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May 31, 2018

E-PORTAL FILING

Ms. Carlotta Stauffer, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20180048-EI – In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company –Electric.

Attached for filing, please find Florida Public Utilities Company – Electric's (FPUC) Petition for Approval of Tax Benefit Adjustment Amounts and Flow Through Mechanism, along with the direct testimony and exhibits of Michael Cassel, Michael Reno, and Matthew Dewey on behalf of FPUC.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

Kind regards,

Beth Keating
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215 South Monroe St., Suite 601
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(850) 521-1706

MEK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company - Electric.	DOCKET NO. 20180048-EI FILED: May 31, 2018

PETITION OF FLORIDA PUBLIC UTILITIES COMPANY FOR APPROVAL OF TAX BENEFIT ADJUSTMENT AMOUNTS AND FLOW-THROUGH MECHANISM

Florida Public Utilities Company ("FPUC," "FPUC-Electric" or "Company"), by and through its undersigned counsel, pursuant to Sections 366.04(1) and 366.06(1), Florida Statutes, and consistent with Order No. PSC-2018-0211-PCO-EI, issued in Docket No. 20180048-EI, Order No. PSC-2017-0488-PAA-EI, issued in Docket No. 20170150-EI, and Order No. PSC-2018-0104-PCO-PU, issued in Docket No. 20180013-PU, hereby files this Petition asking the Florida Public Service Commission ("FPSC" or "Commission") for approval of FPUC's calculation of tax benefit amounts arising from the Tax Cuts and Jobs Act of 2017, along with the means of flowing that benefit through to FPUC's customers. FPUC also offers an alternative flow-through mechanism, ("Proposal"), for consideration. With this Petition, FPUC is also submitting the Direct Testimony and Exhibits of witnesses Michael Cassel, Matthew Dewey, and Michael Reno on behalf of FPUC, consistent with Order No. PSC-2018-0211-PCO-EI, issued in this proceeding on April 25, 2018.

In support of this request, the Company hereby states:

1) FPUC is an electric utility subject to the Commission's jurisdiction. Its principal business address is:

Florida Public Utilities Company
1750 S 14th Street, Suite 200
Fernandina Beach FL 32034

2) The name and mailing address of the persons authorized to receive notices are:

Beth Keating, Esq.
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Mike Cassel
Director, Regulatory and Governmental Affairs
Florida Public Utilities Company
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3) The Company is unaware of any material facts in dispute at this time, but the proceeding may involve disputed issues of material fact. The Company's request set forth herein does not require reversal or modification of a Commission decision or proposed agency action. The Commission is the affected agency located at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399.

I. BACKGROUND

4) The Tax Cuts and Jobs Act of 2017[1] ("Act") was signed into law by President Trump on December 22, 2017, and applies to the taxable year beginning after December 31, 2017. Thereafter, the Commission established generic Docket No. 20180013-PU to address the Office of Public Counsel's ("OPC") Petition to Establish Generic Docket to Investigate and Adjust Rates for 2018 Tax Savings. By Order No. PSC-2018-0104-PCO-PU, the Commission asserted jurisdiction over the subject matter of responsive tax adjustments effective on the date of the Commission's vote, February 6, 2018, except for

[1] HR-1, Pub. L. No. 115-97, December 22, 2017, 131 Stat 2054.

those utilities, including FPUC-Electric, operating under settlement agreements that address the federal tax rate change. For these utilities, the effective date is the date set forth in the utilities' respective agreements. In accordance with the Stipulation and Settlement approved by Order No. PSC-2017-0488-PAA-EI, issued in Docket No. 20170150-EI, the effective date for purposes of the beginning of the tax adjustment for FPUC is January 1, 2018.

5) This docket was opened on February 21, 2018, to provide a vehicle for the Commission to consider the tax impacts associated with the passage of the Act on Florida Public Utilities Company - Electric. The Order Establishing Procedure for this proceeding, Order No. PSC-2018-0211-PCO-EI, was issued April 25, 2018. FPUC hereby submits this Petition and the testimonies of its witnesses consistent with the schedule established by the Prehearing Officer.

II. TAX ADJUSTMENT AMOUNTS

6) As explained in greater detail in the testimony of FPUC witness Michael Cassel, the annual tax savings associated with the corporate income tax rate change from 35% to 21% is approximately $638,158, which will accrue to the Company on an annual basis until appropriately accounted for in the Company's base rates. If applied consistent with the Company's Stipulation and Settlement in Docket No. 20170150-EI, this would result in base rate reduction of about $1.06 on a typical residential customer's bill. The benefits of the rate change from January 1 until the Company's base rate change recognizing the tax rate reduction ("Pre-Rate Change Amount") would also be approximately $638,158,

if the base rate change is implemented January 1, 2019. The Pre-Rate Change Amount would then be applied to reduce ECCR costs per the approved Stipulation and Settlement in Docket No. 20170150-EI.

7) As for deferred taxes, which are recorded on the Company's balance sheet as a regulatory liability, the amount on the Company's books was calculated at the prior 35% rate, but the actual taxes paid to the government will be paid at the 21% rate, resulting in a net benefit for customers. For FPUC, the total Excess Deferred Tax Liability is approximately $7,693,217. For the protected deferred taxes, the grossed-up balance for FPUC is approximately $6,242,715, which is recorded as a Deferred Regulatory Tax Liability. In accordance with the Company's Stipulation and Settlement with OPC, this amount would be flowed-back to customers over approximately 21 years at $297,272 per year.

8) The grossed-up Deferred Regulatory Tax Liability balance related to the Unprotected Deferred Tax is approximately $1,450,502. The Company's Stipulation and Settlement with OPC in Docket No. 20170150-EI also addresses this amount and requires that it be returned to customers to customers over a ten-year period at approximately $145,050 per year.

9) FPUC notes that the tax benefit amounts identified herein, as well as in the testimony of its witnesses, are not considered to be final amounts, but are instead approximates. As noted by Company witness Dewey, the staff of the US Securities and Exchange Commission ("SEC"), recognizing the complexity of reflecting the impacts of the Act, has issued guidance in Staff Accounting Bulletin 118 ("SAB 118"), which

clarifies that the required analyses and accounting for income taxes under ASC 740 can be completed within up to one year if information is not yet available or complete. As further explained by witness Dewey, certain information pertaining to FPUC's calculation of the full tax benefits remains to be determined, including the portions of deferred taxes that can be normalized using the IRS' preferred normalization methodology known as "ARAM"; thus, the amounts are currently reflected as approximates and may be revised until December 22, 2018.

10) As set forth in the Company's approved Stipulation and Settlement in Docket No. 20170150-EI, the benefits of the tax reduction are to be passed on to FPUC's customer's through a one-time reduction in base rates, while the impact to the Company's revenue requirements from the effective date of the Act through the one-time adjustment to base rates is to be returned to customers through a one-time reduction to the ECCR Clause.

III. PROPOSAL

11) As set forth herein, the benefit arising from the tax rate change is approximately $638,158 on an annual basis pending incorporation in the Company's base rates. With regard to the Unprotected Deferred Tax, the regulatory liability amount is approximately $1,450,502, while the Protected Deferred Tax benefit amount is an estimated $6,242,715. FPUC acknowledges that the Stipulation and Settlement Agreement approved by the Commission by Order No. PSC-2017-0488-PAA-EI, as noted herein, clearly contemplates that the full tax benefit would be passed on to FPUC's customer through a base rate adjustment.

12) FPUC notes, however, that it currently has a significant Fuel and Purchased Power Cost under-recovery on its books of approximately $5.5 million for year-end 2017, which could necessitate a mid-course correction and will, at a minimum, have a significant impact on the Company's Fuel and Purchased Power Cost Recovery charge for 2019.

13) Given the potential for customer confusion in the otherwise likely event of a base rate reduction that coincides with a significant increase in the Fuel and Purchased Power ("Fuel") surcharge, FPUC proposes an alternative for consideration, which the Company suggests is consistent with the intent of the Stipulation and Settlement, if not the express language. Moreover, the alternative approach would provide a "bill smoothing" benefit likely to reduce, or avoid, unnecessary customer confusion that may otherwise be associated with competing rate changes on customers' bills.

14) Specifically FPUC proposes to apply the $638,158 annual amount of tax savings associated with the tax rate reduction to the Company's Fuel under-recovery until the next general rate proceeding, which is currently estimated to be in 2 to 3 years. This would contribute a total of approximately $1.3 million to $1.9 million to the Fuel under-recovery over the period. Likewise, FPUC suggests that applying the Protected Deferred Tax benefit to the Fuel under-recovery over the same estimated time frame of 2 to 3 years before the Company's next general rate proceeding would contribute an additional amount ranging between $594,544 and $891,816 to the Fuel under-recovery, while application of the full $1,450,502 Unprotected Deferred Tax benefit amount as a one-time benefit to the existing $5.5 million fuel under-recovery would reduce the under-

recovery enough to enable FPUC to avoid seeking a mid-course correction to address the shortfall and significantly lessen the impact of this under-recovery on the 2019 Fuel and Purchased Power charge on FPUC's customers' bills.

15) If FPUC's proposal to utilize the benefits of the Tax Act as an offset to the Fuel under-recovery is accepted, the projected impact to FPUC's typical residential bill would be a net decrease of $3.93, which would be reflected in the 2019 Fuel and Purchased Power surcharge. This approach would, consistent with the underlying intent of the Stipulation and Settlement approved in Docket No. 20170150-EI, return all benefits of the Act to FPUC's customers and would do so in a manner that would be less likely to add to customer confusion that may otherwise occur as a result of a base rate reduction followed in short order by notable increases to applicable surcharges.

IV. REQUEST FOR RELIEF

16) FPUC asks that the Commission determine that the tax benefits inuring to FPUC's customers as a result of the corporate income tax rate change implemented by the Act has an annual impact in the amount of $1,080,480, which should be applied to reduce the Company's base rates consistent with the cost of service methodology utilized in the Company's last base rate case with an effective date of January 1, 2019.

17) FPUC asks that the Commission determine that the total amount of the tax benefit of the Act to be applied to the Company's ECCR costs and flowed-through to customers via adjustments to the ECCR surcharge is $1,080,480.

18) FPUC asks that consideration be given to utilizing FPUC's alternative proposal to apply the tax benefits to the Company's Fuel and Purchased Power Cost under-recovery as an alternative means of returning the benefits of the Act to FPUC's customers that is more efficient, timely, and less confusing.

19) FPUC asks that it be allowed to update the estimated tax benefits to be consistent with any adjustments to those estimates through December 22, 2018.

RESPECTFULLY SUBMITTED this 31st day of May, 2018.

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Attorneys for Florida Public Utilities Company

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing Petition for Approval of Tax Benefit Adjustment Amounts and Flow Through Mechanism, along with the direct testimony and exhibits of Michael Cassel, Michael Reno, and Matthew Dewey on behalf of FPUC-Electric in the referenced docket have been served by Electronic Mail this 31st day of May, 2018, upon the following:

Suzanne Brownless Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850 sbrownle@psc.state.fl.us	J.R. Kelly/E. Sayler/Virginia Ponder Office of Public Counsel c/o The Florida Legislature 111 W. Madison Street, Room 812 Tallahassee, FL 32399-1400 kelly.jr@leg.state.fl.us Sayler.Eric@leg.state.fl.us Ponder.Virginia@leg.state.fl.us

By: ______________________

Beth Keating
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<u>Before the Florida Public Service Commission</u>

Docket No. 20180048-EI

In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company

Prepared Direct Testimony of Michael Cassel

Date of Filing: May 31, 2018

Q. Please state your name and business address.

A. My name is Michael Cassel. My business address is 1750 South 14th Street, Suite 200, Fernandina Beach, FL 32034.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Public Utilities Company ("FPUC") as the Director of Regulatory and Governmental Affairs.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Accounting from Delaware State University in Dover, Delaware in 1996. I was hired by Chesapeake Utilities Corporation ("CUC") as a Senior Regulatory Analyst in March 2008. As a Senior Regulatory Analyst, I was primarily involved in the areas of gas cost recovery, rate of return analysis, and budgeting for CUC's Delaware and Maryland natural gas distribution companies. In 2010, I moved to Florida in the role of Senior Tax Accountant for CUC's Florida business units. Since that time, I have held various management roles including Manager of the Back Office in 2011, Director of Business Management in 2012. I am currently the Director of Regulatory and Governmental Affairs for CUC's Florida business units. In this role, my responsibilities include directing the regulatory and governmental affairs for the Company in Florida including regulatory analysis, and reporting and filings before the Florida Public Service Commission ("FPSC") for FPUC, FPUC-Indiantown, FPUC-Fort Meade, Central Florida Gas, and Peninsula Pipeline Company. Prior to joining Chesapeake, I was employed by J.P. Morgan Chase & Company, Inc. from 2006 to 2008 as a Financial Manager in their card finance group. My primary responsibility in this position was the development of client specific financial models and profit loss statements. I was also employed by Computer Sciences Corporation as a Senior Finance Manager from 1999 to 2006. In this position, I was responsible for the financial operation of the company's chemical, oil and natural resources business. This included forecasting, financial close and reporting responsibility, as well as representing Computer Sciences Corporation's financial interests in contract/service negotiations with existing and potential clients. From 1996 to 1999, I was employed by J.P. Morgan, Inc., where I had various accounting/finance responsibilities for the firm's private banking clientele.

Q. Have you ever testified before the FPSC?

A. Yes. I've provided written, pre-filed testimony in a variety of the Company's annual proceedings, including the Fuel and Purchased Power Cost Recovery Clause, Docket No. 20160001-EI and the Gas

Reliability Infrastructure Program ("GRIP") Cost Recovery Factors proceeding for FPUC and our sister company, the Florida Division of Chesapeake Utilities Corporation, Docket No. 20160199. Most recently, I provided written, pre-filed testimony in FPUC's electric Limited Proceeding, Docket No. 20170150-EI.

Q. What is the purpose of your testimony?

A. I will explain and support FPUC's proposal for disposition of tax benefits related to the Federal Tax Cuts and Jobs Act of 2017 ("2017 Tax Act") related to the Florida Public Utilities Company, Electric division.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring Exhibits MC-1 and MC-2, which are summaries of FPUC's proposed treatments of the impacts resulting from the 2017 Tax Act.

I. FPUC's PROPOSAL

Q. Is FPUC's electric division subject to a settlement that includes provisions addressing the 2017 Tax Act?

A. Yes. In Docket No. 20170150-EI, FPUC entered into a Stipulation and Settlement ("2017 Agreement") with the Office of Public Counsel regarding FPUC's request for recovery through base rates of certain capital projects. That 2017 Agreement was subsequently approved by the Commission in Order No. PSC-2017-0488-PAA-EI, issued December 26, 2017.

Q. Could you please provide a summary of the 2017 Agreement provisions related to the 2017 Tax Act?

A. Yes. The 2017 Agreement includes provisions addressing the then-anticipated 2017 Tax Act in Section VII. The following is a summary of these provisions.

<u>Paragraph (b):</u>

- The Company's forecasted earnings surveillance report for the calendar year that includes the period in which Tax Reform is effective will be the basis for determination of the impact of Tax Reform.

- The impacts of Tax Reform on base revenue requirements will be flowed back to retail customers with a one-time adjustment to base rates.

- Any effects of Tax Reform on retail revenue requirements from the Implementation Date through the date of the one-time base rate adjustment will be flowed back to customers through the ECCR Clause.

Paragraph (c):

- All Excess Deferred Taxes will be deferred to a regulatory asset and flowed back to customers over 10 years because the balance is estimated to be greater than $800,000.

Q. Could you please identify the three components of the 2017 Tax Act being addressed by FPUC in this proposal?

A. The three components of the 2017 Tax Act being addressed by FPUC are: 1) the federal tax rate change from 35% to 21%; 2) the Protected Deferred Tax Liability; 3) the Unprotected Deferred Tax Liability.

Q. What is FPUC's proposed resolution for the impact of the federal rate change from 35% to 21% resulting from the 2017 Tax Act?

A. Per the 2017 Agreement, there are two aspects of the rate reduction provision that the Company must address. The first is the annual benefit of the federal rate change from 35% to 21%, which is calculated, at an effective rate, to be $638,158. This amount will be flowed back to FPUC's customers by way of a one-time base rate change until the next base rate proceeding. The second provision to be recognized is the portion of the federal rate change that is effective from January 1, 2018, until such time as the Company can make the base rate change in its billing system, which is currently planned to be effective January 1, 2019 ("Implementation Date"). With an Implementation date of January 1, 2019, this amount is calculated to be $638,158 and will be flowed back to FPUC's customers by way of a reduction in the ECCR cost clause. Exhibit MC-1 demonstrates this calculation.

Q. Is there an alternative approach that warrants consideration?

A. Yes. While FPUC fully acknowledges that the 2017 Agreement prescribes a one-time reduction in base rates to return the benefit created by the 2017 Tax Act, the methodology to return tax benefits to customers, as prescribed in the 2017 Agreement, was drafted prior to the passage of the 2017 Tax Act. As a result, the opportunity to consider other methods of assuring the benefits resulting from changes in the federal tax law would make their way back to customers was limited. With the full impacts of the 2017 Tax Act now known, FPUC suggests that applying the $638,158 annual amount of tax savings associated with the federal tax rate reduction to the Company's under-recovered Fuel and Purchased Power Cost, which as of December 2017 was approximately $5.5 million, would be a more efficient and less confusing mechanism of returning these tax benefits to FPUC's customers, as opposed to a base rate decrease followed by a significant fuel surcharge increase. Applying the tax benefit to the fuel under-recovery would not only provide some "bill smoothing" benefits, but timing benefits, as well, as it would contribute a total of approximately $1.3 million to $1.9 million to the Fuel Cost over the next two to three years, which is when the Company would anticipate filing its next base rate proceeding.

Q. Has the Company finalized the Deferred Tax balance calculations?

A. No. As noted by Company witness Dewey, certain information pertaining to FPUC's calculation of the full tax benefits remains to be determined, including the portions of deferred taxes that can be normalized using the IRS' preferred normalization methodology known as "ARAM"; thus, the amounts are currently reflected as approximates and may be revised until December 22, 2018 in accordance with Securities and Exchange Commission Staff Accounting Bulletin 118.

Q. What is FPUC's proposed resolution for the Protected Deferred Taxes?

A. FPUC has a regulatory tax liability recorded on its balance sheet for protected deferred tax at a rate of 35% consistent with the applicable law prior to the 2017 Tax Act. At the implementation of the 2017 Tax Act, the Company will only be required to pay those taxes out at 21% rate. The estimated benefit in the Protected Deferred Tax is recorded on FPUC's balance sheet as a grossed-up Deferred Regulatory Tax Liability of $6,242,715. This amount, per the 2017 Agreement, is to be flowed back to FPUC's customers over 21 years at approximately $297,272 per year, using the Internal Revenue Service ("IRS") prescribed methodology. Exhibit MC-1 demonstrates this calculation.

Q. Is there an alternative approach that warrants consideration?

A. While FPUC again fully acknowledges that the Company's Commission-approved settlement with the Office of Public Counsel in Docket No. 20170150-EI specifically addresses Deferred Taxes, FPUC suggests that an alternative of applying the estimated Protected Deferred Tax benefit amount annually to the under-recovered Fuel Cost for the same two to three year period. The Commission approval of this request would contribute an estimated additional $594,544 to $891,816 to the Company's under-recovered Fuel Cost. The actual amount of amortization would be applied to the under-recovered Fuel Cost. It would also enhance the "bill smoothing" and timing benefits associated with applying the rate change tax savings to the Fuel under-recovery.

Q. What is your proposed resolution for the Unprotected Deferred Taxes?

A. FPUC has a regulatory liability recorded on its balance sheet for Unprotected Deferred Tax at a rate of 35% consistent with the applicable law prior to the 2017 Tax Act. At the implementation of the new tax rate, the Company is only required to pay those taxes out at 21% rate. The estimated benefit in the Unprotected Deferred Tax is recorded on

FPUC's balance sheet as a grossed-up Deferred Regulatory Tax Liability of $1,450,502. This amount, per the 2017 Agreement, is to flow back to FPUC's customers through base rates over a period of 10 years at approximately $145,050 per year. Exhibit MC-1 demonstrates this calculation.

Q. Is there an alternative approach that warrants consideration?

A. While FPUC again fully acknowledges the Commission-approved settlement with the Office of Public Counsel in Docket No. 20170150-EI specifically addresses Deferred Taxes and prescribes a one-time reduction in base rates to return the benefit created by the 2017 Tax Act, there is also merit in applying the estimated $1,450,502 of Unprotected Deferred Tax balance, as a one-time benefit to the Company's under-recovered Fuel and Purchased Power Cost Recovery balance. This would be consistent with the approach I've discussed relative to the tax rate change benefits and the Protected Deferred Tax benefits and would further lessen the impact of this under-recovery on customers' bills for 2019.

Q: Why is applying the sum total in tax benefits to the Company's Fuel and Purchased Power Cost Recovery charge calculation for 2019 a viable option?

A: As of December 2017, the Company's Fuel and Purchased Power Costs were significantly under-recovered. This under-recovery will need to be addressed in calculating the Company's Fuel and Purchased Power Cost Recovery surcharge for 2019. The Company continually looks for avenues to reduce the under-recovery, but the efforts identified to date have only slowed the increase of the under-recovery, and not fully mitigated it. The other option the Company sees, outside of the alternative contained herein, would be to address the under-recovery with a mid-course correction. This would mitigate the under-recovery to some extent by year-end 2018 but would have a decidedly negative impact on the Company's Fuel and Purchased Power Cost Recovery charge for the remainder of 2018.

Q. Do you have an Exhibit that demonstrates the potential impact of treatment of these tax impacts on your customers?

A. Exhibit MC-2 shows the estimated impact to the Company's customers if the 2017 Settlement were followed exactly.

II. SUMMARY

Q. Please summarize your testimony.

A. FPUC's proposal, as outlined above, not only meets the intended goal of the 2017 Tax Act by flowing savings back to our customers, but it does so in the most efficient, timely and responsible manner possible. The 2017 Agreement, prescribes applying annual savings from the tax rate change of $638,158 and the estimated annual benefit resulting from the Protected Deferred Tax of $297,272 as a reduction to base rates in order to return these benefits to FPUC's customers. The 2017 Agreement also provides that the tax rate change savings arising from the Implementation Date until base rate changes can be made to recognize the benefits of the 2017 Tax Act, which are calculated to be $1,080,480, will be flowed back to FPUC's customers by way of a reduction in the ECCR cost clause. The 2017 Agreement further prescribes flowing back to customers, through base rates, over a ten-year period at approximately $145,050 per year the estimated Unprotected Deferred Tax balance of $1,450,502. Given the specific provisions of the 2017 Agreement, FPUC proposes to flow back the benefits of the 2017 Tax Act consistent with the provisions of the Company's 2017 Agreement. Given, however, that FPUC currently has a Fuel Cost under-recovery of approximately $5.5 million as of December 2017, applying the annual savings associated with the tax rate change, as well as the estimated Protected Deferred Tax benefit and the estimated one-time Unprotected Deferred Tax balance to this Fuel Cost under-recovery would significantly mitigate the under-recovery and send a less confusing price signal to our customers. The projected impact to FPUC's typical residential customers would be a decrease of approximately $3.93 on customers' bills as a result of the reduction to the 2019 Fuel and Purchased Power surcharge. Additionally, returning the benefits from the 2017 Tax Act to customers strictly, as prescribed in the 2017 Settlement, would require FPUC to lower customer bills multiple times including once for the actual effective tax rate change, as well as to refund the one-time effects of that change through the ECCR clause. These reductions would be accomplished during the same period that the Company would be evaluating the under-recovery in fuel rates, either through the projection or mid-course correction, of its Fuel and Purchased Power Cost Recovery surcharge, that are likely to necessitate increases in customer bills. FPUC offers to apply the various savings from the TCJA to the Fuel Cost under-recovery as a secondary option, which although not consistent with the express language of the 2017 Agreement, is nonetheless consistent with the underlying intent to return all benefits of the 2017 Tax Act to FPUC's customers.

Q. Does this conclude your testimony?

A. Yes.

FLORIDA PUBLIC UTILITIES COMPANY
Computation of Electric Tax Savings
Projected 2018 Test Year

Docket No.: 20180048-EI
Exhibit No.: MC-1

	FE	Allocated FC	Total	Annual	
ANNUAL TAX SAVINGS FROM RATE CHANGE:					
NOI BEFORE TAX CHANGE (INCLUDES LIMITED PROCEEDING)	$ 3,433,957				
NOI AFTER TAX CHANGE (INCLUDES LIMITED PROCEEDING)	$ 3,910,374				
NET INCOME EFFECT OF TAX CHANGE	$ 476,417				
GROSS UP	$ 161,741				
PRETAX - GROSSED UP SAVINGS (EXPENSE)	$ 638,158			$ 638,158	
ESTIMATED REGULATORY TAX LIABILITY:					
Estimated Protected Grossed Up Reg Tax Liability	$ 6,147,902	$ 94,813	$ 6,242,715	$ 297,272	21 Year Amortization
Estimated Unprotected Grossed Up Reg Tax Liablility	$ 1,621,817	$ (171,315)	$ 1,450,502	$ 145,050	10 Year Amortization
Total Regulatory Tax Liability	$ 7,769,719	$ (76,502)	$ 7,693,217	$ 442,322	
Total				$ 1,080,480	

Florida Public Utilities Company
12-Month Ending Volumes & Base Revenue

DOCKET NO.: 20180048-EI
EXHIBIT: MC-2

LINE NO.	RATE SCHEDULE	(1) Customers at 12-31-18	(2) Dec. 2018 12ME KWH	(3) 2018 Budget	(4) PERCENT OF TOTAL	(5) BASE RATE DECREASE AT UNIFORM PERCENT	(6) TOTAL CLASS REVENUE WITH DECREASE
1	RESIDENTIAL	24,613	295,117,133	$ 11,794,240	54.52%	$ (589,078)	$ 11,205,162
2	COMMERCIAL SMALL	3,782	64,055,441	$ 2,779,404	12.85%	$ (138,842)	$ 2,640,562
3	COMMERCIAL	583	160,952,060	$ 3,424,814	15.83%	$ (171,040)	$ 3,253,774
4	COMMERCIAL LARGE	23	95,682,144	$ 1,423,777	6.58%	$ (71,096)	$ 1,352,681
5	INDUSTRIAL	2	21,585,000	$ 516,523	2.39%	$ (25,823)	$ 490,700
6	OUTDOOR LIGHTS	3,029	7,469,143	$ 1,693,009	7.83%	$ (84,602)	$ 1,608,407
		32,032	644,860,921	$ 21,631,767	100.00%	$ (1,080,480)	$ 20,551,287
	Percent Decrease					-4.99%	

Florida Public Utilities Company
Present and Proposed Rates

DOCKET NO.: 20180048-EI
EXHIBIT: MC-2

Customer Facility Charge:			Current Rates	Proposed Rates
Residential (RS)			$15.12	$14.37
General Service (GS)			$24.84	$23.60
General Service Demand (GSD)			$73.45	$69.78
General Service Large Demand (GSLD)			$140.41	$133.40
General Service Large Demand (GSLD1)			$869.46	$826.04
Standby (SB)	<500 kw		$108.01	$102.61
Standby (SB)	≥500 kw		$869.46	$826.04

Base Energy Charge:			Current Rates	Proposed Rates
Residential (RS)	≤1,000 -		$0.02117	$0.02011
	>1,000 -		$0.03467	$0.03294
General Service (GS)			$0.02589	$0.02460
General Service Demand (GSD)			$0.00488	$0.00464
General Service Large Demand (GSLD)			$0.00226	$0.00214
General Service Large Demand (GSLD1)			$0.00000	$0.00000
Standby (SB)	<500 kw		$0.00000	$0.00000
Standby (SB) ≥500 kw			$0.00000	$0.00000

Demand Charge:			Current Rates	Proposed Rates
Residential (RS)			$0.00	$0.00
General Service (GS)			$0.00	$0.00
General Service Demand (GSD)			$4.00	$3.80
General Service Large Demand (GSLD)			$5.72	$5.44
General Service Large Demand (GSLD1)			$1.62	$1.54
General Service Large Demand (GSLD1)		kVAR	$0.39	$0.37
Standby (SB) <500 kw			$2.81	$2.67
Standby (SB)	≥500 kw		$0.70	$0.67
Standby (SB)		kVAR	$0.39	$0.37

		Current Rates	Proposed Rates
Initial Entitlement of Service			
Re-establish Service or Account Changes			
Customer Request Temp Disconnect/Reconn			
Reconnect After Disconnect (Normal Hrs)			
Reconnect After Disconnect (After Hours)			
Temporary Service			
Collection Charge			
Returned Check Charge	Per Statute		

Credit Card Fees --------------------- $3.50 RS and 3.5% other classes ---------------------
Late Fees --------------------- Greater of 1.5% or $5.00 -------------------------

Florida Public Utilities Company
Present and Proposed Rates - Lighting

DOCKET NO.: 20180048-EI
EXHIBIT: MC-2

Lighting:	Current Rates Facility Charge	Energy Charge	Maint Charge	Total Charge	Proposed Rates Facility Charge	Energy Charge	Maint Charge	Total Charge
1000w HPS Flood	$18.46	$17.59	$2.48	$38.53	$17.54	$16.71	$2.36	$36.61
1000w MH Flood	$17.03	$17.59	$2.41	$37.03	$16.18	$16.71	$2.29	$35.18
1000w MH Vert Shoebox	$21.02	$17.59	$2.74	$41.35	$19.97	$16.71	$2.60	$39.28
100w HPS Amer Rev	$7.98	$1.78	$2.71	$12.47	$7.58	$1.69	$2.57	$11.84
100w HPS Cobra Head	$5.99	$1.78	$1.74	$9.51	$5.69	$1.69	$1.65	$9.03
100w HPS SP2 Spectra	$20.49	$1.78	$2.56	$24.83	$19.47	$1.69	$2.43	$23.59
100w MH SP2 Spectra	$20.33	$1.78	$2.48	$24.59	$19.31	$1.69	$2.36	$23.36
150w HPS Acorn	$16.25	$2.64	$2.06	$20.95	$15.44	$2.51	$1.96	$19.91
150w HPS ALN 440	$23.18	$2.64	$2.74	$28.56	$22.02	$2.51	$2.60	$27.13
150w HPS Am Rev	$7.48	$2.64	$2.75	$12.87	$7.11	$2.51	$2.61	$12.23
175w MH ALN 440	$22.18	$3.10	$2.16	$27.44	$21.07	$2.95	$2.05	$26.07
175w MH Shoebox	$18.73	$3.10	$2.42	$24.25	$17.79	$2.95	$2.30	$23.04
200w HPS Cobra Head	$8.08	$3.52	$2.08	$13.68	$7.68	$3.34	$1.98	$13.00
250w HPS Cobra Head	$9.60	$4.37	$2.75	$16.72	$9.12	$4.15	$2.61	$15.88
250w HPS Flood	$9.40	$4.37	$2.00	$15.77	$8.93	$4.15	$1.90	$14.98
250w MH Shoebox	$19.94	$4.37	$2.70	$27.01	$18.94	$4.15	$2.57	$25.66
400w HPS Cobra Head	$8.96	$7.05	$2.29	$18.30	$8.51	$6.70	$2.18	$17.39
400w HPS Flood	$14.74	$7.05	$1.88	$23.67	$14.00	$6.70	$1.79	$22.49
400w MH Flood	$10.00	$7.05	$1.83	$18.88	$9.50	$6.70	$1.74	$17.94
10' Alum Deco Base	$15.33	$ -	$ -	$15.33	$14.56	$0.00	$0.00	$14.56
13' Decorative Concrete	$11.68	$ -	$ -	$11.68	$11.10	$0.00	$0.00	$11.10
18' Fiberglass Round	$8.24	$ -	$ -	$8.24	$7.83	$0.00	$0.00	$7.83
20' Decorative Concrete	$13.55	$ -	$ -	$13.55	$12.87	$0.00	$0.00	$12.87
30' Wood Pole Std	$4.42	$ -	$ -	$4.42	$4.20	$0.00	$0.00	$4.20
35' Concrete Square	$13.07	$ -	$ -	$13.07	$12.42	$0.00	$0.00	$12.42
40' Wood Pole Std	$8.85	$ -	$ -	$8.85	$8.41	$0.00	$0.00	$8.41
30' Wood pole	$3.98	$ -	$ -	$3.98	$3.78	$0.00	$0.00	$3.78
175w MV Cobra Head	$1.16	$3.05	$1.02	$5.23	$1.10	$2.90	$0.97	$4.97
400w MV Cobra Head	$1.27	$6.56	$1.09	$8.92	$1.21	$6.23	$1.04	$8.48

Before the Florida Public Service Commission

Docket No. 20180048-EI

In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company

Prepared Direct Testimony of Matthew Dewey

Date of Filing: 5/31/18

Q. Please state your name and business address.

A. My name is Matthew Dewey. My business address is 909 Silver Lake Blvd, Dover, DE 19904.

Q. By whom are you employed and what is your position?

A. I am employed by Chesapeake Utilities Corporation ("CUC") as an Accounting Director. CUC is the corporate parent of Florida Public Utilities Company.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree in Accounting from Goldey-Beacom College and have been employed with Chesapeake Utilities Corporation in various accounting positions since 1987.

Q. Have you ever testified before the Florida Public Service Commission ("FPSC")?

A. Yes, I have pre-filed written testimony for the Florida Division of Chesapeake Utilities Corporation, which does business as Central Florida Gas Company, in its 2009 base rate case, Docket No. 20090125-GU.

Q. What is the purpose of your testimony?

A. I will explain how the tax impacts associated with the Federal Tax Cuts and Jobs Acts of 2017 (the "2017 Tax Act") were calculated. I will also explain the methodology used to make these calculations, and how these tax impacts affected FPUC's balance sheet.

Q. Were these calculations of the Deferred Regulatory Liabilities related to the 2017 Tax act calculations performed by you, or under your direct supervision?

A. These calculations were performed under my direct supervision.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring MD-1 and MD-2. The exhibit MD-1 shows the Company's calculations to support the estimated regulatory liabilities of $7,769,721 as of March 31, 2018. This amount resulted from implementing the reduction in federal tax rate from 35% to 21% per the 2017 Tax 7Act. The worksheet lists the estimated Accumulated Deferred Income Tax ("ADIT") account balances as of December 31, 2017 at the blended tax rate, which includes the federal tax rate at 35%. The worksheet also calculates the Company's estimated ADIT account balances as of December 31, 2017, at the blended tax rate, which adjusts for reduced federal tax rate of 21% per the 2017 Tax Act. The worksheet shows the classification of each estimated excess or deficient deferred income taxes into one of the following classification: Protected, Unprotected plant and Unprotected. This classification is required since protected excess deferred income taxes are required to be flowed back based on IRS normalization guidelines. To record the regulatory liability for the deferred taxes on the balance sheet, we are required to add back the income tax gross-up to get to an applicable revenue amount. The worksheet also calculates the gross-up to record the estimated regulatory liability for Protected, Unprotected plant and Unprotected. In February 2018 and March 2018, estimated deferred tax assets were allocated from the parent, Chesapeake Utilities Corporation, to all Chesapeake subsidiaries and divisions, including FPUC's electric division, at the blended tax rate. I do not expect these adjustments to re-occur. The net difference between the 35% and 21% was reported with a net effect of zero to the balance sheet. The exhibit MD-2 supports the same calculation described above for the Florida Corporate general ledger. The result is an estimated regulatory asset of $354,178 of which $76,502 or 21.6% is allocated to FPU – Electric.

Q. Could you clarify the meaning of a "gross-up" as it pertains to deferred taxes?

A. Yes. The deferred tax impact as a result of the tax rate change is increased, or "grossed up" for the current tax rate. This balance will then be amortized and subject to income taxes at the current rate so that the net income impact equals the amortized tax benefit or detriment.

Q. The regulatory liability balance of $7,769,721 as noted above related to the federal rate change from 35% to 21% per the 2017 Tax Act, is described as an estimated, why?

A. The staff of the US Securities and Exchange Commission ("SEC") has recognized the complexity of reflecting the impacts of the 2017 Tax Act, and on December 22, 2017 issued guidance in Staff Accounting Bulletin 118 ("SAB 118"), which clarifies accounting for income taxes under ASC 740 if information is not yet available or complete and provides for up to a one year period in which to complete the required analyses and accounting. Therefore, we will complete our measurement and accounting for the impact of the tax law changes on or before December 22, 2018.

Q. Does the Company know of any expected changes which could adjust the regulatory liability?

A. Not at this time. However, once the 2017 federal and state tax returns are filed, the Company will be adjusting entries based on the differences between the tax returns as filed and the 2017 tax provision. These adjustments could affect the ADIT balances as of December 31, 2017.

Q. Does this conclude your testimony?

A. Yes.

FLORIDA PUBLIC UTILITIES COMPANY
Computation of Regulatory Liability Electric Division (FE)

Docket No.: 20180048-EI
Exhibit No.: MD-1

Seg 3	FERC		Code	Name	12/31/2017 Balance	Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	12/31/2017 Balance	UnProtected NonPlant	NetAdjust to LT Bonus	2018 Q1 Entries	03/31/2018 Balance
FL	5.50%			Fed	BEFORE 35.00%	21.00%				AFTER	21.00%				
												Allocation from			
				Blended	38.58%	25.35%					25.35%	Parent	3/31/18		
2500	282	UNNP	2500	ADIT Property LT	$ 1	$ -			$ -	$ (1)	$ -			$ -	$ -
25AF	282	UNPP	25AF	AFUDC	$ -	$ -		$ -	$ -		$ -			$ -	$ -
25AM	283	UNNP	25AM	Customer Based Intangibles	$ 141,631	$ (48,575)			$ (48,575)	$ (1)	$ 93,055			$ (234)	$ 92,821
25AM	283	UNNP	25AM.01	Amortization Schedules Prior Acquisitions	$ -	$ -			$ -		$ -			$ -	$ -
25BD	283	UNNP	25BD	Bad Debts	$ 62,926	$ (21,582)			$ (21,582)	$ 1	$ 41,345			$ (8,241)	$ 33,104
25BN	283	UNNP	25BN.01	Short Term Bonus	$ 2	$ (1)			$ (1)	$ (2)	$ (1)	$ 80,640	$ 34,079	$ -	$ 114,718
25CN	283	UNNP	25CN	Conservation	$ 23,166	$ (7,945)			$ (7,945)	$ (7)	$ 15,214			$ 4,008	$ 19,222
25DP	282	P	25DP.01	Depreciation	$ (13,256,441)	$ 4,546,538	$ 4,546,538		$ -	$ 149	$ (8,709,754)			$ (152)	$ (8,709,906)
25DP	282	P	25DP.02	Contribution in Aid of Construction	$ 282,911	$ (97,029)	$ (97,029)		$ -		$ 185,882			$ 22,152	$ 208,034
25DP	282	P	25DP.03	Cost of Removal	$ (735,342)	$ 252,199	$ 252,199		$ -		$ (483,143)			$ (70,014)	$ (553,157)
25DP	282	P	25DP.04	Asset Gain/Loss	$ 307,140	$ (105,339)	$ (105,339)		$ -		$ 201,801			$ 43,387	$ 245,188
25DP	282	P	25DP.05	Adjustment for Repairs Depreciation	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25DR	283	UNNP	25DR.01	Deferred Revenue (Current)	$ -	$ -			$ -		$ -			$ -	$ -
25ID	283	UNNP	25ID	Reserve for Insurance Deductibles	$ (46,142)	$ 15,825			$ 15,825	$ 1	$ (30,316)			$ 53	$ (30,263)
25IT	255	UNNP	25IT	Investment Tax Credit	$ -	$ -			$ -		$ -			$ -	$ -
25LT	283	UNNP	25LT	Deferred Litigation	$ 1	$ -			$ -		$ 1			$ 1,333	$ 1,334
25PG	283	UNNP	25PG	Purchased Gas Cots	$ (2,174,274)	$ 745,708			$ 745,708	$ 65	$ (1,428,501)			$ (103,489)	$ (1,531,990)
25PN	283	UNNP	25PN	Pension	$ (155,072)	$ 53,185			$ 53,185	$ 3	$ (101,884)			$ 14,205	$ (87,679)
25PR	283	UNNP	25PR	Post Retirement Benefits	$ 1	$ -			$ -	$ 1	$ 2			$ -	$ 2
25PR	283	UNNP	25PR.02	Post Retirement Benefits (Non-Current)	$ 140,320	$ (48,125)			$ (48,125)		$ 92,195			$ 66	$ 92,261
25RC	283	UNNP	25RC	Rate Case	$ (138,403)	$ 47,468			$ 47,468	$ (9)	$ (90,944)			$ 12,403	$ (78,541)
25RE	282	UNPP	25RE	Repairs Deduction	$ (2,182,911)	$ 701,524		$ 701,524	$ -	$ (24)	$ (1,481,411)			$ 35,297	$ (1,446,114)
25RG	283	UNNP	25RG	ADIT Reg Asset	$ (216,030)	$ 74,091			$ 74,091		$ (141,939)			$ -	$ (141,939)
25RP	282	UNNP	25RP	Property Taxes	$ -	$ -			$ -		$ -			$ -	$ -
25RT	283	UNNP	25RT	Rabbi Trust					$ -		$ -	$ 54,634			$ 54,634
25SD	283	UNNP	25SD	ADIT State Decoupling	$ 633,778	$ 129,425			$ 129,425		$ 763,203			$ -	$ 763,203
25SI	283	UNNP	25SI.01	Self Insurance (Current)	$ (91,609)	$ 31,419			$ 31,419		$ (60,190)			$ -	$ (60,190)
25SR	283	UNNP	25SR	SERP (Current)					$ -			$ 134,066			$ 134,066
25WR	283	UNNP	25WR	Storm Reserve	$ 832,449	$ (285,504)			$ (285,504)		$ 546,945			$ -	$ 546,945
25SL	283	UNNP	S_NOL_SYS	S_NOL_SYS	$ (70,839)	$ (15,258)			$ (15,258)		$ (86,097)			$ -	$ (86,097)
25SL	283	UNNP	S_NOL_SYS - 2014 -	S_NOL_SYS - 2014 - FL	$ 70,839	$ 15,258			$ 15,258		$ 86,097			$ -	$ 86,097
			Total		$ (16,571,898)	$ 5,983,282	$ 4,596,369	$ 701,524	$ 685,389	$ 176	$ (10,588,440)	$ 269,340	$ 34,079	$ (49,226)	$ (10,334,247)
					$ -	$ 2									
				Protected Gross-up			$ 1,560,444				$ 1,560,444				$ 1,560,444
				UnProtected Plant Gross-up				$ 238,164			$ 238,164				$ 238,164
				UnProtected NonPlant Gross-up					$ 232,686		$ 232,686	$ (47,732)	$ (6,039)		$ 178,915
				Unrecorded adjustment to correct grossup calculation at year end					$ (32,700)		$ (32,700)				$ (32,700)
25TX			25TX	Tax Reform 2017 Reg Asset Gross Up			$ 1,560,444	$ 238,164	$ 199,986		$ 1,998,594	$ (47,732)	$ (6,039)		$ 1,944,823
			Total with Gross-up				$ 6,156,813	$ 939,688	$ 885,375		$ (8,589,846)	$ 221,608	$ 28,040	$ (49,226)	$ (8,389,424)
							a	b	c						

FLORIDA PUBLIC UTILITIES COMPANY
Computation of Regulatory Liability Electric Division (FE)

Docket No.: 20180048-EI
Exhibit No.: MD-1

Seg 3	FERC	Code	Name	12/31/2017 Balance	Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	12/31/2017 Balance	UnProtected NonPlant	NetAdjust to LT Bonus	2018 Q1 Entries	03/31/2018 Balance
				BEFORE					**AFTER**		**Allocation from Parent**	**3/31/18**		
FL	5.50%		Fed	35.00%	21.00%					21.00%				
			Blended	38.58%	25.35%					25.35%				
		Excess Deferred Tax Liability before gross up												
			Excess Deferred Tax Liability - Protected			$ (4,596,369)								$ (4,596,369)
			Excess Deferred Tax Liability - Unprotected Plant			$ (701,524)								$ (701,524)
			Excess Deferred Tax Liability - Unprotected Non Plant			$ (685,389)					$ (269,340)	$ (34,079)		$ (988,808)
			Excess Deferred Tax Liability - Total			$ (5,983,282)								$ (6,286,701)

[redacted]

								FE ADIT	**G/L**	$ (8,589,846)				$ (8,389,424)
								Adjust G/L 25TX		$ 1				$ 0
		25TX	Tax Reform 2017 Reg Asset Gross Up							$ 1,998,594				$ 1,944,823
		25TX	G/L							$ 1,998,594				$ 1,944,823
								Adjust G/L 25TX		$ 0				$ 0
										d				
		280R-254P	Reg Liability - Protected						a	$ (6,156,813)				$ (6,156,813)
		280R-254N	Reg Liability -UnProtected						d-b-c	$ (1,825,063)	$ 188,327	$ 23,828		$ (1,612,908)
										$ (7,981,876)				$ (7,769,721)
			Reg Liability -UnProtected Plant							$ (939,688)				$ (939,688)
			Reg Liability -UnProtected Non Plant							$ (885,375)	$ 188,327	$ 23,828		$ (673,220)
										$ (1,825,063)				$ (1,612,908)

FLORIDA PUBLIC UTILITIES COMPANY
Computation of Regulatory Liability Common Division (FC)

Docket No.: 20180048-EI
Exhibit No.: MD-2

					BEFORE					**AFTER**					
FL		5.50%		Fed	**35.00%**	**21.00%**					**21.00%**				
												Allocation from			
				Blended	**38.58%**	**25.35%**					**25.35%**	**Parent**	**3/31/18**		
Seg 3	**FERC**		**Code**	**Name**	**Beginning Balance**	**Rate Change**	**Protected**	**UnProtected Plant**	**UnProtected NonPlant**	**OTP Adj**	**12/31/2017 Balance**	**UnProtected NonPlant**	**NetAdjust to LT Bonus**	**Q1 Entries**	**03/31/2018 Balance**
2500	282	UNNP	2500	ADIT Property LT	$ 2,791	$ (957)			$ (957)		$ 1,834			$ -	$ 1,834
25BN	283	UNNP	25BN.01	Short Term Bonus	$ 646,396	$ (221,693)			$ (221,693)	$ 43	$ 424,746			$ 14,462	$ 439,208
25BN	283	UNNP	25BN.02	Long Term Bonus	$ 12,907	$ (4,427)			$ (4,427)		$ 8,480			$ -	$ 8,480
25DP	282	P	25DP.01	Depreciation	$ (937,944)	$ 321,685	$ 321,685		$ -		$ (616,259)			$ (43,664)	$ (659,923)
25DP	282	P	25DP.04	Asset Gain/Loss	$ (17,530)	$ 6,012	$ 6,012		$ -		$ (11,518)			$ (2,334)	$ (13,852)
25DP	282	P	25DP.05	Adjustment for Repairs Depreciation	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25EN	283	UNNP	25EN	Environmental	$ -	$ -			$ -		$ -	$ -		$ -	$ -
25ID	283	UNNP	25ID	Reserve for Insurance Deductibles	$ (1,421)	$ 487			$ 487	$ (1)	$ (935)			$ (1)	$ (936)
25PN	283	UNNP	25PN	Pension	$ 1,281,408	$ (439,482)			$ (439,482)	$ 15	$ 841,941			$ (5,222)	$ 836,719
25PR	283	UNNP	25PR	Post Retirement Benefits	$ (3,007)	$ 1,031			$ 1,031	$ (3,550)	$ (5,526)			$ -	$ (5,526)
25PR	283	UNNP	25PR.02	Post Retirement Benefits (Non-Current)	$ (7,376)	$ 2,530			$ 2,530		$ (4,846)			$ -	$ (4,846)
25RC	283	UNNP	25RC	Rate Case	$ -	$ -			$ -		$ -			$ -	$ -
25RD	283	UNNP	25RD	Loss on Reacquired Debt	$ (397,679)	$ 136,391			$ 136,391	$ 33,873	$ (227,415)			$ 7,208	$ (220,207)
25RE	282	UNPP	25RE	Repairs Deduction	$ 55,515	$ (19,040)		$ (19,040)	$ -	$ 5	$ 36,480			$ (420)	$ 36,060
25RT	283	UNNP	25RT	Rabbi Trust					$ -		$ -				$ -
25SD	283	UNNP	25SD	ADIT State Decoupling					$ -		$ -			$ -	$ -
25SD	283	UNNP	25SD	ADIT State Decoupling	$ -	$ -			$ -		$ -			$ -	$ -
25SI	283	UNNP	25SI.01	Self Insurance (Current)	$ -	$ -			$ -		$ -			$ -	$ -
25SI	283	UNNP	25SI.02	Self Insurance (Non-Current)	$ -	$ -			$ -		$ -			$ -	$ -
25SL	283	UNNP	25SL	ADIT State NOL	$ -	$ -			$ -		$ -			$ -	$ -
25VA	283	UNNP	25VA	Vacation	$ 144,792	$ (49,659)			$ (49,659)	$ 12	$ 95,145			$ (1,613)	$ 93,532
NOL_	283	UNNP	NOL_SYS	NOL_SYS	$ -	$ -			$ -		$ -			$ -	$ -
25SL	283	UNNP	S_NOL_SYS	S_NOL_SYS	$ (253,510)	$ (54,602)			$ (54,602)	$ (3,104)	$ (311,216)			$ -	$ (311,216)
25SL	283	UNNP	S_NOL_SYS - 20	S_NOL_SYS - 2014 - FL	$ 256,614	$ 55,271			$ 55,271		$ 311,885			$ -	$ 311,885
			Total		$ 781,956	$ (266,453)	$ 327,697	$ (19,040)	$ (575,110)	$ 27,293	$ 542,796	$ -	$ -	$ (31,584)	$ 511,212
					$ -	$ -									
				Protected Gross-up			$ 111,251				$ 111,251				$ 111,251
				UnProtected Plant Gross-up				$ (6,464)			$ (6,464)				$ (6,464)
				UnProtected NonPlant Gross-up					$ (195,247)		$ (195,247)	$ -			$ (195,247)
				Unrecorded adjustment to correct grossup calulation at year end					$ 2,735		$ 2,735				$ 2,735
25TX		-	25TX	Tax Reform 2017 Reg Asset Gross Up			$ 111,251	$ (6,464)	$ (192,512)		$ (87,724)	$ -	$ -		$ (87,724)
			Total with Gross-up				$ 438,948	$ (25,504)	$ (767,622)		$ 455,072	$ -	$ -	$ (31,584)	$ 423,488
							a	b	c						

FLORIDA PUBLIC UTILITIES COMPANY
Computation of Regulatory Liability Common Division (FC)

Docket No.: 20180048-EI
Exhibit No.: MD-2

			BEFORE		AFTER
FL	5.50%	Fed	35.00%	21.00%	21.00%
		Blended	38.58%	25.35%	25.35%

Seg 3	FERC	Code	Name	Beginning Balance	Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	12/31/2017 Balance	Allocation from Parent UnProtected NonPlant	3/31/18 NetAdjust to LT Bonus	Q1 Entries	03/31/2018 Balance
		Excess Deferred Tax Liability before gross up												
			Excess Deferred Tax Liability - Protected			$ (327,697)								$ (327,697)
			Excess Deferred Tax Liability - Unprotected Plant			$ 19,040								$ 19,040
			Excess Deferred Tax Liability - Unprotected Non Plant			$ 575,110					$ -	$ -		$ 575,110
			Excess Deferred Tax Liability - Total			$ 266,453								$ 266,453
		[redacted]				[redacted]								
								FN ADIT	G/L	$ 455,012				$ 423,428
								Adjust G/L 25TX		$ 59				$ 59
		25TX	Tax Reform 2017 Reg Asset Gross Up							$ (87,724)				$ (87,724)
		25TX	G/L							$ (87,725)				$ (87,725)
								Adjust G/L 25TX		$ 1				$ 1
										d				
		280R-254P	Reg Liability - Protected						a	$ (438,948)				$ (438,948)
		280R-254N	Reg Liability -UnProtected						d-b-c	$ 793,126				$ 793,126
										$ 354,178				$ 354,178
			Reg Liability -UnProtected Plant							$ 25,504				$ 25,504
			Reg Liability -UnProtected Non Plant							$ 767,622	$ -	$ -		$ 767,622
										$ 793,126				$ 793,126

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 20180048-EI

In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company

Direct Testimony

of

Michael J. Reno,

Ernst & Young, LLP

On Behalf of

FLORIDA PUBLIC UTILITIES COMPANY

I. **Introduction**

Q. Please state your name, business address and by whom you are employed, and in what capacity.

A. My name is Michael Reno. My business address is 1101 New York Avenue, NW, Washington, District of Columbia, 20005-4213. I am an executive director in Ernst & Young LLP's National Energy Practice.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Florida Public Utilities Company ("FPUC").

Q. What is your educational and professional background?

A. I graduated from Kansas State University with a Bachelor of Science degree in Business Administration, with an emphasis in accounting, in 1987, and a Masters of Science, with an emphasis in accounting, in 1988. After completion of my Masters of Science in Accounting, I joined Deloitte Tax LLP, formerly Deloitte Haskins & Sells. In 2012, I joined Ernst & Young LLP as an executive director in the National Energy Practice. I am a Certified Public Accountant, licensed in the District of Columbia and in the Commonwealth of Virginia. I have practiced public accounting for over 29 years. In my practice, I provide tax services to regulated water, electric and gas utilities. I regularly assist clients with tax planning, supporting and explaining tax reporting positions, and tax return reviews. My experience includes providing advice on accounting for income taxes and performing tax provision reviews. I also regularly consult with companies regarding tax accounting and its impact on the rate setting process as well as compliance with the normalization rules. Additionally, I am a frequent speaker at industry seminars and conferences on the topic of tax accounting for rate-regulated utilities. I have spoken at the Edison Electric Institute tax committee meetings and the American Gas Association tax committee meetings in addition to other industry meetings.

Q. Have you testified in any regulatory proceedings?

A. Yes, I have provided expert testimony on multiple occasions over the last 10 years on tax, tax accounting and regulatory tax matters before the New Jersey Board of Public Utilities, the California Public Utilities Commission, the Connecticut Public Utilities Regulatory Authority and the Federal Energy Regulatory Commission.

II. <u>Purpose of Testimony</u>

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain how the 2017 tax law changes, commonly known as the "the Tax Cuts and Jobs Act" (the TCJA), impact FPUC's revenue requirement.

III. <u>Overview of the TCJA</u>

Q. Can you describe what specifically is meant by the term TCJA?

A. The TCJA was signed into law by President Trump on December 22, 2017 and is the first major overhaul of federal income tax in more than

30 years. The stated purpose of the TCJA is to deliver historic tax relief for workers, families and job creators, and revitalize the US economy.

Q. How broad are the changes to the tax law?

A. All taxpayer groups, including corporations, pass-through entities and individuals, are affected, although the effects of the law change will vary widely based on each taxpayer's situation. Key domestic business provisions of the TCJA include: (i) permanently reducing the 35% corporate income tax rate to 21%, (ii) repeal of the corporate alternative minimum tax (AMT), (iii) change in the taxability of contributions to the capital of a corporation, (iv) interest expense limitation, (v) immediate expensing of qualified property, (vi) limiting net operating loss (NOL) usage to 80%, and (vii) repeal of domestic production activities deduction.

Q. What impact does the TCJA have on utilities?

A. The TCJA has many provisions that will impact the tax liability of utilities. The two most significant of those business provisions include the reduction in the corporate income tax rate and the disallowance of immediate expensing of property acquired.

Corporate taxpayers were previously subject to a top corporate rate of 35% under a graduated rate structure. Under the TCJA, corporate taxpayers are subject to a 21% corporate tax rate with no graduated rate structure, effective January 1, 2018.

Under prior law, utilities were allowed to claim bonus depreciation during the year in which qualified property was placed in service. The TCJA extended the bonus depreciation provisions and increased it to 100% expensing of qualified property. However, regulated utilities are no longer eligible to claim bonus depreciation. Under the TCJA, utilities engaged in a certain trade or business as described in clause (iv) of section 163(j)(7)(A) are precluded from immediate expensing while other taxpayers are eligible for immediately expensing certain qualified property. For purposes of the exception (i.e., the inability to claim immediate expensing), clause (iv) of section 163(j)(7)(A) defines the trade or business to include the furnishing or sale of – electrical energy, water, or sewage disposal services, gas or steam through a local distribution system, or transportation of gas or steam by pipeline. Consequently, utilities such as FPU will see some reduction in the savings associated with the reduction from 35% to 21% because of the elimination of this bonus depreciation.

Q. Does the TCJA have any provisions impacting how utility rates may be set?

A. Yes. The corporate income tax rate change has specific provisions requiring that a normalization method of accounting be applied to the rate change. The corporate taxpayer must normalize the excess tax reserves resulting from the reduction of the corporate income tax rates with respect to prior depreciation or recovery allowances taken on assets placed in service prior to when the corporate rate reduction takes effect.

Q. What is meant by the term "normalization" or "normalize"?

A. "Normalization" requirements apply to section 167 or 168 of the Internal Revenue Code. Compliance with the normalization rules involves: (1) setting up a deferred tax reserve for the difference between depreciation expense used by regulators to determine cost of service (normally the straight line method) and the accelerated method used for calculating tax expense on income tax returns and then (2) drawing down that reserve in later years as the accelerated depreciation benefits reverse. With respect to the TCJA and the change in tax rates, the law states a public utility is not in compliance with the normalization rules if the utility "reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method."

Q. What is the term "excess tax reserve"?

A. The term tax reserve represents the amount of tax depreciation in excess of book depreciation multiplied by the tax rate, also known as the deferred tax liability. The excess tax reserve is the portion of such a reserve for deferred taxes (as of the day before the corporate rate reduction takes effect) that is greater than what the reserve for deferred taxes would be had the corporate rate reduction been in effect for all prior periods. The reserve for deferred taxes arising through the use of a normalization method of accounting represents a liability for federal income taxes payable at a future date. Accordingly, the reserve for deferred taxes is usually considered a form of interest-free financing in the ratemaking process. This treatment typically is achieved by treating the reserve as either a reduction to the rate base or, less frequently, as a zero-cost source of capital.

Q. How is compliance with the normalization requirements met?

A. There are two methods for normalization computation, (1) average rate assumption method (ARAM), and (2) Reverse South Georgia Method (RSGM).

ARAM is the required method and reduces the excess tax reserve over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes. Under this method, the excess tax reserve is reduced as the timing differences (i.e., differences between tax depreciation and regulatory depreciation with respect to the property) reverse over the remaining life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the same asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a taxable year is multiplied by the ratio of (1) the aggregate deferred taxes as of the beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question.

An alternative method, the RSGM, requires that the excess tax reserve on all public utility property in the plant account is computed based on the weighted average life or composite rate used to calculate depreciation for regulatory purposes. The excess tax reserve is then reduced ratably over the regulatory life of the property.

Q. Does the TCJA mandate a method for flowing back the excess reserve?

A. The TCJA specifically provides the method of flowing back the excess reserve solely as it relates to accelerated depreciation. It states that the excess amount in the reserve for deferred taxes is to be reversed using ARAM to be in compliance with the normalization rules. The alternative RSGM is available to certain taxpayers where the utilities books and records do not have sufficient vintage account data records to make the required computations under ARAM. In other words, the use of RSGM in lieu of ARAM is an alternative where the utility is unable to utilize ARAM with their existing books and records.

Q. Does TCJA mandate treatment of excess deferred taxes to deferred items other than section 167/168?

A. No. As mentioned above, normalization provisions only apply to the accelerated depreciation under section 167 and 168, which is commonly referred to as "protected" excess deferred tax reserves. The balance of the excess reserves outside of section 167 and 168 are "unprotected" and may be handled at the discretion of the utility and commission.

Q. What are the consequences of not complying with the normalization rules?

A. Failure to use a normalization method may result in the loss of accelerated depreciation deductions. If an excess tax reserve is reduced more rapidly or to a greater extent than such reserve would be reduced under ARAM or RSGM, if applicable, the taxpayer will not be treated as having used a normalization method with respect to the corporate rate reduction. If the taxpayer has not used a normalization method of accounting for the corporate rate reduction, the taxpayer's tax for the taxable year shall be increased by the amount by which it reduced its excess tax reserve more rapidly than permitted under a normalization method of accounting and the taxpayer will not be treated as using a normalization method of accounting for purposes of section 168(f)(2) and (i)(9)(C). The penalty for noncompliance includes an immediate tax for the amount improperly amortized as well as the inability to claim accelerated depreciation (including any eligible bonus depreciation) for the current and future years.

IV. <u>FPUC calculation of effects of TCJA</u>

Q. How has FPUC computed the excess deferred taxes?

A. FPUC computed excess deferred taxes in two categories, those related to plant and those related to non-plant. The plant related excess deferred taxes includes those that are associated with accelerated depreciation and subject to the normalization rules as well as other book/tax differences associated with plant. The non-plant related excess deferred taxes include all other book/tax differences that are not associated with plant. The normalization rules only require excess deferred income taxes associated with accelerated depreciation to be amortized under the average rate assumption method or reverse South Georgia method, if applicable. All other excess deferred income taxes are not subject to the normalization rules and may be amortized at the discretion of the utility and commission.

Q. Over what period are the excess deferred taxes to be amortized?

A. The excess deferred taxes related to plant are anticipated to be amortized utilizing the ARAM method, assuming the books and records allow for that calculation. The excess deferred taxes related to non-plant are anticipated to be amortized over a 10-year period.

Q. Does FPU's approach to amortization of excess deferred taxes comply with the normalization rules?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.