

McGuireWoods LLP
501 Fayetteville St.
Suite 500
Raleigh, NC 27601
Phone: 919-755-6600
Fax: 919-755-6699
www.mcguirewoods.com

Mary Lynne Grigg
Direct: 919-755-6573

McGUIREWOODS

mgrigg@mcguirewoods.com

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VIA Electronic Filing

Ms. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603

Re: Docket Nos. G-5, Sub 632 and G-5, Sub 634

Dear Ms. Dunston:

Enclosed for filing in the above-referenced proceedings are Public Service Company of North Carolina, Inc.'s, d/b/a Dominion Energy North Carolina, and Public Staff – North Carolina Utilities Commission's Joint Late-Filed Exhibits.

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/Mary Lynne Grigg

MLG:sjg

Enclosures

Please describe the equity AFUDC regulatory asset.

Equity AFUDC capitalized for accounting and regulatory purposes is a component of construction cost and is depreciated once the utility plant is placed in service (i.e., it gives rise to accounting basis). However, for income tax purposes, neither the amount originally capitalized for accounting purposes nor the subsequent depreciation of that amount enters into the determination of taxable income. On the other hand, revenues designed to recover the book depreciation of equity AFUDC are fully taxable to the Company.

Because equity AFUDC is not capitalized into utility plant for tax purposes (i.e., it does not give rise to a tax basis), the book basis of utility plant will exceed the tax basis of utility plant by the capitalized equity AFUDC amount. As of the end of the test period, the balance of capitalized equity AFUDC included in book plant is approximately \$45 million.

Under ASC 740, a deferred income tax liability of approximately \$10 million is required for this temporary difference (\$45 million * 23% tax rate). However, regulators typically permit recovery of the equity AFUDC through book depreciation on an after-tax basis. Therefore, equity AFUDC capitalized for accounting purposes results in the recognition of the \$10 million deferred tax liability and a “grossed-up” regulatory asset of approximately \$13.3 million ($\$10 \text{ million} * 1 / (1 - 23\% \text{ tax rate})$). The regulatory asset is also a temporary difference for income tax purposes, and as such an approximately \$3 million deferred tax liability is also recorded ($\$13.3 \text{ million} * 23\%$). The regulatory asset neutralizes the rate base impact of the equity AFUDC deferred tax liability and reflecting the depreciation in cost of service allows the company to recover the taxes on that component of book depreciation for which there is no corresponding tax basis.

The Company has requested the equity AFUDC regulatory asset be included in rate base going forward such that it provides rate base neutrality. The Company is requesting the \$13.3 million equity AFUDC regulatory asset be affirmatively included in rate base as an offset to the \$13.3 million deferred tax liabilities, as these are the balances in the respective accounts at the end of the test period. In this case, the Company also calculated the revenue requirement in a manner that treats the equity AFUDC depreciation as a permanent item for income tax purposes.

Provide the time horizon association with the accumulation of the equity AFUDC-related regulatory asset.

The Company has accounted for equity AFUDC in the manner described above since approximately the year 2000. However, until the current case, the Company has historically not included the equity AFUDC regulatory asset in rate base which has resulted in a lower rate base for ratemaking purposes.

The Company is not requesting a retroactive recovery of the tax effect of all previously under-recovered AFUDC Equity.

Confirm whether the AFUDC asset and liability have no impact on the revenue requirement and customer rates.

The \$13.3 million regulatory asset the Company is requesting be included in rate base is equal and offset by the \$13.3 million deferred tax liabilities on equity AFUDC and was reflected in the per books test period amounts. The inclusion of the regulatory asset produces rate base neutrality as shown in the attached Exhibit.

The approximately \$13.3 million balance in the regulatory asset represents future revenues recoverable to pay the future income taxes on the recovery of \$45 million capitalized equity AFUDC as that balance is depreciated and recovered through rates. The regulatory asset will be recovered from customers over the remaining book lives of the Company's property as that equity AFUDC is recovered through book depreciation.

The inclusion of the regulatory asset to offset the deferred tax liabilities and the inclusion of the tax expense in cost of service ensures that the Company is made whole for the equity AFUDC.

Provide the AFUDC journal entries

Please see Attachment 1.

AFUDC Equity Late Filed Exhibit

Cumulative book basis in equity AFUDC is approximately \$44.6M at December 31, 2020

Tax rate 22.98%

Tax basis balance sheet

	Book basis	Tax basis	Temporary difference	Deferred tax liability
PP&E	44,595,906.00	-	(44,595,906.00)	(10,245,909.40)

Journal entries

	Debits	Credits
PP&E	44,595,906.00	
AFUDC (FERC 419.1)		(44,595,906.00)
<i>To capitalize AFUDC Equity to book PP&E</i>		

The accrual of AFUDC equity through FERC Account 419.1 is recorded below the line. No income tax expense is recorded on this book income because it is a permanent item for tax purposes.

Regulatory asset	13,302,057.00	
Deferred tax on PP&E		(10,245,909.40)
Deferred tax on Reg Asset		(3,056,147.60)
<i>To record deferred income taxes and regulatory gross-up that neutralizes the deferred tax liability created by AFUDC Equity</i>		

Balance sheet

	Debits	Credits
PP&E	44,595,906.00	
Regulatory asset	13,302,057.00	
Deferred tax on PP&E		(10,245,909.40)
Deferred tax on Reg Asset		(3,056,147.60)
Net balance sheet	44,595,906.00	

Under ASC 740, deferred tax assets or liabilities are required to be recognized on temporary differences, however, ratemaking typically permits recovery of the equity AFUDC through book depreciation on an after-tax basis. Therefore, AFUDC-equity capitalized for accounting purposes (the \$44.6M asset) results in the recognition of a deferred tax liability (the \$10.2M) and a "grossed-up" regulatory asset (the \$13.3M). The regulatory asset is also a temporary difference for income tax purposes, and as such an approximately \$3 million deferred tax liability is also recorded. The gross regulatory asset (the \$13.3M) represents probable future revenue related to the recovery of future income taxes related to the equity AFUDC temporary difference.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.
Docket No. G-5, Sub 632
PERCENT INCREASE AND BILL INCREASE FOR AVERAGE CUSTOMER PER MONTH
Per the Stipulation of Settlement

<u>Years</u>	<u>Average Monthly Residential [1]</u>	
	<u>% Increase</u>	<u>Bill Increase</u>
Year 1	0.99%	\$0.52
Year 2	4.69%	\$2.48
Year 3	5.20%	\$2.75
Year 4	5.20%	\$2.75
Year 5	5.20%	\$2.75

[1] Compared to current rates

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.
Docket No. G-5, Sub 632
BREAKDOWN OF COMPANY USE AND LAUF VOLUMES
For the Test Year Ended December 31, 2020

	G-5 Sub 495	G-5 Sub 565	G-5 Sub 632
[1] Commodity cost of gas =	\$ 1.075	\$ 0.225	\$ 0.250
[2] LAUF therms =	5,691,520	7,027,614	7,474,453
[3] Co. Use therms =	726,910	870,521	1,362,104
[4] Sales and Transportation throughput =	715,942,855	808,586,555	905,384,906
[5] ([2] + [3]) x [1] =	\$ 6,899,812	\$ 1,777,080	\$ 2,209,139
[6] LAUF & Company Use Rate [5] / [4] =	\$ 0.00964	\$ 0.00220	\$ 0.00244
[7] LAUF Rate ([1] x [2]) / [4] =	\$ 0.00855	\$ 0.00196	\$ 0.00206
[8] Company Use Rate ([1] x [3]) / [4] =	\$ 0.00109	\$ 0.00024	\$ 0.00038
[9] [7] + [8] =	<u>\$ 0.00964</u>	<u>\$ 0.00220</u>	<u>\$ 0.00244</u>
[10] LAUF Percentage [9] / [1] =	0.8970%	0.9770%	0.9760%

[1]: As of June 30th, 2008, 2016, and 2021, respectively

[2] - [10]: As of November 1st, 2008, 2016, and 2021, respectively

The LAUF percentage in the Sub 565 docket increased compared to the Sub 495 docket. However, the LAUF percentage decreased in the Sub 632 docket. Factors contributing to the change in LAUF and Company Use Rate include fluctuations in gas prices, throughput, and an increase in the Company use gas.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.
Docket No. G-5, Sub 632
SUMMARY OF ADJUSTED TEST YEAR REVENUE RECONCILIATION
For the Test Year Ended December 31, 2020

Proforma Customer Bills and Usage				
RATE SCHEDULE	BILLS (a)	THERMS (b)	AMOUNT (c)	% (d)
101 - Summer	3,333,356	39,732,410	\$ 62,379,938	11.66%
101 - Winter	3,330,565	285,348,425	\$ 260,742,612	48.74%
102 - Summer	84,568	1,008,278	\$ 1,532,368	0.29%
102 - Winter	83,742	6,284,799	\$ 5,532,479	1.03%
115 - Summer	277	33,556	\$ 27,301	0.01%
115 - Winter	281	33,714	\$ 29,681	0.01%
125	533,875	135,821,778	\$ 98,864,470	18.48%
126	48	42,260	\$ 25,822	0.00%
127	1,254	1,213,042	\$ 737,651	0.14%
135	20	157,891	\$ 115,477	0.02%
140	11,876	35,828,560	\$ 20,719,988	3.87%
145	3,133	46,070,233	\$ 20,527,048	3.84%
150	103	7,839,560	\$ 2,760,637	0.52%
175	3,663	210,651,300	\$ 18,790,798	3.51%
180	1,293	135,319,100	\$ 7,993,380	1.49%
Special Contracts	60	413,480,000	\$ 34,239,341	6.40%
Total Summary of Adjusted Test Period Revenue [1]	7,388,114	1,318,864,906	\$ 535,018,991	100.00%
CUT Adjustment			\$ 5,092,150	
IMT Adjustment			\$ 33,520,861	
Total Summary of Adjusted Test Period Revenue, including CUT and IMT Adjustments [2]	7,388,114	1,318,864,906	\$ 573,632,002	

[1] Settlement Exhibit C, Schedule 3 of 3, Column C

[2] Settlement Exhibit I, Schedule 1 of 2, Column C

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Joint Late-Filed Exhibits*, as filed in Docket Nos. G-5, Sub 632 and G-5, Sub 634, were served electronically or via U.S. mail, first-class, postage prepaid, upon all parties of record.

This, the 9th day of November, 2021.

/s/Mary Lynne Grigg
Mary Lynne Grigg
McGuireWoods LLP
501 Fayetteville Street, Suite 500
PO Box 27507 (27611)
Raleigh, North Carolina 27601
Telephone: (919) 755-6573
mgrigg@mcguirewoods.com

*Attorney for Public Service Company of North
Carolina, Inc., d/b/a Dominion Energy North
Carolina*