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February 20, 2018

VIA ELECTRONIC FILING

M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

**RE: The Federal Tax Cuts and Jobs Act – Reply Comments of Duke
Energy Carolinas, LLC and Duke Energy Progress, LLC
Docket No. M-100, Sub 148**

Dear Ms. Jarvis:

Pursuant to the Commission's January 3, 2018 *Order Ruling that Certain Components of Certain Public Utility Rates are Provisional as of January 1, 2018, Initiating a Generic Proceeding, and Requesting Comments* and the Commission's subsequent order extending the deadline for Reply Comments, I enclose Duke Energy Carolinas, LLC and Duke Energy Progress, LLC's Reply Comments for filing in connection with the referenced matter.

Thank you for your attention to this matter. If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lawrence B. Somers', written over the word 'Sincerely,'.

Lawrence B. Somers

Enclosure

cc: Parties of Record

OFFICIAL COPY

Feb 20 2018

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. M-100, SUB 148

In the Matter of)	DUKE ENERGY CAROLINAS AND
The Federal Tax Cuts and Jobs Act)	DUKE ENERGY PROGRESS'
)	REPLY COMMENTS
)	

Pursuant to the North Carolina Utilities Commission's ("the Commission") January 3, 2018 *Order Ruling that Certain Components of Certain Public Utility Rates are Provisional as of January 1, 2018, Initiating a Generic Proceeding, and Requesting Comments* and the Commission's subsequent order extending the deadline for Reply Comments, Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") (and collectively "the Companies"), hereby submit their Reply Comments in this docket.

INTRODUCTION

In their February 1, 2018 Initial Comments, the Companies identified the amount of reduction in annual revenue requirements related to reduced income tax expense resulting from the federal Tax Cuts and Jobs Act (the "Tax Act") and presented the Commission with a balanced solution to reflect the benefits of the Tax Act through options that will lower customer bills in the near-term, help mitigate volatility due to future rate increases, and uphold the Companies' pre-Tax Act credit quality for the benefit of customers. Based upon the cost of service studies from Docket Nos. E-7, Sub 1026 and E-2, Sub 1023, respectively, the Companies estimated reductions in the annual

revenue requirement of \$104 million for DEP and \$172 million for DEC, and translated that into a decrement rate per kilowatt hour, based on the kilowatt hours in those cases.¹ DEC proposed to apply the decrement to North Carolina retail services beginning January 1, 2018, and defer the resulting amount into a regulatory liability until new rates can be established in its currently pending rate case.² DEP proposed to apply the decrement to North Carolina retail services beginning January 1, 2018, and defer the resulting amount into a regulatory liability until new rates can be established in its next general rate case, or in the alternative to reduce rates in a rider to be established by the Commission in this docket. The Companies proposed options to help mitigate future rate increases by applying the federal income tax expense savings to offset items such as storm response costs, ongoing coal ash basin closure compliance costs or other environmental compliance costs, or accelerating the depreciation of certain assets such as the existing AMR meters or coal plants. Nothing in intervenors' initial comments changes the Companies' recommendation that the Commission should implement a balanced solution to ensure that customers receive the benefits of tax reform.

REPLY COMMENTS

In their initial comments, the Public Staff, the Attorney General's Office, the Carolina Industrial Group for Fair Utility Rates, and the North Carolina Justice

¹ Based on the DEP NC 2013 rate case, the total tax expense savings is \$104 million. The Company will not know the level of tax expense savings based on the pending rate case until the Commission order is received. The difference between the actual amount of tax expense savings based on the rates set in Docket No. E-2, Sub 1142 and the \$104 million would be deferred into a regulatory liability account for consideration in a future proceeding. Based upon the DEC NC 2013 rate case, the total tax expense savings is \$172 million. The Company will not know the level of tax expense savings based on the pending rate case until the Commission order is received. The difference between the actual amount of tax expense savings based on the rates set in Docket No. E-7, Sub 1146 and the \$172 million would be deferred into a regulatory liability account for consideration in a future proceeding.

² DEC provided further detail in its rebuttal testimony of David Fountain, Stephen DeMay and Jane McManeus filed on February 6, 2018 in Docket No. E-7, Sub 1146.

Center/North Carolina Housing Coalition all agree with DEC and DEP that customers should receive the benefits of federal tax reform. To the extent that these intervenors are asking for the Commission to reduce customer rates and the Companies' revenues immediately for 100% of the benefits of the Tax Act, however, they do so without regard to the utilities' current financial position and other relevant factors. Rate decreases pursuant to federal tax reform will decrease cash flows, which will weaken credit metrics. The weakened metrics will reduce financial flexibility and could ultimately result in increased financing costs, which, in turn, impact customer bills. In a tangible sign of this risk, on January 19, 2018, Moody's changed the rating outlook of Duke Energy Corporation and twenty-three other utilities and utility holding companies from stable to negative in response to the financial impacts of the Tax Act and regulatory uncertainties related thereto.

As discussed in the Companies' Initial Comments, one of the consequences of the Tax Act is that the lower tax rate and the elimination of bonus depreciation will increase the Company's rate base over time, which has the corresponding effect of increasing customer rates over time. The Companies have proposed that the Commission could mitigate these impacts by offsetting items such as storm response costs, ongoing coal ash basin closure compliance costs or other environmental compliance costs, or accelerating the depreciation of certain assets such as the existing AMR meters or coal plants.³ The use of accelerated depreciation would benefit customers by lessening future rate increases caused by rate base growth resulting from the Tax Act. The Companies' proposed

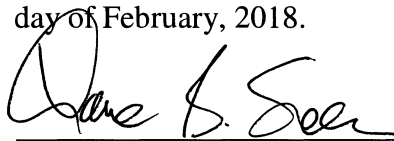
³ The accelerated depreciation would be accomplished by creating a North Carolina retail regulatory liability. That liability would then be used to reduce depreciation expense on the specific asset or group of assets the next time depreciation rates are updated, similar to the way that the DEP Harris Nuclear Plant accelerated depreciation was used to reduce depreciation expense in Docket No. E-2, Sub 1023.

response to the federal tax reform, therefore, provides the Commission with an opportunity to help reduce and smooth out volatility in customer rates over the short- and long-term, while maintaining the Companies' pre-Tax Act credit quality for the benefit of customers.

CONCLUSION

For all the foregoing reasons, DEC and DEP respectfully request that the Commission approve and adopt their recommendations to deliver savings to customers in a manner that balances the interests of customers and the Companies.

Respectfully submitted, this the 20th day of February, 2018.



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*Counsel for Duke Energy Carolinas and
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CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC's Reply Comments, in Docket No. M-100, Sub 148, has been served by electronic mail, hand delivery or by depositing a copy in the United States mail, postage prepaid to the following parties:

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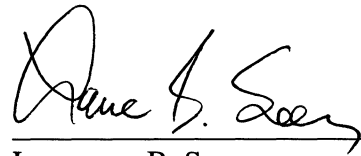
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This the 20th day of February, 2018.



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