DUKE ENERGY®
FLORIDA

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June 8, 2026

VIA ELECTRONIC FILING

Adam J. Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Docket No. 20240019-PU: Proposed Amendment of Rule 25-14.004, Florida Administrative Code (F.A.C.), Effect of Parent Debt on Federal Corporate Income Tax*

Dear Mr. Teitzman:

Please find attached for electronic filing Duke Energy Florida, LLC's Post Workshop Comment re: Staff's Developmental Rulemaking Workshop that took place on April 8, 2026.

Thank you for your assistance in this matter and if you have any questions, please feel free to contact me at (850) 521-1425.

Sincerely,

/s/ Stephanie A. Cuello

Stephanie A. Cuello

SAC/clg
Attachment

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 8th day of June, 2026.

/s/ Stephanie A. Cuello
Attorney

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposed Amendment of Rule 25-14.004, F.A.C., Effect of Parent Debt on Federal Corporate Income Tax	Docket No. 20240019-PU Dated: June 8, 2026

<u>POST-WORKSHOP COMMENTS FROM DUKE ENERGY FLORIDA, LLC</u>

Duke Energy Florida, LLC ("DEF") respectfully submits these post-workshop comments following the Florida Public Service Commission's ("Commission") April 22, 2026 workshop concerning proposed amendments to Rule 25-14.004, Florida Administrative Code ("Rule or "the Rule"). DEF appreciates the Commission's continued evaluation of the Parent Debt Adjustment ("PDA") Rule and supports amending the Rule to eliminate its mandatory and mechanical application in favor of a more flexible, evidence-based framework that reflects modern ratemaking and tax principles.

The existing Rule is rooted in regulatory concerns that arose decades ago, particularly those tied to the concept of "double leverage," under which a parent company could issue debt and downstream those proceeds as equity to its regulated subsidiary while retaining the tax benefits of the interest deductions. As reflected in prior Commission proceedings, the Rule was designed to ensure that customers received the benefit of those tax deductions. However, both historical and recent workshop discussions demonstrate that the assumptions underlying this framework no longer reflect current industry practices. Modern utility operations are now characterized by stand-alone financing, transparent capital structures, and independent credit profiles, reducing or eliminating the circumstances that originally motivated the Rule.

The continued use of a mandatory, formula-driven parent debt adjustment produces results that are not tied to economic reality. The Rule mechanically imputes tax effects based on a parent company's capital structure regardless of whether parent debt actually funded the utility's equity. In DEF's case, the record demonstrates that no parent debt has been used to fund equity contributions in many years, and any historical debt associated with such contributions has long since matured. Nevertheless, the Rule continues to impose a tax adjustment based on hypothetical assumptions rather than actual financing activity. This disconnect illustrates a fundamental flaw in the Rule's design, as it requires outcomes that are not supported by current facts or transactions.

Moreover, the parent debt adjustment operates in a one-sided manner and directly affects the utility's ability to recover its cost of service and earn its authorized return on equity. By reducing the income tax expense component of the revenue requirement based on imputed tax benefits, the Rule places downward pressure on earnings even where no corresponding benefit exists. The adjustment can materially reduce recoverable tax expense and thereby impair the opportunity to earn the authorized return established by the Commission. This result is inconsistent with fundamental ratemaking principles that seek to provide utilities a reasonable opportunity to recover prudently incurred costs.

The record in this docket further demonstrates that Florida's approach is not consistent with contemporary regulatory practices elsewhere. Other jurisdictions, including the Federal Energy Regulatory Commission ("FERC"), have moved away from parent-level imputation methodologies and instead focus on stand-alone income tax calculations based on the utility's actual transactions and approved capital structure. Likewise, the materials in this proceeding indicate that no other state maintains a comparable rule requiring a mandatory parent-capital-based tax adjustment. The persistence of Rule 25-14.004 F.A.C. in its current form places Florida outside the mainstream of modern rate regulation.

Importantly, the Commission already possesses sufficient regulatory tools to address any legitimate concerns related to affiliate transactions, capital structure, or tax expense. A utility's capital structure is fully examined and established in base rate proceedings, and interest expense is reflected through established ratemaking mechanisms, including interest reconciliation adjustments that ensure proper matching of financing costs and tax effects. These processes provide the Commission with the flexibility and oversight necessary to evaluate tax expense on a case-specific basis without the need for a rigid, rule-mandated adjustment that overrides the evidentiary record.

In addition to being economically misaligned, the Rule can produce mathematically distorted outcomes due to its rigid formula. In particular, the exclusion of retained earnings from the parent's capital structure can lead to artificially high debt ratios over time. As utilities continue to pay dividends and retained earnings are excluded, the formula can yield results that bear no resemblance to actual financial conditions or capital market realities. These outcomes are not reflective of how utilities are financed or evaluated today and underscore the limitations of a mechanical adjustment that does not adapt to changing circumstances.

While DEF has agreed to make a parent debt adjustment in its 2024 Settlement Agreement of $7.4 million, resulting in a pretax revenue requirement reduction of $10.0 million, the company will argue in its next rate case that the parent debt adjustment does not apply to DEF since its parent has not issued debt to invest in DEF as equity since 2009, and that debt matured in 2014 and 2019. However, if the Commission decides to retain the parent debt adjustment, at a minimum, DEF requests a change to the mathematical formula to include retained earnings in the parent's common equity. Since retained earnings are a significant portion of common equity as they represent earnings over many decades, artificially excluding retained earnings results in an unrealistic capital structure and an ever-increasing parent debt adjustment.

In the April 22, 2026 workshop, Chairman Smith requested the impact to customer rates with and without the proposed rule changes. DEF notes that in response to Staff's March 19th Data Request #2, DEF has provided the customer rate impact of its current $10 million parent debt adjustment of approximately $0.25 month. Therefore, under the current rule, customers are paying $0.25 less per month, and with the rule change, customers would pay $0.25 more.

The workshop comments of Mr. Rehwinkel and Mr. Marshall that were directed at customer bill impacts are not relevant to the question of whether Rule 25-14.004 F.A.C. remains appropriate as a matter of sound ratemaking policy. Their comments focused on preserving a legacy benefit as opposed to accurate ratemaking. The Commission should evaluate whether the rule's continued mandatory application is justified by current facts, financing practices, or economic reality.

Mr. Rehwinkel also used the example that, because Duke Energy operates with a service company that provides corporate support functions, DEF cannot properly be evaluated on a stand-alone basis for income tax purposes. But the existence of a service company does not alter the core ratemaking question under Rule 25-14.004 F.A.C. Shared corporate services are common across utility holding company systems and are typically addressed through allocated operating expenses, not by imputing parent-level financing characteristics into a utility's income tax calculation. The relevant inquiry for stand-alone income tax treatment is whether the utility's tax expense can be determined based on its own regulated operations, capital structure, and actual transactions.

Corporate support arrangements do not, by themselves, establish that parent debt funded utility equity or that a parent-based tax adjustment is warranted.

From a customer impact perspective, the evidence demonstrates that the proposed amendment would not produce adverse rate impacts where a parent debt adjustment is not warranted under current facts. For DEF, the appropriate calculation of income tax expense on a stand-alone basis already reflects the actual financing of the utility and results in a more accurate cost of service. Maintaining the existing Rule, by contrast, risks continued distortion of revenue requirements through reliance on hypothetical tax benefits that may not exist, thereby undermining regulatory accuracy rather than enhancing it.

In light of these considerations, DEF respectfully submits that Rule 25-14.004 F.A.C., in its current form, is outdated, economically unsound, and inconsistent with modern regulatory principles. The Commission should adopt targeted amendments that eliminate the mandatory parent debt adjustment and instead permit evaluation of income tax expense based on actual facts and circumstances in each proceeding. Such an approach would align Florida's regulatory framework with current industry practice, preserve Commission discretion, and ensure that ratemaking outcomes are grounded in the financial reality of the regulated utility rather than in artificial assumptions embedded in a decades-old formula.

Respectfully submitted this 8th day of June, 2026.

<u>/s/ Stephanie A. Cuello</u>
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