DUKE ENERGY

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July 13, 2017

The Honorable Orrin G. Hatch
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510-6200

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Re: Senate Finance Committee Request for Feedback on Tax Reform

Dear Chairman Hatch and Ranking Member Wyden:

On behalf of Duke Energy,[1] one of the largest electric and gas power holding companies, I applaud your efforts on tax reform, which could benefit our customers and the communities we serve in our regulated service territory states across the Southeast and Midwest (North Carolina, South Carolina, Florida, Indiana, Ohio, Kentucky and Tennessee). Duke Energy is well positioned to be the leading energy company that will power economic growth resulting from a transformation of the tax code. Our company and other investor-owned utilities support the goals of comprehensive tax reform to simplify the U.S. tax code, broaden the tax base and reduce rates, which we believe will lead to economic expansion across America's communities. However, due to the highly-regulated nature of our business, our industry stands apart from others in our need to preserve interest deductibility in tax reform.

Across the country, independent state public utility commissions allow electric companies to recover costs through rates charged to customers for electricity service. Regulators set customer rates that are "just and reasonable," balancing the interests of customers and investors. Our debt-equity capital structure is also overseen by state utility commissions. These regulators have traditionally approved as much as 50 percent long-term debt to keep the cost of capital low, allowing electric companies to continue investing in the infrastructure necessary to provide customers with reliable, affordable electricity. If we are no longer able to deduct interest, the cost of electricity will rise due to the increased cost of debt capital. Increased electricity prices disproportionately impact lower-income customers and small businesses, and hurt the global competitiveness of energy-intensive industries across the U.S.

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[1] **Duke Energy** is one of the largest energy holding companies in the United States. Its Electric Utilities and Infrastructure business unit serves approximately 7.5 million customers located in six states in the Southeast and Midwest. The company's Gas Utilities and Infrastructure business unit distributes natural gas to approximately 1.6 million customers in the Carolinas, Ohio, Kentucky and Tennessee. Its Commercial Renewables business unit operates a growing renewable energy portfolio across the United States.

In addition to keeping rates low for customers, the preservation of interest deductibility is also important in order to maintain our ability to make significant capital investments in our communities. For example, we recently made a $25-billion investment commitment to modernize Duke's energy grid to provide improved reliability, enhanced security and services our customers expect.

The electric power sector is the most capital intensive industry in the nation. In 2016, the electric power industry invested approximately $121 billion in total capital expenditures, such as smarter energy infrastructure, clean energy and energy solutions for customers. These investments are needed to ensure that customers have safe, reliable and affordable energy. In addition, these capital investments provide a significant source of high-quality jobs and local tax revenues.

Duke Energy recognizes the fiscal, economic and procedural constraints inherent to reforming America's tax code. This is why our industry is willing to forgo immediate expensing in order to preserve the ability to deduct interest, providing a revenue generator during a time when Congressional leaders are working with budgetary constraints. If interest deductibility is preserved for the electric power industry, these companies can forego 100 percent expensing, instead depreciating capital investments under the modified accelerated cost recovery system.

We look forward to continuing to discuss the financial impacts of potential changes to the tax code and partnering with you to advance comprehensive tax reform. For additional information, please contact Pepper Natonski, Duke Energy Director of Federal Affairs in Washington D.C. (pepper.natonski@duke-energy.com). Thank you for your consideration of this request, and I look forward to continuing this conversation.

Regards,

Lynn J. Good