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March 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 – Supplemental 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*, Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") respectfully request that the Commission accept the enclosed Supplemental Comments for filing in connection with the referenced matter. These Supplemental Comments take into consideration the Commission's February 23, 2018 *Order Accepting Stipulation, Deciding Contested Issues and Granting Partial Rate Increase* in Docket No. E-2, Sub 1142 and the reply comments filed by other parties in this docket, and offer more specific proposals on how DEC and DEP could implement the impacts of the Federal Tax Cuts and Job Act to benefit customers.

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' SUPPLEMENTAL 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 request that the Commission accept the following Supplemental Comments. Specifically, these Supplemental Comments take into consideration the Commission's February 23, 2018 *Order Accepting Stipulation, Deciding Contested Issues and Granting Partial Rate Increase* in Docket No. E-2, Sub 1142 (the "DEP Rate Case Order") and the reply comments filed by other parties in this docket, and offer more specific proposals on how DEC and DEP[1] could implement the impacts of the Federal Tax Cuts and Job Act (the "Tax Act") to benefit customers.

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[1] As explained herein, DEP plans to offer a more specific proposal after the Commission has approved the compliance revenue requirement in Docket No. E-2, Sub 1142.

INTRODUCTION

As stated in their prior comments filed in this docket, it is the Companies' intent that customers will receive the benefits of tax reform. After now having had the opportunity to review the DEP Rate Case Order, as well as the reply comments filed by other parties in this docket seeking more detailed information, the Companies propose to accomplish this intention through specific solutions that will lower customer bills in the near-term, help mitigate volatility due to future customer rate increases, and protect the Companies' pre-Tax Act credit quality for the benefit of customers.

As discussed more fully below, DEC proposes to incorporate these benefits into its pending base rate case proceeding in Docket No. E-7, Sub 1146. DEP proposes to address the adjustments either through its next base rate case proceeding or through a decrement rider established by the Commission in this proceeding.

DUKE ENERGY CAROLINAS' PROPOSAL

DEC proposes several adjustments to reduce the amount of its requested rate request in its pending general rate case in Docket No. E-7, Sub 1146 to reflect the changes in the Tax Act. In its proposed rate request filed in Docket No. E-7, Sub 1146, DEC's proposed rate increase of $647 million reflects a federal income tax rate of 35%. The underlying test period income tax expense and all pro forma adjustments related to income tax expense reflect a federal tax rate of 35%. In addition, the proposed rate increase reflects accumulated deferred tax amounts in rate base without adjusting for the change in tax rate. To address the federal income tax rate changes, the Company proposes that customer rates authorized by the Commission should:

1. **Incorporate a $216 million[2] reduction in revenue requirements to reflect federal income taxes at a 21% rate, rather than a 35% rate**

2. **Incorporate reductions totaling $96 million in proposed revenue requirements to return excess accumulated deferred income taxes ("EDIT") to customers under the following proposals:**

<u>Protected Federal EDIT related to Property, Plant and Equipment</u>

Return excess deferred income taxes for which there are IRS requirements (protected deferred income taxes) based on the method required by IRS rules. Specific IRS rules apply to deferred income taxes related to property, plant and equipment for which there are differences in book vs. tax depreciation with regard to method of depreciation and depreciable life. The Company proposes to reduce its revenue requirements by $34 million to return approximately 3.1% of the balance of excess deferred taxes to customers annually over the remaining life of the property, plant and equipment to which the deferred taxes are related. This proposal complies with IRS tax normalization rules. The revenue requirement reduction of $34 million is a net amount that incorporates both the decrease in operating expenses related to the tax rate change and the increase in rate base associated with the lesser amount of accumulated deferred income taxes that are deducted from rate base.

[2] The $216 million is the $241 million on Line 8 of Boswell Supplemental Exhibit 1, Schedule 1, Page 1, Revised, in Docket No. E-7, Sub 1146, minus $25 million to reflect the tax rate impact on the additional adjustments that DEC agreed to in rebuttal testimony and in the partial settlement filed in that docket. The Public Staff has already incorporated the tax rate change impact into their partial settlement and additional adjustments.

Unprotected Federal EDIT related to Property, Plant and Equipment

Return excess deferred income taxes related to property, plant and equipment, but *not* subject to IRS tax normalization rules over 20 years. The Company proposes to reduce its revenue requirements by $37 million per year. This proposal serves to refund the excess tax amounts over a period that considers the long lives of the property, plant and equipment to which these tax amounts relate. This period aligns with the timeframe that the benefits (i.e., deferred tax liability offset to rate base) would be received by customers absent the change in tax rate. The revenue requirement reduction of $37 million is a net amount that incorporates both the decrease in operating expenses related to the tax rate change and the increase in rate base associated with the lesser amount of accumulated deferred income taxes that are deducted from rate base.

Unprotected Federal EDIT – Other

Return over 5 years through a rider excess deferred taxes related to timing differences between book income and taxable income that are 1) not subject to IRS normalization rules and 2) are not related to property, plant and equipment. The rider would incorporate a $40 million reduction in operating expense per year over the five-year period. The reduced accumulated deferred income taxes that are deducted from rate base equate to approximately $15 million and will be reflected in base rate adjustments rather than the rider. These represent a partial offset to the impact to rate base.

3. **Incorporate an increase in proposed revenue requirements of $200 million to collect certain expenses on an accelerated basis. In doing so, the Company intends to minimize customer rate volatility, and minimize financing costs over the long term.**

The reduction in federal income tax rate has a dual effect on customer rates – a decrease in operating expense and an increase in rate base. This accelerated return of excess deferred income taxes to customers creates a rate reduction that is followed by a rate increase. The Company's proposal would smooth out this rate volatility. This approach does not ask customers to pay costs that are not appropriate costs of providing electric service, but rather adjusts the timing of payment of the costs in a manner that minimizes step changes in rates. The amount of accelerated expense recovery proposed by the Company, although discretionary, is designed to achieve this objective.

One option would be to allow DEC to record $200 million per year for accelerated depreciation for AMR meters and/or certain coal-fired plants. Again, under this option, customers would benefit in the future through lower depreciation expense following the next depreciation study.

Another option is to use this reduction in the federal income tax rate to offset the ongoing necessary investments in coal ash basin closure expense to comply with EPA's Coal Combustion Residuals Rule ("CCR") and the North Carolina Coal Ash Management Act ("CAMA"). If the Commission were to deny DEC's request for ongoing recovery of annual coal ash basin closure expense (the "ongoing compliance costs") in DEC's pending rate case, DEC would propose to record $200 million amortization expense per year to the same regulatory asset to which the ongoing compliance costs are recorded, thereby reducing customers' future obligation.

The net effect of the proposed adjustments to the revenue increase requested in Docket No. E-7, Sub 1146 is a reduction of $72 million in base rates, plus an annual revenue reduction of $40 million through a five-year rider, for a total benefit to customers of $112 million per year for five years. 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 amounts set forth in this proposal are based on DEC's rebuttal testimony and Agreement and Stipulation of Partial Settlement with the Public Staff in Docket No. E-7, Sub 1146. Any further changes to proposed revenue requirements resulting from the Commission rulings in Docket No. E-7, Sub 1146, such as the return on equity authorized by the Commission, may affect these amounts. In addition, the Company notes that all excess deferred income tax amounts are by necessity estimated, pending completion of the Company's federal income tax return in 2019 for tax year 2018.

DEC is proposing an approach to reduce customer bills in the near term and help to offset rate increases in the future. Importantly, customers benefit if the Company can access low-cost capital – this allows the Company to keep bills as low as possible while making the investments necessary to build the energy future customers expect. This is possible because the Company maintains strong credit quality and any treatment of tax reform should support maintaining the Company's pre-Act credit quality. Our approach will balance the importance of delivering savings to customers and upholding the Company's financial strength, which ultimately benefits customers.

[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.

DUKE ENERGY PROGRESS' PROPOSAL

The DEP Rate Case Order required DEP to recalculate a revenue requirement and file for approval with the Commission. DEP is working with the Public Staff to complete these calculations. DEP proposes to make a supplemental filing in the future which proposes more specific recommendations similar to the manner in which DEC has done so above, after the Commission has approved a compliance revenue requirement in Docket No. E-2, Sub 1142.

CONCLUSION

For all the foregoing reasons, DEC respectfully requests that the Commission approve and adopt the recommendations contained in these Supplemental Comments to deliver savings to customers in a manner that balances the interests of customers and the Companies and DEP requests that the Commission approve similar recommendations to be forthcoming from DEP after the Commission issues its compliance order in Docket No. E-2, Sub 1142.

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

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CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC's Supplemental 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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This the 1st day of March, 2018.

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