

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Amendment of Rule 25-14.004, F.A.C.,
Effect of Parent Debt on Federal Corporate Income Tax

Docket No. 20240019- PU

Filed: May 8, 2026

POST-WORKSHOP COMMENTS FROM JARED T. DEASON

I appreciate this opportunity to submit written comments regarding the Florida Public Service Commission (“Commission”) Staff’s proposed amendment to Rule 25-14.004, F.A.C. The Commission Staff hosted a Rulemaking Workshop on April 22, 2026 and I offer the following post workshop comments for Commission consideration.

I. I Fully Support the Proposed Rule Amendment

I greatly appreciate the Commission Staff’s efforts to update Rule 25-14.004, in particular the calculation of federal income tax expense for regulated utility companies. I fully agree with Mr. Mark Cicchetti’s comments, made during the Workshop, in which he explained the purpose of the proposed rule amendment and concluded that the Rule was obsolete. Specifically, Mr. Cicchetti noted the following:

- A utility should be regulated on a Stand-Alone basis and thus a utility’s rates should reflect only the costs and risks specifically associated with providing regulated utility service. The stand-alone approach is a protection to customers by preventing a utility from subsidizing, or being subsidized, by non-regulated investments.
- The double leverage approach traces the operating utility’s equity capital to its ultimate source, the parent’s debt and equity. One variant of double leverage is the

parent debt adjustment. This conflicts with stand-alone approach which requires that the return on equity to be a function of the risk the assets are exposed to and not the cost of the source of the capital.

- In 1983, the Commission adopted Rule 25-14.004, reflecting the consolidated (double leverage) approach. Prior to the implementation of Rule 25-14.004, the Commission typically relied upon the stand-alone approach(subsidiary) approach.
- Double leverage is contrary to the general accepted concepts of finance and economics that utilize actual data of the regulated entity.
- If double leverage is utilized, a utility will not recover the actual cost of providing utility service.
- The parent debt adjustment is a variation of the double leverage adjustment and if used reduces the earned return on equity.
- In the long run, having utilities under-recover their reasonable and prudent costs, including a fair return on equity, may lead to increased risk and higher costs to customers.

I completely agree with the Commission Staff that the better approach now is to compute the regulated utility's tax expense on a stand-alone basis without making the adjustment currently required by Rule 25-14.004.

II. Response to Workshop Comments

I will briefly respond to some of the comments made by The Office of Public Counsel (“OPC”) during the Workshop. First, the OPC claims that “double leverage adjustments have been implemented elsewhere to apply the parent or consolidated company’s capital structure and resulting lower overall rate of return to the regulated subsidiary, regardless of the existence of differing factors affecting the subsidiary.” The OPC also further claims that “nothing has changed since the rule was adopted and since repeal was rejected over three decades ago”. These

statements are not at all accurate since all regulatory jurisdictions have since abandoned the practice of double leverage adjustments in favor of the stand-alone approach to utility ratemaking. The OPC did not provide even one specific example of a regulatory jurisdiction where double leverage adjustments, or variations of double leverage adjustments, are still being applied. On the contrary, I provided at the workshop a couple of the most recent examples of regulatory jurisdictions, where double leverage adjustments were once common, issuing Orders rejecting the practice. The examples were:

- The Iowa Utilities Commission Final Decision and Order in Docket No. RPU-2016-0002; and
- The Tennessee Public Utilities Commission Order in Docket No. 18-00017.

Second, the OPC also made the erroneous claim that the PDA is not a double leverage adjustment but simply an “affiliate transaction”. This couldn’t be further from the truth. The PDA rule requires that when a regulated utility is a subsidiary filing a consolidated tax return, the income tax expense used for rate-setting must be reduced to reflect the tax benefits of the parent company’s debt. Thus, the purpose of the PDA is to adjust the income tax expense of a regulated utility to reflect parent debt that may be invested in the utility’s equity. This is based on the same premise of a double leverage adjustment since the PDA rule assumes the parent company’s investment in a subsidiary is made in the same ratios as exist in the parent’s overall capital structure. The final effect of the PDA is to artificially reduce the income tax expense allowed which in turn lowers the revenue requirements for the utility, thus making it highly unlikely the utility will earn its authorized rate of return. Although the PDA is not a “textbook case” of a double leverage adjustment, it is in fact a variation or form of double leverage, the difference being that the double leverage adjustment is applied indirectly through the utility’s income tax expense rather than being applied directly to the utility’s overall capital structure. Simply calling the PDA an “affiliate

transaction” does not change these facts. In other words, “a horse by any other name is still a horse”.

Third, OPC asserts, “that the existence of the rule is creating higher costs of capital is belied by the facts”. This statement is also not true. As I stated at the workshop, the PDA applied to a utility is designed to decrease its allowed cost of capital in the short term. However, in the long run, this adjustment leads to an increase in the utility's cost of capital due to negative reactions from financial markets. If the PDA is perceived by financial markets as regulatory penalization, it will lead to negative consequences. These negative consequences include lower debt ratings for the utility and a higher perceived risk for investors, which will ultimately force the company to pay higher interest rates on debt and demand higher returns on equity. The resulting increase in the utility’s weighted average cost of capital results in higher rates for its customers in the long-run.

III. Conclusion

Rule 25-14.004 (Parent Debt Adjustment) requires that if a parent company has debt, and that debt is invested in the equity of a regulated subsidiary, the tax savings from that debt must reduce the subsidiary's income tax expense which in turn artificially lowers the utility’s authorized revenue requirement thus making it extremely difficult for the utility to earn its authorized rate of return. This is a violation of the stand-alone principle that is utilized by the majority of other regulatory jurisdictions in the United States. This would also result in a utility having a competitive disadvantage with other utilities that are not subject to such an adjustment by increasing its borrowing costs in the long-run.

Respectfully submitted this 8th day of May, 2026.

JARED T. DEASON

T: 850.643.7326

E: deason21012@gmail.com