3 of the Stipulation and Settlement Agreement (the Settlement) filed with the FPSC of May 10, 2009 and approved by the FPSC in its order dated June 18, 2010 (the Order), the FPSC granted PEF the discretion to record a retail jurisdictional credit to depreciation expense in the form of a reduction to the cost of removal portion of the accumulated depreciation reserves as follows:

*In consideration of the foregoing, PEF will have the discretion to reduce depreciation expense (cost of removal) by up to \$150 million in 2010, up to \$250 million in 2011, and up to any remaining balance in 2012 during the term of this Agreement until the earlier of (a) PEF's depreciation (cost of removal) reserve reaches zero, or (b) the term of this Agreement expires. In the event PEF reduces depreciation expense (cost of removal) by less than the caps set forth in this paragraph, PEF may carry forward (i.e. increase the cap by) any unused depreciation (cost of removal) reserve amounts in subsequent years during the term of this Agreement.*

The discretion granted by the FPSC allows to carry forward and record in subsequent years the difference between the booked amount of the expense credit and the set cap for that year. For example, if PEF records a credit to depreciation expense of \$100 million in 2010, it would be permitted to carry forward and record in 2011 or 2012 the \$50 million difference between the amount booked and the cap of \$150 million, in addition to the \$250 million capped amount for 2011. If the full amount of the depreciation expense credit is taken in 2010 and 2011, PEF will have the discretion in 2012 of recording a credit to depreciation expense up to the amount of the cost of removal liability existing at that time.

Paragraph 5 of the Settlement and Order further provides, if PEF's retail base rate earnings exceed 11.5 percent ROE as reported on a historical Commission adjusted or pro-forma basis during the term of this Stipulation, any other Party shall be entitled to petition the FPSC for a review of PEF's base rates. The Earnings Surveillance Report (ESR) filed with this Commission (pursuant to Rule 25-6.1352, Florida Administrative Code) will be the basis for determining if PEF's ROE on a historical or pro-forma basis is above 11.5 percent. The Order specifies "depreciation expense credit and/or the acceleration of amortization of the regulatory assets identified in Paragraph 7 will be included as recognized in the calculation of the achieved ROE

in the referenced ESR to which the 11.5 percent will be compared.” Paragraph 5 of the Settlement states:

*If PEF's retail base rate earnings exceed 11.5% return on equity as reported on a historical Commission adjusted or pro-forma basis on a PEF monthly earnings surveillance report during the term of the Agreement, any other Party shall be entitled to petition the Commission for a review of PEF's base rates.*

### **Conclusions and Policy**

Based on interpretation of the Settlement and Order it is PEF's policy that it has full flexibility to record reductions to COR liabilities up to the annual caps approved and within the ROE boundaries provided. However, as a matter of policy PEF will record depreciation reductions with the intent 1) not to exceed 11.5% ROE on a monthly earnings surveillance report and 2) not to reduce total GAAP basis depreciation expense to below zero for any year to date or annual period. Furthermore, it is PEF's interpretation of this Settlement that this reduction in depreciation expenses is accomplished by reducing cost of removal component of current period depreciation expense first to zero and then a reduction of remaining COR liabilities. PEF may modify this policy in the future as circumstances warrant.

Will A. Garrett  
PEF Controller  
June 28, 2010

### **Update to the COR Adjustment Policy, August 2012:**

With the approval of the 2012 Stipulation and Settlement Agreement (the Settlement) as filed with the FPSC on January 20, 2012 and approved on March 8, 2012, the FPSC provided PEF the ability to continue to amortize the remaining depreciation reserve surplus of \$667 million identified in PEF's base rate proceeding (FPSC Order No. PSC-10-0131-FOF-EI), up to “the amount of the cost of removal liability.” This flexibility was constrained only by (1) the retail level of cost of removal liability (the COR liability) and (2) reported ROE limits. The annual cap provision of the previous settlement was removed from this settlement. This policy addresses what guidelines should be followed by PEF in implementing this Settlement and recording adjustments to COR liabilities.

### **Terms and Conditions of the 2012 Settlement**

Paragraph 18 of the 2012 Stipulation and Settlement Agreement (the Settlement) filed with the FPSC on January 20, 2012 and approved on March 8, 2012 (the Order), the FPSC granted PEF the discretion to record a retail jurisdictional credit to depreciation expense in the form of a

reduction to the cost of removal portion of the accumulated depreciation reserves pursuant to FERC accounting guidance as follows:

*PEF will have the discretion to record a retail jurisdictional annual credit to depreciation expense, with any reduction in depreciation expense recorded as a cost of removal regulatory asset pursuant to a FERC accounting order received by the Company in 2011. This reduction in depreciation expense will be limited by any remaining balance of the cost of removal reserve throughout the Term. PEF shall not be permitted to use cost of removal if the use would cause the Company to exceed the high point of the ROE range established in this Agreement, Le., 11.5% or 11.7%, as applicable. These credit amounts to depreciation expense are in lieu of the annual amortization of any theoretical depreciation reserve surplus approved in PEF's previous base rate order PSC-10-0131-FOF-EI. The cost of removal regulatory asset will be recovered commencing on the earlier of the Company's next filed base rate proceeding or upon completion and approval by this Commission of the Company's next depreciation study. Any recovery period of this regulatory asset will be no longer than the average remaining service life of the assets, approved in Company's most recent depreciation study. PEF agrees to file a Depreciation Study, Fossil Dismantlement Study or Nuclear Decommissioning Study on or before July 31, 2017.*

Paragraph 15 of the Settlement and Order provides the authorized ROE and range of reasonableness for the purpose of earnings levels and monthly earnings surveillance reports.

*Effective on the Implementation Date, PEF will have an authorized return on equity of 10.5% with a range of reasonableness of +/-100 basis points for the purpose of addressing earnings levels, earnings surveillance and cost recovery clauses. In the month following CR3's commencement of commercial operation, PEF's ROE shall increase to 10.7% +/-100 basis points, including a return calculated using the 10.7% ROE as specified above, on CR3 in-service revenue requirements as set forth in paragraph 8.b. Commencing with the Implementation Date, the applicable annual AFUDC rate will be 7.44%. (See Exhibit 2). In the month following CR3's commencement of commercial operation, PEF's applicable AFUDC rate will be 7.53% (See Exhibit 4).*

### **Conclusions and Policy**

Based on interpretation of the 2012 Settlement and Order it is PEF's interpretation that it has full flexibility to record reductions to COR liabilities within the ROE boundaries provided, and is further assured of its recovery in a future rate case, not to be recovered over a period greater than the average remaining life of the assets as calculated in the depreciation study filed at that time. However, as a matter of policy PEF will record depreciation/COR reductions with the intent 1) not to exceed 11.5% ROE on a monthly earnings surveillance report; 2) not to reduce total GAAP basis depreciation expense to below zero for any year to date or annual period; 3) record

COR credits based on the budgeted amount of COR as filed in the forecasted surveillance report for the year (filed in March of each year) adjusted to ensure that PEF's actual filed earnings surveillance report reflects the ROE range as ordered in the Settlement, which is between 9.5% to 11.5%. As a matter of procedure, PEF will take the actual filed surveillance that is available before the books are closed for the quarter and layer in the budget, including budgeted COR and significant known items for the month, drop off the PY month resulting in a 12 month rolling income statement. If the resulting ROE is in the range of 9.5% to 11.5%, then the budgeted COR for the quarter will be recorded. Otherwise, the COR credit will be adjusted up or down to meet the ROE range, with approval from the VP and Chief Accounting Officer.

As reference, the full year forecasted earnings surveillance report for 2012 was filed in March 2012 at 9.83% and included \$173 million of COR. This amount is less than the original budget of \$232 million due to the 2012 Settlement which allowed the reversal of approximately \$59 million of CR3 reserves, thereby allowing PEF to offset the COR budget for 2012 as filed in the forecasted earnings surveillance report. Also, the actual June 2012 earnings surveillance report was filed with a pro-forma adjusted ROE of 9.77%. Proforma adjustments currently include adjusting to normal weather and removing the \$288 million refund as ordered in the 2012 settlement.

Cynthia S. Lee  
Manager, FL Accounting  
August 27, 2012

**Cost of Removal Approach for 1<sup>st</sup> Quarter 2013:**

At year end December 2012, Duke Energy Florida had a remaining eligible balance of \$110 million. The budget for COR for 2013 was set last year at \$27.25 million per quarter and was included in the forecasted surveillance report sent to the FPSC in March 2013. The FPSC adjusted basis ROE submitted was 10.29%, which included COR credits of \$109 million. To assess the proper amount of COR credit to record in the 1<sup>st</sup> Quarter 2013, Duke Energy Florida considered the following items: 1). Full year surveillance report includes \$109 million COR credit and the ROE range is within the prescribed range (10.29%). 2). When filing the March 2013 Earnings Surveillance Report, Duke Energy Florida has several discrete items that occur in the 1Q13 and don't reoccur throughout the year which bring down the reported ROE. The first item is updated separation factors, which overall increased for retail, thus increased rate base which resulted in approximately 15 basis point ROE reduction. The second item is that a full year of the OBS debt increase was included (March – December 2012 \$602M and April 12 – March 13 is \$745M); resulting in a 59 basis point decrease in the ROE. 3). Duke Energy Florida had lower COR credit year over year as \$58M was recorded in the 1<sup>st</sup> quarter 2012 and the budget was only \$27.25M for 1Q13. 4). CR3 suspension and reversal of accruals recorded in 1Q12 dropped off the ROE for 2013.

Duke Energy Florida recorded a total of \$56M in COR credits in the quarter. This was derived by \$44.75M due to the discrete items of the separation factor change and the OBS debt (75 basis points). Secondly, the remainder of \$64.25M COR credits were allocated over all four quarters

based on the budgeted amount of operating income as follows: \$11.1M in 1Q13, \$17.1M in 2Q13, \$22.1M in 3Q13 and \$13.9M in 4Q13. Please see attached spreadsheet for allocation based on discrete items and operating income.

Cynthia S. Lee  
April 24, 2013

## **PEF Cost of Removal Adjustment Policy**

### **Background**

With the approval of the Stipulation and Settlement Agreement (the Settlement) as filed with the FPSC of May 10, 2009 and approved on June 18, 2010, the FPSC provided PEF the flexibility to effectively amortize the remaining depreciation reserve surplus of \$667 million identified in PEF's base rate proceeding (FPSC Order No. PSC-10-0131-FOF-EI), up to "the amount of the cost of removal liability." This flexibility was constrained only by (1) the retail level of cost of removal liability (the COR liability) (2) annual caps, adjusted for any prior year carry over or unused cap and (3) reported ROE limits. This policy addresses what guidelines should be followed by PEF in implementing this Settlement and recording adjustments to COR liabilities.

### **Terms and Conditions of the Settlement**

Paragraph 3 of the Stipulation and Settlement Agreement (the Settlement) filed with the FPSC of May 10, 2009 and approved by the FPSC in its order dated June 18, 2010 (the Order), the FPSC granted PEF the discretion to record a retail jurisdictional credit to depreciation expense in the form of a reduction to the cost of removal portion of the accumulated depreciation reserves as follows:

*In consideration of the foregoing, PEF will have the discretion to reduce depreciation expense (cost of removal) by up to \$150 million in 2010, up to \$250 million in 2011, and up to any remaining balance in 2012 during the term of this Agreement until the earlier of (a) PEF's depreciation (cost of removal) reserve reaches zero, or (b) the term of this Agreement expires. In the event PEF reduces depreciation expense (cost of removal) by less than the caps set forth in this paragraph, PEF may carry forward (i.e. increase the cap by) any unused depreciation (cost of removal) reserve amounts in subsequent years during the term of this Agreement.*

The discretion granted by the FPSC allows to carry forward and record in subsequent years the difference between the booked amount of the expense credit and the set cap for that year. For example, if PEF records a credit to depreciation expense of \$100 million in 2010, it would be permitted to carry forward and record in 2011 or 2012 the \$50 million difference between the amount booked and the cap of \$150 million, in addition to the \$250 million capped amount for 2011. If the full amount of the depreciation expense credit is taken in 2010 and 2011, PEF will have the discretion in 2012 of recording a credit to depreciation expense up to the amount of the cost of removal liability existing at that time.

Paragraph 5 of the Settlement and Order further provides, if PEF's retail base rate earnings exceed 11.5 percent ROE as reported on a historical Commission adjusted or pro-forma basis during the term of this Stipulation, any other Party shall be entitled to petition the FPSC for a review of PEF's base rates. The Earnings Surveillance Report (ESR) filed with this Commission (pursuant to Rule 25-6.1352, Florida Administrative Code) will be the basis for determining if PEF's ROE on a historical or pro-forma basis is above 11.5 percent. The Order specifies "depreciation expense credit and/or the acceleration of amortization of the regulatory assets identified in Paragraph 7 will be included as recognized in the calculation of the achieved ROE

in the referenced ESR to which the 11.5 percent will be compared.” Paragraph 5 of the Settlement states:

*If PEF's retail base rate earnings exceed 11.5% return on equity as reported on a historical Commission adjusted or pro-forma basis on a PEF monthly earnings surveillance report during the term of the Agreement, any other Party shall be entitled to petition the Commission for a review of PEF's base rates.*

### **Conclusions and Policy**

Based on interpretation of the Settlement and Order it is PEF's policy that it has full flexibility to record reductions to COR liabilities up to the annual caps approved and within the ROE boundaries provided. However, as a matter of policy PEF will record depreciation reductions with the intent 1) not to exceed 11.5% ROE on a monthly earnings surveillance report and 2) not to reduce total GAAP basis depreciation expense to below zero for any year to date or annual period. Furthermore, it is PEF's interpretation of this Settlement that this reduction in depreciation expenses is accomplished by reducing cost of removal component of current period depreciation expense first to zero and then a reduction of remaining COR liabilities. PEF may modify this policy in the future as circumstances warrant.

Will A. Garrett  
PEF Controller  
June 28, 2010

FERC Order ER11-3584-000

Entries to correct for 2010 balances:

Dr. 1823550	65,840,613	
Cr. 4074550		65,840,613
Dr. 4030100	65,840,613	
Cr. 1080100		65,840,613

Breakdown by function:

Production	Steam	17,410,938
	Nuclear	10,286,001
	Other	5,599,599
		<u>33,296,538</u>
Distribution		<u>32,544,075</u>
		<u>65,840,613</u>

FERC Pages to provide supplemental footnotes:

**1. Balance Sheet, Assets, page 110-111**

	Description	Reported	Supplemental FN
pg 110, line 5	Accumulated Reserve, 108	4,853,553,148	4,919,393,761
pg 110, line 6	Net Utility Plant, subtotal	9,304,007,331	9,238,166,718
pg 110, line 14	Net Utility Plant, subtotal	9,498,083,634	9,432,243,021
pg 111, line 72	Other Regulatory Assets, 182.3	1,683,732,513	1,749,573,126
pg 111, line 84	Total Def Debits, subtotal	2,427,385,635	2,493,226,248

**2. Statement of Income, page 114**

	Description	Reported	Supplemental FN
pg 114, line 6, col (c) & (g)	Depreciation Expense, 403	260,739,958	326,580,571
pg 114, line 13, col c & g	(Less) Regulatory Credits, 407.4	736,187,027	802,027,640

**3. EPIS & Accumulated Reserve, page 200**

	Description	Reported - Total col (b)	Reported - Electric (col c)	Supplemental FN - col b	Supplemental FN - col c
pg 200, line 14, col b & c	Accumulated provision	4,853,553,148	4,851,877,037	4,919,393,761	4,917,717,650
pg 200, line 15, col b & c	Net EPIS	9,304,007,331	9,303,152,202	9,238,166,718	9,237,311,589
pg 200, line 18, col b & c	Depreciation	4,725,169,152	4,725,169,152	4,791,009,765	4,791,009,765
pg 200, line 22, col b & c	Total In-Service	4,855,199,627	4,853,523,516	4,921,040,240	4,919,364,129
pg 200, line 33, col b & c	Total Accumulated Provision	4,853,553,148	4,851,877,037	4,919,393,761	4,917,717,650

**4. Accumulated Provision for Depreciation, page 219**

	Description	Reported - Total col (b) & c	Supplemental FN - col b & c
pg 219, line 3, col b & c	Depreciation expense	260,739,959	326,580,572
pg 219, line 10, col b & c	Total Depreciation provision	270,033,279	335,873,892
pg 219, line 19, col b & c	Balance end of year - Accum Prov	4,725,169,152	4,791,009,765
pg 219, line 20, col b & c	Steam Prod AP balance	1,315,908,142	1,333,319,080
pg 219, line 21 col b & c	Nuclear Prod AP balance	584,526,584	594,812,585
pg 219, line 24 col b & c	Other Prod AP balance	680,732,186	686,331,785
pg 219, line 26 col b & c	Distribution AP balance	1,533,445,494	1,565,989,569
pg 219, line 29 col b & c	Total Accumulated Provision	4,725,169,152	4,791,009,765

5. Other Regulatory Assets, Account 182.3, page 232

	Description	Reported	Supplemental FN
pg 232, line 37, col f	FPSC COR Reserve Flowback	-	<b>65,840,613</b>
pg 232, line 44, col f	Total Other Regulatory Assets	1,683,732,513	<b>1,749,573,126</b>

6. Depreciation & Amortization of EPIS, page 336

	Description	Reported - col (b) Acct 403	Reported - col (f)	Supplemental FN-col (b)	Supplemental FN-col (f)
pg 336, line 2, col (b) & (f)	Steam Production Plant	56,420,894	58,139,944	<b>73,831,832</b>	<b>75,550,882</b>
pg 336, line 3, col (b) & (f)	Nuclear Production Plant	7,425,027	7,716,486	<b>17,711,028</b>	<b>18,002,487</b>
pg 336, line 6, col (b) & (f)	Other Production Plant	64,910,029	64,910,029	<b>70,509,628</b>	<b>70,509,628</b>
pg 336, line 8, col (b) & (f)	Distribution Plant	74,642,701	74,642,701	<b>107,186,776</b>	<b>107,186,776</b>
pg 336, line 12, col (b) & (f)	Total Deprec & Amort Expense	260,739,958	265,937,650	<b>326,580,571</b>	<b>331,778,263</b>

R:\FERC Orders\ER11-3584-000 COR Order\2010 FERC Form 1 Summary changes.xlsx\Sheet1



Dianne M. Triplett  
DEPUTY GENERAL COUNSEL

November 2, 2018

**VIA ELECTRONIC FILING**

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

FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET: 20180047-EI EXHIBIT: 18  
PARTY: Staff (All parties)  
DESCRIPTION: Joint Motion by Duke Energy  
Florida, LLC, and Citizens of Florida through  
Office of Public Counsel t...

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

Dear Ms. Stauffer:

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

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

Sincerely,

*/s/ Dianne M. Triplett*

Dianne M. Triplett

DMT/cmK  
Enclosure

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Consideration of the tax impacts  
associated with Tax Cuts and Jobs Act of  
2017 for Duke Energy Florida, LLC.

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Docket No. 20180047-EI

Dated: November 2, 2018

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

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

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

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

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

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

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

Respectfully submitted this 2<sup>nd</sup> day of November, 2018.

/s/ Dianne M. Triplett  
Dianne M. Triplett

DUKE ENERGY FLORIDA, LLC

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**CERTIFICATE OF SERVICE**

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

/s/ Dianne M. Triplett

Attorney

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# **EXHIBIT A**

**STIPULATION LANGUAGE – DOCKET 20180047**

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

**STIPULATION:** Yes, as detailed below.

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

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

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

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

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

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

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

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

**ISSUE 1e:** What were the “unprotected” ADIT for 2018 using a 35 percent federal corporate tax rate?

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

**ISSUE 1f:** Were ADIT appropriately calculated?

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

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

**ISSUE 1g:** Are DEF’s calculations and classifications of the excess ADIT between “protected” and “unprotected” appropriate?

**STIPULATION:** Yes, DEF’s classifications of excess ADIT between “protected” and “unprotected” are appropriate.

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

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

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

**STIPULATION:** If DEF receives a private letter ruling (“PLR”) from the IRS ruling that the excess ADIT relating to cost of removal/negative net salvage is to be treated entirely as unprotected, then a

reclassification should be made in the company's books and records and flow-back amounts should be trueed up retroactive to January 2018 based on the ruling.

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

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

**ISSUE 2:**        **What is the appropriate amount of amortization for 2018 of "protected" excess ADIT?**

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

**ISSUE 3:**        **What is the appropriate amount of annual amortization of "unprotected" excess ADIT?**

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

**ISSUE 4:**        **What is the revenue requirement impact of the amortization of excess ADIT?**

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

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

**STIPULATION:** The tax savings calculated in accordance with the template in Exhibit 6 to the 2017 Agreement, based on the 2018 forecasted earning surveillance report, are \$100.1 million. Exhibit 6 calculates the difference between income tax expense at the 35 percent federal tax rate and income tax at the 21 percent federal tax rate. With respect to DEF's capital structure, the excess ADIT regulatory liability has been included in the ADIT row on Schedule 3 ("Average - Capital Structure") of DEF's 2018

forecasted earnings surveillance report, and the first year excess ADIT amortization has been reflected. As the excess ADIT is amortized, DEF's debt and equity ratios increase, thereby resulting in a higher weighted average cost of capital (all other things being equal) as compared to the weighted average cost of capital absent tax reform, and this differential will likely grow each year as excess ADIT is amortized.

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

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

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

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

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

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

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

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

**ISSUE 10:      What are the appropriate base rate charges implementing the TCJA and when should the new base rate charges become effective?**

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

**ISSUE 11:      Should this docket be closed?**

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