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Feb 01 2018

February 1, 2018

**VIA ELECTRONIC FILING**

Ms. M. Lynn Jarvis, Chief Clerk  
North Carolina Utilities Commission  
Dobbs Building  
430 North Salisbury Street  
Raleigh, North Carolina 27603-5918

Re: Docket No. M-100, Sub 148  
*The Federal Tax Cuts and Jobs Act*

Dear Ms. Jarvis:

On behalf of Public Service Company of North Carolina, Inc., attached are the *Initial Comments of Public Service Company of North Carolina, Inc.* for filing in the above-referenced proceeding.

Thank you for your assistance in this matter. Please do not hesitate to contact me if you have any questions.

Very truly yours,

/s/Mary Lynne Grigg

MLG:kjg

Enclosure

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. M-100, SUB 148

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	INITIAL COMMENTS OF
The Federal Tax Cuts and Jobs Act	)	PUBLIC SERVICE COMPANY
	)	OF NORTH CAROLINA, INC.

Public Service Company of North Carolina, Inc. ("PSNC" or the "Company"), through counsel, respectfully submits these comments in response to the Order Initiating Generic Proceeding and Requesting Comments ("Order"), issued by the North Carolina Utilities Commission ("Commission") in the above docket on January 3, 2018.

**BACKGROUND**

The Order was prompted by the enactment of the Federal Tax Cuts and Jobs Act ("Tax Act") on December 22, 2017. Among other things, the new federal legislation reduces the federal corporate income tax rate from 35% to 21% effective for taxable years beginning after December 31, 2017.

The Order placed each and every public utility subject to the provisions of the Order on notice that the federal corporate income tax expense component of all existing rates and charges, effective January 1, 2018, will be billed and collected on a provisional basis pending further investigation and disposition of the matter by the Commission. Further, the Order provides for each affected utility to place in a deferred account the difference between revenues billed under rates then in effect and revenues that would have been billed

if the federal income tax component of a company's approved cost of service had been based on the Internal Revenue Code as now amended by the Tax Act.

The Order requires the named utilities, including PSNC, to file initial comments on or before February 1, 2018. The Order requested that the initial comments include (1) the estimated annual cost-of-service effect, on an item-by-item basis, of the changes to the levels of income tax expenses expected due to the enactment of the Tax Act and (2) a detailed explanation of how the utility proposes to account for and treat excess deferred income taxes that were accrued in earlier years under federal corporate income tax rates that were in excess of those set forth in the Tax Act.

PSNC submits the following in response to the Order.

#### **COST-OF-SERVICE EFFECT**

Appendix A to these comments shows the estimated annual effect to PSNC's cost-of-service, on an item-by-item basis, of the changes to the levels of federal corporate income tax expense expected due to the enactment of the Tax Act. Column (a) sets forth the net operating income for return, rate base, and overall return as determined in PSNC's last general rate case, Docket No. G-5, Sub 565, as adjusted to reflect the reduction in the state corporate income tax rate from 4% to 3% effective January 1, 2017. Column (b) sets forth the decrease in federal income tax expense and the revenue requirement impact of that decrease. Column (c) sets forth the adjusted net operating income for return and return on rate base prior to reducing rates to reflect the reduction in the federal corporate income tax rate. Column (d) sets forth the decrease in revenue and associated adjustments to cost of service. In order to simplify the calculation and due to their immateriality, these amounts

do not reflect any resulting impact on the cash working capital component of rate base. Column (e) sets forth PSNC's cost of service adjusted for changes resulting from the Tax Act.

### **EXCESS DEFERRED INCOME TAX TREATMENT**

The reduction in the federal corporate income tax rate from 35% to 21% will result in excess deferred federal income taxes. PSNC proposes, and requests Commission approval, to record the adjustment to deferred taxes as a regulatory liability which will result in no net change in rate base until amortization of the liability begins. In accordance with Financial Accounting Standards Board requirements, the adjustments to deferred taxes will be grossed up to a pre-tax amount when recorded in a regulatory liability. PSNC proposes that the amortization of the regulatory liability be addressed in PSNC's next general rate case.

### **POTENTIAL RATE ADJUSTMENTS**

PSNC proposes to adjust its rates by allocating the annual revenue requirement impact of the Tax Act changes to the various rate schedules based on the volumes determined in PSNC's most recent general rate case, Docket No. G-5, Sub 565. The change in rates applicable to each rate schedule will be used to determine the appropriate level of deferred revenue to record per ordering paragraph two of the Order. PSNC has established a regulatory liability account to record provisionally collected revenues as required by the Order. Due to the administrative burden of implementing a refund by recalculating previously issued bills, PSNC proposes to refund provisionally collected amounts by moving the balance in the regulatory liability account to the Company's All Customers

Deferred Account. This is the same treatment that PSNC used to refund provisionally collected amounts in Docket No. M-100, Sub 138.

Appendix B to these comments sets forth the adjustments to rates resulting from the decrease in revenue requirement due to enactment of the Tax Act. Proposed rates are set forth on Appendix C.

Contemporaneous with this filing, PSNC is submitting an Application to Refund Overcollection in Docket Nos. G-5, Sub 565 and M-100, Sub 138. As indicated therein, the determination of the revenues being billed and collected on a provisional basis pursuant to this docket will include amounts over collected due to the error in adjusting rates for the decrease in the state corporate income tax rate from 4% to 3% effective January 1, 2017.

### CONCLUSION

PSNC respectfully submits these comments for the Commission's consideration.

Respectfully submitted this, the 1<sup>st</sup> day of February, 2018.

/s/Mary Lynne Grigg

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North Carolina, Inc.*

Public Service Company of North Carolina, Inc.  
Docket No. M-100, Sub 148  
Annual Cost of Service Effect of Tax Changes  
For the Test Year Ended December 31, 2015 in Docket No. G-5, Sub 565  
Appendix A

Line No.	Item	After Rate Increase as Adjusted for 3% SIT [1]	Adjustment to Reflect 21% FIT Rate	Adjusted For 21% FIT Rate	Revenue Requirement Decrease	After Decrease
		(a)	(b)	(c)	(d)	(e)
Operating Revenues:						
1	Gas Sales and Transportation	\$448,904,281	0	\$448,904,281	(\$13,474,398) [2]	\$435,429,883
2	Other Operating Revenues	3,803,540	0	3,803,540		3,803,540
3	Total Operating Revenues	<u>452,707,821</u>	<u>0</u>	<u>452,707,821</u>	<u>(13,474,398)</u>	<u>439,233,423</u>
Operating Expenses:						
4	Purchased Gas	180,388,055	0	180,388,055		180,388,055
5	Operating and Maintenance	101,674,165	0	101,674,165	(52,503) [3]	101,621,662
6	Depreciation	56,055,279	0	56,055,279		56,055,279
7	General Taxes	15,288,097	0	15,288,097		15,288,097
8	State Income Taxes	2,272,135	0	2,272,135	(402,657) [6]	1,869,478 [4]
9	Federal Income Taxes	25,712,995	(10,285,198)	15,427,797	(2,734,040) [6]	12,693,757 [5]
10	Total Operating Expenses	<u>381,390,726</u>	<u>(10,285,198)</u>	<u>371,105,528</u>	<u>(3,189,200)</u>	<u>367,916,328</u>
11	Net Operating Income for Return	<u>\$71,317,095</u>	<u>\$10,285,198</u>	<u>\$81,602,293</u>	<u>(\$10,285,198)</u>	<u>\$71,317,095</u>
12	Revenue Requirement Impact		<u>(\$13,474,398)</u>			
End of Period Rate Base						
13	Utility Plant	1,839,643,565		1,839,643,565		1,839,643,565
14	Accumulated Depreciation	(657,141,088)		(657,141,088)		(657,141,088)
15	Working Capital	5,897,214		5,897,214		5,897,214
16	Deferred Income Taxes	(241,677,456)		(241,677,456)		(241,677,456)
17	End of Period Rate Base	<u>\$946,722,235</u>		<u>\$946,722,235</u>		<u>\$946,722,235</u>
18	Overall Rate of Return	7.53%		8.62%		7.53%

[1] Docket Nos. G-5, Sub 565 & M-100, Sub 138, Application dated February 1, 2018, Appendix A, Column (e)

[2] Line 12, Column (b)

[3] Uncollectible expense and regulatory fee

[4] State income tax @ 3%

[5] Federal income tax @ 21%

[6] Column (e) - Column (d)

Public Service Company of North Carolina, Inc.  
Docket No. M-100, Sub 148  
Rate Adjustments to Reflect 21% FIT Rate  
Appendix B

Rate	Block	Therms	[1] Margin \$ per therm	[1] Margin Revenue	% of Total	[2] Rev Req Adjustment (\$13,474,398)	Adjusted Margin \$	Adjusted Margin \$ per therm	Adjustment to Margin \$ per therm
<b>101 - Residential Service</b>									
Summer Energy Charge - Per Therm	All	39,319,179	\$0.42291	\$16,628,474					(\$0.02911)
Winter Energy Charge - Per Therm	All	258,930,351	\$0.42291	\$109,504,235					(\$0.02911)
	Total	<u>298,249,530</u>		<u>\$126,132,709</u>	64.44%	<u>(\$8,683,115)</u>	<u>\$117,449,594</u>	<u>\$0.39380</u>	
<b>102 - Residential Service</b>									
Summer Energy Charge - Per Therm	All	674,939	\$0.37291	\$251,692					(\$0.02911)
Winter Energy Charge - Per Therm	All	3,719,441	\$0.37291	\$1,387,017					(\$0.02911)
	Total	<u>4,394,380</u>		<u>\$1,638,708</u>	0.84%	<u>(\$127,920)</u>	<u>\$1,510,788</u>	<u>\$0.34380</u>	
<b>115 - Unmetered Lighting Service</b>									
Summer Energy Charge - Per Therm	All	32,898	\$0.42291	\$13,913					(\$0.02911)
Winter Energy Charge - Per Therm	All	32,799	\$0.42291	\$13,871					(\$0.02911)
	Total	<u>65,697</u>		<u>\$27,784</u>	0.01%	<u>(\$1,913)</u>	<u>\$25,871</u>	<u>\$0.39380</u>	
<b>125 - Small General Service</b>									
Energy Charge - Per Therm	First 500	74,025,193	\$0.29574	\$21,892,211					(\$0.02036)
	Next 4,500	45,487,292	\$0.29574	\$13,452,412					(\$0.02036)
	All Over 5,000	1,241,216	\$0.29574	\$367,077					(\$0.02036)
	Total	<u>120,753,701</u>		<u>\$35,711,700</u>	18.25%	<u>(\$2,458,433)</u>	<u>\$33,253,267</u>	<u>\$0.27538</u>	
<b>126 - Small General Service - Cooling</b>									
Energy Charge - Per Therm	All	<u>61,972</u>	\$0.29574	<u>\$18,328</u>	0.01%	<u>(\$1,262)</u>	<u>\$17,066</u>	<u>\$0.27538</u>	(\$0.02036)
<b>127 - Small General Service</b>									
Energy Charge - Per Therm	First 500	349,618	\$0.24574	\$85,915					(\$0.02036)
	Next 4,500	602,880	\$0.24574	\$148,152					(\$0.02036)
	All Over 5,000	48,471	\$0.24574	\$11,911					(\$0.02036)
	Total	<u>1,000,969</u>		<u>\$245,978</u>	0.13%	<u>(\$20,380)</u>	<u>\$225,598</u>	<u>\$0.22538</u>	
<b>135 - Natural Gas Vehicle Fuel</b>									
Energy Charge - Per Therm		<u>250,145</u>	\$0.83461	<u>\$208,774</u>	0.11%	<u>(\$1,533)</u>	<u>\$207,240</u>	<u>\$0.82848</u>	(\$0.00613)
<b>140 - Medium General Service</b>									
Energy Charge - Per Therm	First 1,000	10,644,000	\$0.22681	\$2,414,166					(\$0.01561)
	All Over 1,000	22,314,846	\$0.22681	\$5,061,230					(\$0.01561)
		<u>32,958,846</u>		<u>\$7,475,396</u>	3.82%	<u>(\$514,615)</u>	<u>\$6,960,781</u>	<u>\$0.21120</u>	

Public Service Company of North Carolina, Inc.  
Docket No. M-100, Sub 148  
Rate Adjustments to Reflect 21% FIT Rate  
Appendix B

Rate	Block	Therms	[1] Margin \$ per therm	[1] Margin Revenue	% of Total	[2] Rev Req Adjustment (\$13,474,398)	Adjusted Margin \$	Adjusted Margin \$ per therm	Adjustment to Margin \$ per therm
<b>145 - Large-Quantity General Service</b>									
Energy Charge - Per Therm	First 15,000	19,565,501	\$0.13337	\$2,609,451	1.33%	(\$179,637)	\$2,429,813	\$0.12419	(\$0.00918)
	Next 15,000	4,140,327	\$0.11115	\$460,197	0.24%	(\$31,680)	\$428,517	\$0.10350	(\$0.00765)
	Next 15,000	1,739,803	\$0.09129	\$158,827	0.08%	(\$10,934)	\$147,893	\$0.08501	(\$0.00628)
	Next 15,000	883,094	\$0.06537	\$57,728	0.03%	(\$3,974)	\$53,754	\$0.06087	(\$0.00450)
	Next 1,000,000	1,153,367	\$0.04378	\$50,494	0.03%	(\$3,476)	\$47,018	\$0.04077	(\$0.00301)
	All Over 1,060,000	0	\$0.03624	\$0	0.00%	\$0	\$0	\$0.03375	(\$0.00249)
	Total	27,482,092		\$3,336,697		(\$229,702)	\$3,106,995		
<b>150 - Large-Quantity Interruptible Commercial &amp; Industrial Service</b>									
Energy Charge - Per Therm	First 15,000	1,181,777	\$0.08909	\$105,285	0.05%	(\$7,248)	\$98,037	\$0.08296	(\$0.00613)
	Next 15,000	808,253	\$0.06781	\$54,808	0.03%	(\$3,773)	\$51,035	\$0.06314	(\$0.00467)
	Next 70,000	1,940,466	\$0.04656	\$90,348	0.05%	(\$6,220)	\$84,128	\$0.04335	(\$0.00321)
	Next 500,000	2,773,747	\$0.02560	\$71,008	0.04%	(\$4,888)	\$66,120	\$0.02384	(\$0.00176)
	All Over 600,000	0	\$0.00436	\$0	0.00%	\$0	\$0	\$0.00406	(\$0.00030)
	Total	6,704,243		\$321,448		(\$22,129)	\$299,319		
<b>175 - Firm Transportation Service For Customers Qualifying For Service On Rate Schedule No. 145</b>									
Energy Charge - Per Therm	First 15,000	44,808,340	\$0.13337	\$5,976,088	3.05%	(\$411,401)	\$5,564,688	\$0.12419	(\$0.00918)
	Next 15,000	23,431,061	\$0.11115	\$2,604,362	1.33%	(\$179,287)	\$2,425,075	\$0.10350	(\$0.00765)
	Next 15,000	15,198,266	\$0.09129	\$1,387,450	0.71%	(\$95,514)	\$1,291,936	\$0.08501	(\$0.00628)
	Next 15,000	11,009,530	\$0.06537	\$719,693	0.37%	(\$49,544)	\$670,149	\$0.06087	(\$0.00450)
	Next 1,000,000	78,949,457	\$0.04378	\$3,456,407	1.77%	(\$237,943)	\$3,218,464	\$0.04077	(\$0.00301)
	All Over 1,060,000	1,505,986	\$0.03624	\$54,577	0.03%	(\$3,757)	\$50,820	\$0.03375	(\$0.00249)
	Total	174,902,640		\$14,198,578		(\$977,446)	\$13,221,132		
<b>180 - Interruptible Transportation Service For Customers Qualifying For Service on Rate Schedule No. 150</b>									
Energy Charge - Per Therm	First 15,000	21,570,397	\$0.08909	\$1,921,707	0.98%	(\$132,292)	\$1,789,414	\$0.08296	(\$0.00613)
	Next 15,000	18,099,962	\$0.06781	\$1,227,358	0.63%	(\$84,493)	\$1,142,866	\$0.06314	(\$0.00467)
	Next 70,000	45,277,277	\$0.04656	\$2,108,110	1.08%	(\$145,125)	\$1,962,985	\$0.04335	(\$0.00321)
	Next 500,000	42,885,089	\$0.02560	\$1,097,858	0.56%	(\$75,578)	\$1,022,281	\$0.02384	(\$0.00176)
	All Over 600,000	13,929,615	\$0.00436	\$60,733	0.03%	(\$4,181)	\$56,552	\$0.00406	(\$0.00030)
	Total	141,762,340		\$6,415,767		(\$441,668)	\$5,974,098		
<b>Total Margin Revenue</b>				\$195,731,865	100.00%	(\$13,480,115)	\$182,251,750		

[1] Docket Nos. G-5, Sub 565 & M-100, Sub 138, Application dated February 1, 2018, Appendix B

[2] Appendix A



Public Service Company of North Carolina, Inc.  
Docket No. M-100, Sub 148  
Proposed Adjusted Rates  
Appendix C

Rate	Block	Corrected Rates \$ per therm [1]	Adjustment to Rates \$ per therm [2]	Proposed Rates \$ per therm [1] + [2]
101 - Residential Service				
Winter Energy Charge - Per Therm	All	\$0.93467	(\$0.02911)	\$0.90556
Summer Energy Charge - Per Therm	All	\$0.88324	(\$0.02911)	\$0.85413
102 - Residential Service				
Winter Energy Charge - Per Therm	All	\$0.86541	(\$0.02911)	\$0.83630
Summer Energy Charge - Per Therm	All	\$0.81398	(\$0.02911)	\$0.78487
115 - Unmetered Lighting Service				
Winter Energy Charge - Per Therm	All	\$0.82457	(\$0.02911)	\$0.79546
Summer Energy Charge - Per Therm	All	\$0.77314	(\$0.02911)	\$0.74403
125 - Small General Service				
Energy Charge - Per Therm	First 500	\$0.74259	(\$0.02036)	\$0.72223
	Next 4,500	\$0.70363	(\$0.02036)	\$0.68327
	All Over 5,000	\$0.66464	(\$0.02036)	\$0.64428
126 - Small General Service - Cooling				
Energy Charge - Per Therm	All	\$0.61536	(\$0.02036)	\$0.59500
127 - Small General Service				
Energy Charge - Per Therm	First 500	\$0.62888	(\$0.02036)	\$0.60852
	Next 4,500	\$0.58992	(\$0.02036)	\$0.56956
	All Over 5,000	\$0.55093	(\$0.02036)	\$0.53057
135 - Natural Gas Vehicle Fuel				
Energy Charge - Per Therm		\$1.14986	(\$0.00613)	\$1.14373
140 - Medium General Service				
Energy Charge - Per Therm	First 1,000	\$0.64119	(\$0.01561)	\$0.62558
	All Over 1,000	\$0.59099	(\$0.01561)	\$0.57538
145 - Large-Quantity General Service				
Energy Charge - Per Therm	First 15,000	\$0.46783	(\$0.00918)	\$0.45865
	Next 15,000	\$0.44539	(\$0.00765)	\$0.43774
	Next 15,000	\$0.42534	(\$0.00628)	\$0.41906
	Next 15,000	\$0.39916	(\$0.00450)	\$0.39466
	Next 1,000,000	\$0.37736	(\$0.00301)	\$0.37435
	All Over 1,060,000	\$0.36035	(\$0.00249)	\$0.35786
150 - Large-Quantity Interruptible Commercial & Industrial Service				
Energy Charge - Per Therm	First 15,000	\$0.40434	(\$0.00613)	\$0.39821
	Next 15,000	\$0.38285	(\$0.00467)	\$0.37818
	Next 70,000	\$0.36139	(\$0.00321)	\$0.35818
	Next 500,000	\$0.34023	(\$0.00176)	\$0.33847
	All Over 600,000	\$0.31878	(\$0.00030)	\$0.31848
175 - Firm Transportation Service For Customers Qualifying for Service on Rate Schedule No. 145				
Energy Charge - Per Therm	First 15,000	\$0.14678	(\$0.00918)	\$0.13760
	Next 15,000	\$0.12456	(\$0.00765)	\$0.11691
	Next 15,000	\$0.10470	(\$0.00628)	\$0.09842
	Next 15,000	\$0.07878	(\$0.00450)	\$0.07428
	Next 1,000,000	\$0.05719	(\$0.00301)	\$0.05418
	All Over 1,060,000	\$0.04965	(\$0.00249)	\$0.04716
180 - Interruptible Transportation Service for Customers Qualifying for Service on Rate Schedule No. 150				
Energy Charge - Per Therm	First 15,000	\$0.10187	(\$0.00613)	\$0.09574
	Next 15,000	\$0.08059	(\$0.00467)	\$0.07592
	Next 70,000	\$0.05934	(\$0.00321)	\$0.05613
	Next 500,000	\$0.03838	(\$0.00176)	\$0.03662
	All Over 600,000	\$0.01714	(\$0.00030)	\$0.01684

[1] Docket Nos. G-5, Sub 565 & M-100, Sub 138 Application dated February 1, 2018, Appendix C

[2] Appendix B

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Feb 01 2018

**CERTIFICATE OF SERVICE**

I certify that I have served a copy of the foregoing INITIAL COMMENTS OF PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC. in accordance with Commission Rule R1-39, by United States mail, first class postage prepaid; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This, the 1<sup>st</sup> day of February, 2018.

/s/Mary Lynne Grigg

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