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February 1, 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 – Initial 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 provision as of January 1, 2018, Initiating a Generic Proceeding, and Requesting Comments*, I enclose Duke Energy Carolinas, LLC and Duke Energy Progress, LLC's Initial 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,

Lawrence B. Somers

Enclosure

cc: Parties of Record

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. M-100, SUB 148

In the Matter of		
The Federal Tax Cuts and Jobs Act	))))	**DUKE ENERGY CAROLINAS AND DUKE ENERGY PROGRESS' INITIAL 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*, Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") (and collectively "the Companies"), hereby submit their Initial Comments in this docket. As ordered, these comments: (1) provide 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 December 22, 2017 enactment of the federal Tax Cuts and Jobs Act (the "Tax Act"), and show the amount of each change and the related levels of tax expense before and after each change presented on an NCUC jurisdictional basis (e.g., on a North Carolina retail or North Carolina intrastate basis, as appropriate); and (2) provide a detailed narrative explanation of how DEC and DEP each propose 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.

INTRODUCTION

It is the Companies' intent that customers will receive the benefits of tax reform. The Companies propose to accomplish this with solutions that will lower customer bills in the near-term, help mitigate volatility due to future rate increases, and protect the Companies' current credit quality for the benefit of customers. The Companies have worked diligently and successfully over the years to serve their customers while maintaining strong balance sheets to support and fund their obligations. A solid financial foundation has helped the Companies keep customers' rates significantly below the national average for many decades, all while providing safe, reliable and increasingly clean energy for North Carolinians.

As this Commission is well aware, electric utilities are one of the most capital intensive industries in the country and that, in part, is why utilities are heavily regulated. The Companies invest in infrastructure not because of federal tax policy, but because it is critical, necessary and often legally required that they do so. Our statutory obligation to serve requires the financial wherewithal to support the commitments to our customers on a reliable and cost-effective basis at all times. Credit quality drives access to affordable capital, and for this reason it is in the best interest of customers to prevent a weakening of the Companies' cash flows and credit quality from pre-Tax Act levels. As DEP and DEC continue to modernize the energy grid, avoid and reduce outages through new technology, help customers become even more energy efficient through the deployment of advanced metering and technology infrastructure, increase the ability of the grid to connect more distributed and renewable energy resources, and overall transform the customer experience, the need to maintain much-needed cash flow and a strong balance sheet are more important than ever.

Recent Federal tax reform provides the Commission with a unique 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 and the ability to provide safe, reliable and affordable energy. The Commission has substantial discretion in its ratemaking treatment of these tax changes.[1] Adjusting utility rates solely to account for the impact of the reduction in the federal corporate tax rate and the flow back of excess accumulated deferred income taxes ("ADITs") is not appropriate. The Commission should also take into account all other impacts of the Tax Act as well as other non-tax inputs that could affect rates. The Tax Act represents a unique opportunity to deliver savings to customers, but as with all ratemaking actions, the interests of customers and the Companies should be balanced.

INITIAL COMMENTS

I. Background on the Federal Tax Cuts and Jobs Act.

On December 22, 2017, President Donald Trump signed the Tax Act into law. This legislation represents the most significant revision to the Federal tax code in the last thirty years, bringing comprehensive change to individual, corporate and international tax law. The headline change to the corporate tax code is a reduction of the statutory corporate tax rate from 35% to 21%. This reduction in the federal corporate tax rate,

[1] *State ex rel. Utilities Com. v. Nantahala Power & Light Co.*, 326 N.C. 190, 388 S.E.2d 118 (1990). Specifically, in *Nantahala*, the Supreme Court held that the Commission had the authority to address tax reform through a rulemaking proceeding, rather than only through a general rate case, and that such action did not constitute single-issue ratemaking because there were no adjudicative-type facts in dispute that would require individual hearings. *Id.* at 203, 126. The *Nantahala* case supports the ability of the Commission to determine how to address the changes resulting from federal tax reform, but does not mandate that the Commission address such impacts in any particular manner. As such, the Commission has the authority to grant the Companies' proposed treatment of the federal tax reform changes.

however, is accompanied by many other provisions that serve to broaden the tax base and to "pay for" the effect of the 21% tax rate. Most provisions of the Tax Act take effect beginning January 1, 2018.

Most changes to the corporate tax code apply to all U.S. corporations equally, while a limited set of others affect regulated utilities uniquely. For utilities in general, and the Companies in particular, the key provisions of the Tax Act that will affect customer rates are as follows: (1) reduction of the corporate tax rate from 35 percent to 21 percent; (2) retention of net interest expense deductibility; (3) elimination of bonus depreciation; (4) elimination of the manufacturing deduction; and (5) normalization of excess ADITs resulting from the Tax Act.

A key purpose of the Tax Act was to stimulate business investments, create jobs and grow the economy. An expectation that the financial health of the Companies be unharmed by tax reform is consistent with these policy objectives.

II. Key Provisions of the Tax Act.

The Tax Act makes five principal changes to the tax code that affect regulated electric utilities. The changes include:

<u>Reduction in Corporate Tax Rate</u>: The new statutory income tax rate of 21% represents a 40% reduction from the previous rate of 35%. This will lower a key component of cost of service, *i.e.*, income taxes. In contrast to this lower cost of service impact, however, rate base will be higher in future rate proceedings due to the elimination of bonus depreciation (see below) and the reduced value of accelerated depreciation due to the lower federal income tax rate.

Interest Expense Deductibility: The Tax Act generally provides that net interest expense is deductible only to the extent it does not exceed a stated percentage of an adjusted taxable income calculation, a calculation that becomes even more restrictive four years hence. However, regulated utilities are exempt from this limitation provision and may deduct their interest expense without limitation. Duke Energy and EEI (the regulated electric utility trade association) fought hard to achieve this important exemption, and our customers will retain the significant benefits that flow from it.

Depreciation and Expensing of Capital: The Tax Act generally provides that corporations may immediately expense capital as it is placed in service, akin to 100% bonus depreciation. However, the Tax Act specifically prohibits the immediate expensing of capital by regulated utilities. Instead, utilities are directed to use MACRS (modified accelerated cost recovery system) depreciation for capital investment placed in service. Though no longer accompanied by "bonus" depreciation, MACRS still represents a significantly accelerated rate of depreciation compared to book depreciation. As a result, deferred taxes will continue to accrue under MACRS, but will do so at a slower rate compared to bonus depreciation and at a much slower rate under the lower 21% corporate tax rate (see above). This in turn will cause a more rapid increase to rate base relative to pre-Tax Act.

Manufacturing Deduction: Prior to the Tax Act, domestic manufacturers were granted a tax deduction based on a certain percentage of qualifying manufacturing income, and the production of electricity qualified for this tax benefit. In order to avail itself of this deduction, a corporation had to be in a taxable income position—this was often not the case recently for most regulated utilities because of the impact of bonus depreciation. Unfortunately, the elimination of bonus depreciation for utilities in the Tax Act coincided with the elimination of this tax deduction for all manufacturers, which is directionally detrimental to customer rates.

Excess Deferred Income Taxes: At the end of 2017, the Companies had a significant net deferred tax liability, booked at a 35% corporate tax rate and driven overwhelmingly by accelerated and bonus depreciation of fixed assets for tax purposes. Because a deferred tax liability represents taxes collected from customers but not yet paid to taxing authorities, and because the ultimate payment of these taxes will now occur at a 21% corporate tax rate (down from 35%), the balance of the deferred tax liability must be re-measured. The resulting "excess" deferred tax balance becomes a regulatory liability. The Tax Act requires that excess deferred taxes generally associated with property, and specifically connected to the accelerated depreciation of property, must be normalized into customer rates in a highly-prescribed manner that mimics the remaining life of the underlying assets. These are known as "protected" excess deferred taxes. All other excess deferred taxes may be treated by the Commission like any other regulatory liability in the rate-setting process.

Pursuant to the Commission's January 3, 2018 order, the Companies will defer[2] as a regulatory liability (1) all excess ADIT balances created by the Tax Act in 2017, and (2) the estimated difference between customer revenues earned and what would have been earned taking into effect the reduced corporate tax rate beginning January 1, 2018, until the Commission determines the timing and nature of such benefits to customers.

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[2] The Companies have booked these respective amounts in FERC Accounts 229 and 254.

III. Impact of the Tax Act on the Companies.

The implementation of the Tax Act has the potential to adversely affect the Companies' cash flows needed to fund ongoing operations and new infrastructure investments, and makes having a strong equity to debt capital structure even more important post-Tax Act reform. An unmitigated cash flow shortfall could force the Companies to rely excessively on third-party capital to fund DEP and DEC, to the ultimate detriment of their financial condition. DEC, for example, is in the midst of a base rate proceeding where the Company has demonstrated that its revenues are already insufficient to provide recovery of its reasonable costs and earn a reasonable return. Adjusting the Companies' rates downward in isolation for just the reduction in the Federal corporate tax rate will make an undesirable situation worse from an overall cash flow perspective. In petitions to intervene filed in this proceeding, as well as in filings made in the pending DEP and DEC rate cases, some intervenors have called for the Commission to reduce customer rates and the Companies' revenues immediately for 100% of the impacts of the Tax Act. They argue for an immediate use of only the benefits under the Tax Act, to the exclusion of other provisions of the Tax Act, in isolation and without regard to the utility's current financial position and other relevant factors. As noted above, in the longer-term, one of the unintended consequences of the 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 respectfully assert that implementing such an approach offered by other intervenors would be unsound policy and would be detrimental to customers over the longer-term.

Stand-alone utility and consolidated financing structures are based on *pre*-Tax Act capital flows and were formed to support significant investments to benefit customers. If incoming cash flows decrease pursuant to tax reform, credit metrics will weaken and financial pressure will increase. In a tangible sign of this risk, on January 19, 2018, Moody's changed Duke Energy Corporation's[3] rating outlook from stable to negative in response to the financial impacts of the Tax Act and regulatory uncertainties related thereto.

IV. The Estimated Cost of Service Effect of the Tax Act.

Please see attached DEC and DEP Exhibits 1 and 2 for the estimated effect of the Act on DEC's and DEP's cost of service. These estimates are based on the cost of service studies from Docket Nos. E-7, Sub 1026 and E-2, Sub 1023, respectively, which are the rate cases in which current rates were established. These exhibits also show a resulting reduction in the annual revenue requirement of $104 million for DEP and $172 million for DEC, and translate that into a decrement rate per kilowatt hour, based on the kilowatt hours in those cases.[4] DEC would propose to continue this deferral until new rates can be established in its currently pending rate case in Docket No. E-7, Sub 1146 that reflect the benefits of the lower tax expense. DEP would propose to continue this deferral until an order is issued by the Commission in its currently pending rate case in

[3] Moody's similarly changed the ratings outlook of Piedmont Natural Gas Company, Inc. and twenty-two other utilities and utility holding companies from stable to negative.

[4] 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.

Docket No. E-2, Sub 1142. At that time, DEP will recalculate the cost of service impacts of the Tax Act based on the compliance cost of service, and start deferring based on the updated decrement rate per kilowatt hour. Should the Commission establish a rider for DEP to reflect the benefit, DEP would stop the deferral when the rider was effective.

Also, it should be noted that the attached exhibits only show the impact of the Act on base rates. The Companies expect there may be additional benefits for customers through reduced rider rates, which will be handled in the respective annual rider filings and experience modification factors.

V. Balancing Short- and Longer-Term Benefits

The Companies propose to pass on savings from the income tax expense reduction to customers. In passing on the tax expense savings to customers, the Commission has and should use its ability to implement the Tax Act changes in a way that provides customers with near-term benefits, while minimizing customer rate volatility over both the shorter and longer-term. With two pending rate cases before it, the Commission has the unique opportunity to help mitigate rate increases by applying the Federal income tax expense savings to offset a portion of the requested increases. This could be accomplished 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. 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 would propose to hold the excess ADITs to be addressed in future rate cases for the benefit of customers. Specifically, for excess deferred income taxes, the Companies propose to establish regulatory liabilities. Similar to the liabilities created as a result of North Carolina House Bill 998's state tax rate changes and in compliance with Docket No. M-100, Sub 138, the amortization of these liabilities should be addressed in the Companies' next general rate proceedings. It is important to note, however, that a significant portion of the excess deferred income taxes resulting from the Federal income tax rate change will be subject to IRS normalization restrictions.

With respect to DEC, the Company proposes to address federal tax reform impacts in its pending rate case in Docket No. E-7, Sub 1146, for which the evidentiary hearing is currently scheduled to begin on February 27, 2018. With respect to DEP, the Company also has a pending rate case in Docket No. E-2, Sub 1142; however, the record in that case has closed, and DEP anticipates that the Commission will issue a final order in the near term. Once the Commission order in that rate case proceeding is received, DEP will be able to calculate the impacts of the Tax Act on tax expense based on a compliance cost of service with the Commission's order. DEP would propose to defer the resulting estimated impacts to a regulatory liability, until DEP's next rate case. As an alternative, the Commission could approve a rider in this M-100, Sub 148 proceeding to reduce DEP customer rates including any potential offsets discussed above.

CONCLUSION

For all the foregoing reasons, DEC and DEP respectfully request that the Commission approve and adopt the recommendations contained in these Initial Comments, enabling the Companies to provide benefits to customers and continue building the energy future their customers and communities deserve.

Respectfully submitted, this the 1st day of February, 2018.

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Counsel for Duke Energy Carolinas and Duke Energy Progress

Duke Energy **Exhibit 1**
Docket No. M-100, Sub 148
Response to Commission Request for Comments, Question 1

Estimated annual cost-of-service effect of the changes to the levels of income tax expenses due to the December 22, 2017 enactment of the Federal Tax Cuts and Jobs Act (the "Act")

Duke Energy Carolinas
(in Thousands)

North Carolina Retail Operations
Using Rate Case Adjusted Test Year Ending June 2012, Adjusted for Changes Incorporated in Current Rates Due to State Tax Changes in M-100 Sub 138

Line No.	Item	Per E-7, Sub 1026, Approved Rates	Changes Incorporated Due to State Tax Changes in M-100 Sub 138	Cost of Service w/ State Tax Changes	Changes to the Levels of Income Tax Expenses Due to the Act	Cost of Service w/ Federal Changes
		(a)	(b)	(c) = (a) + (b)	(d)	(e) = (c) + (d)
1	**NET OPERATING INCOME FOR RETURN**					
2	Electric operating revenue	$4,958,002	($161,753)	$4,796,249		$4,796,249
3	Electric operating expenses:					
4	Operating & maintenance	2,581,447		2,581,447		2,581,447
5	Depreciation and amortization	748,957		748,957		748,957
6	Other Taxes	304,548	(134,782)	169,766		169,766
7	Income Taxes	414,965	(27,356)	387,609	(141,363)	246,246
8	Investment Tax Credits	(4,359)		(4,359)		(4,359)
9	Total electric operating expenses	4,045,558	(162,138)	3,883,420	(141,363)	3,742,057
10	Return before interest on deposits	$912,444	$385	$912,829	$141,363	$1,054,192
11	Interest on customer deposits	(5,456)		(5,456)		(5,456)
12	Operating income	$906,988	$385	$907,373	$141,363	$1,048,736
13	**RATE BASE**					
14	Electric plant in service	$23,077,833		23,077,833		23,077,833
15	Accumulated depreciation and amortization	(9,413,955)		(9,413,955)		(9,413,955)
16	Net electric plant in service	13,663,878	-	13,663,878	-	13,663,878
17	Nuclear fuel inventory	-		-		-
18	Accumulated deferred income taxes	(3,217,239)	7,983	(3,209,256)	142,390	(3,066,867)
19	Regulatory assets and liabilities	-		-		-
20	Operating reserves	(203,875)		(203,875)		(203,875)
21	Materials & supplies	581,640		581,640		581,640
22	Cash working capital	688,227		688,227		688,227
23	Construction work in progress	-		-		-
24	Total rate base	11,512,631	7,983	11,520,614	142,390	11,663,003

Notes:
Column A - per Revised Shrum Settlement Exhibit 1, Page 2 of 3, col E
Column B - Changes Incorporated in Current Rates Due to State Tax Changes in M-100 Sub 138
Column D - reflects the aggregate change in the Federal income tax rate from 35% to 21%, including adjustment to ADIT to reflect one year's worth of lower deferred income tax expense, consistent with the adjustments in M-100 Sub 138. DEC did not have a manufacturing tax deduction in its test period in E-7 Sub 1026; therefore, no adjustment is included to reflect the elimination of this benefit. Also, this does not include any impacts from EDIT or from the elimination of bonus depreciation.

Exhibit 1a

Derivation of Duke Energy Carolinas, Inc. Decrement - 2018
Federal Tax Cuts and Jobs Act Act

	Description	2018 Impact	Notes:
	Income Tax Change		
1	Impact of Tax Rate Change - Income Tax Expense	$ (141,362,970)	*Company calculations based on Income Taxes included in Docket E-7 Sub 1026 plus rate reductions already implemented as part of docket M - 100 Sub 138.*
2	2018 Income gross up factor[1]	76.176%	*Federal income tax rate at 21%, NC state income tax at 3%, GRT at 0%, all other factors held constant from the rate case*
3	Revenue Req't Impact - Income Tax Expense	$ (185,574,493)	*Row 1 / Row 2*
4	Impact of Tax Rate Change - Rate Base	$ 142,389,693	*Company calculations based deferred component of change in Line 1.*
5	2018 Rate base return & gross-up factor[1]	9.572%	*Federal income tax rate ar 21%, NC state income tax at 3%, GRT at 0%, all other factors held constant from the rate case*
6	Revenue Req't Impact - Rate Base	$ 13,629,408	*Row 4 x Row 5*
7	Total Revenue Req't Impact	$ (171,945,085)	*Row 3 + Row 6*

NOTE:

[1] Annual Revenue includes NC Regulatory Fee impact

Derivation of Duke Energy Carolinas, Inc. Decrement - 2018
Federal Tax Cuts and Jobs Act

	Description	Amount		Source
1	Annual Revenue Impact Due to Reduction in FIT[1]	($171,945,085)		Annual Revenue Impact per Exhibit No. 1a
2	NC Retail Billed Sales	55,447,656,661	kWh	Billed NC retail sales Per DEC 2013 rate case weather normalization proforma, to update per stipulation.
3	Rate for Deferral *Effective for service rendered on and after 1/1/2018*	($0.00310)	per kWh	(1) / (2)

NOTE:

[1] Annual Revenue includes NC Regulatory Fee impact

Duke Energy **Exhibit 2**
Docket No. M-100, Sub 148
Response to Commission Request for Comments, Question 1

Estimated annual cost-of-service effect of the changes to the levels of income tax expenses due to the December 22, 2017 enactment of the Federal Tax Cuts and Jobs Act (the "Act")
Duke Energy Progress
(in Thousands)

North Carolina Retail Operations
Using Rate Case Adjusted Test Year Ending March 2012, Adjusted for Changes Incorporated in Current Rates Due to State Tax Changes in M-100 Sub 138

Line No.	Item	Per E-2, Sub 1023, Approved Rates	Changes Incorporated Due to State Tax Changes in M-100 Sub 138	Cost of Service w/ State Tax Changes	Changes to the Levels of Income Tax Expenses Due to the Act	Cost of Service w/ Federal Changes
		(a)	(b)	(c) = (a) + (b)	(d)	(e) = (c) + (d)
1	**NET OPERATING INCOME FOR RETURN**					
2	Electric operating revenue	$3,403,156	($110,100)	$3,293,056		$3,293,056
3	Electric operating expenses:					
4	Operating & maintenance	2,088,511		2,088,511		2,088,511
5	Depreciation	397,647		397,647		397,647
6	Amortization	(6,504)		(6,504)		(6,504)
7	Other Taxes	182,393	(98,800)	83,593		83,593
8	Income Taxes	232,002	(11,346)	220,656	(84,724)	135,932
9	Investment Tax Credits	(3,793)		(3,793)		(3,793)
10	Total electric operating expenses	2,890,256	(110,146)	2,780,110	(84,724)	2,695,386
11	Return before interest on deposits	$512,900	$46	$512,946	$84,724	$597,670
12	Interest on customer deposits	(6,680)		(6,680)		(6,680)
13	Operating income	$506,220	$46	$506,266	$84,724	$590,990
14	**RATE BASE**					
15	Electric plant in service	$13,456,625		13,456,625		13,456,625
16	Accumulated depreciation and amortization	(6,556,654)		(6,556,654)		(6,556,654)
17	Net electric plant in service	6,899,971	-	6,899,971	-	6,899,971
18	Nuclear fuel inventory	269,879		269,879		269,879
19	Accumulated deferred income taxes	(1,461,257)	1,938	(1,459,319)	75,889	(1,383,430)
20	Regulatory assets and liabilities	563,726		563,726		563,726
21	Operating reserves	(360,611)		(360,611)		(360,611)
22	Materials & supplies	459,743		459,743		459,743
23	Cash working capital	56,399		56,399		56,399
24	Construction work in progress	273,601		273,601		273,601
25	Total rate base	6,701,450	1,938	6,703,389	75,889	6,779,278

Notes
Column A - per Revised Hoard Exhibit 1, Schedule 1-1, col E
Column B - Changes Incorporated in Current Rates Due to State Tax Changes in M-100 Sub 138

Column D - reflects the aggregate change in the Federal income tax rate from 35% to 21%, including adjustment to ADIT to reflect one year's worth of lower deferred income tax expense, consistent with the adjustments in M-100 Sub 138. DEP did not have a manufacturing tax deduction in its test period in E-2 Sub 1023; therefore, no adjustment is included to reflect the elimination of this benefit. Also, this does not include any impacts from EDIT or from the elimination of bonus depreciation.

Exhibit 2a

Derivation of Duke Energy Progress, Inc. Decrement - 2018
Federal Tax Cuts and Jobs Act Act

	Description	2018 Impact	Notes
	Income Tax Change		
1	Impact of Tax Rate Change - Income Tax Expense	$ (84,724,100)	*Company calculations based on Income Taxes included in Docket E-2 Sub 1023 plus rate reductions already implemented as part of docket M - 100 Sub 138.*
2	2018 Income gross up factor[1]	76.213%	*Federal income tax rate at 21%, NC state income tax at 3%, GRT at 0%, all other factors held constant from the rate case*
3	Revenue Req't Impact - Income Tax Expense	$ (111,167,692)	*Row 1 / Row 2*
4	Impact of Tax Rate Change - Rate Base	$ 75,888,760	*Company calculations based deferred component of change in Line 1.*
5	2018 Rate base return & gross-up factor[1]	9.249%	*Federal income tax rate ar 21%, NC state income tax at 3%, GRT at 0%, all other factors held constant from the rate case*
6	Revenue Req't Impact - Rate Base	$ 7,019,087	*Row 4 x Row 5*
7	Total Revenue Req't Impact	$ (104,148,605)	*Row 3 + Row 6*

NOTE:

[1] Annual Revenue includes NC Regulatory Fee and uncollectibles impact

Exhibit 2b

Derivation of Duke Energy Progress, Inc. Decrement - 2018
Federal Tax Cuts and Jobs Act

	Description	Amount		Source
1	Annual Revenue Impact Due to Reduction in FIT[1]	($104,148,605)		Annual Revenue Impact per Exhibit No. 2a
2	NC Retail Billed Sales	36,696,370,057	kWh	Per Paragraph 2B on page 4 of the Agreement and Stipulation of Settlement filed on February 28, 2013 approved in NCUC Docket No. E-2, Sub 1023.
3	Rate for Deferral *Effective for service rendered on and after 1/1/2018*	($0.00284)	per kWh	(1) / (2)

NOTE:
[1] Annual Revenue includes NC Regulatory Fee and uncollectibles impact

CERTIFICATE OF SERVICE
Docket No. M-100, Sub 148

I certify that a copy of The Federal Tax Cuts and Jobs Act – Initial Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC, 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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