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August 27, 2018

E-PORTAL FILING

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

Re: Docket No. 20180051 – In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company –Gas.

Attached for filing, please find the revised Direct Testimony and exhibits of Michael Cassel, the revised Direct Testimony and exhibits of Matthew Dewey, and the Supplemental Direct Testimony of Michael Cassel on behalf of FPUC-Gas.

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,

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MEK

Before the Florida Public Service Commission

Docket No. 20180051-GU

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 Cassel

Date of Filing: May 31, 2018

Revised: August 27, 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 for our electric division, Docket No.

20160001-EI, and the Gas Reliability Infrastructure Program ("GRIP") Cost Recovery Factors proceeding, Docket No. 20160199-GU for FPUC and our sister company, the Florida Division of Chesapeake Utilities Corporation. 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 natural gas proposal for disposition of tax benefits related to the Federal Tax Cuts and Jobs Act of 2017 ("2017 Tax Act").

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring Exhibits NGMC-1 (revised) and NGMC-2, which provide a summary of FPUC's natural gas proposed treatments of the impacts resulting from the 2017 Tax Act.

I. FPUC's PROPOSAL

Q. **Is FPUC subject to a settlement that includes provisions addressing the 2017 Tax Act?**

A. No, FPUC is not subject to any settlement including provisions addressing the 2017 Tax Act. As such, 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 ("Jurisdictional Date").

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

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

Q. What is the impact of the federal income tax rate change from 35% to 21% resulting from the 2017 Tax Act?

A. For FPUC, the annual tax savings amount associated with the tax rate change, based on the 2018 proforma surveillance report, is estimated to be approximately $2,181,275.

Q. How does FPUC propose that this amount be addressed?

A. At present, the Company is not over-earning and is projected to be earning at the bottom of its range for the foreseeable future. As such, the Company should be allowed to retain the annual tax benefit excluding the portion related to the GRIP, for purposes of addressing ongoing, incremental costs that have been incurred since the Company's last base rate increase. This amount is $1,141,134. This will enable the Company to earn within, or near, its allowed range until its next base rate increase while continuing to make additional investments in infrastructure. The Company does believe that the tax savings associated with GRIP investments should be returned to customers as discussed in more detail on page seven of my testimony.

Q. What are the different components to the Unprotected Deferred Tax balance and the proposed treatment?

A. FPUC has a regulatory liability and asset recorded on its balance sheet for the 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%.

Exhibit NGMC-1 (revised) demonstrates the impact of these calculations. There are two distinct components of the Unprotected Deferred Tax balance.

The first component is a deferred tax liability associated with the acquisition adjustment. This grossed up balance is $6,518,569 and the Company requests that this be included with the net acquisition adjustment and amortized at $298,560 per year based on the remaining amortization months of the acquisition adjustment.

The second component is a net Unprotected Deferred Tax Asset and has an estimated balance of $3,072,874. The Company requests this Deferred Tax Asset be amortized over 10 years at $307,287 per year. This annual amortization detriment could be netted against the annual Protected benefit, as discussed below, and the Company requests that the net of these amounts be retained by the Company.

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

A. FPUC has a regulatory liability recorded on its balance sheet for the Protected Deferred Tax at a rate of 35% consistent with the applicable law prior to the 2017 Tax Act. As a result of the 2017 Tax Act, the Company will only be required to pay those taxes out at 21%. The benefit in the Protected Deferred Tax is recorded on FPUC's balance sheet as a grossed-up Deferred Regulatory Tax Liability currently estimated to be $21,955,992. This deferred balance will be amortized using the Internal Revenue Service ("IRS") prescribed methodology and is estimated to flow back over 26 years at approximately $844,461 per year. Exhibit NGMC-1 (revised) provides the calculation of this amount. 2018 final amounts will not be available until late 2018, as further explained by FPUC's witness Matthew Dewey. FPUC proposes retaining the estimated annual amount of $844,461 less the Unprotected Deferred Tax Amortization, as discussed above, of $307,287 for a net benefit of $537,174. This meets the intended goal of the 2017 Tax Act by allowing the Company to continue making capital investments while potentially delaying the need for a costly rate proceeding.

Q. Is there a direct tax impact to the Company's GRIP?

A. Yes. There are two components of the tax rate change that impact GRIP. The first component is the amount of tax savings on the 2018 GRIP surcharge from the jurisdictional date. The second component is the change in the ongoing GRIP surcharge from 2019 and beyond.

Q. How does FPUC propose treating the tax impact of these two components relative to the GRIP?

A. For the first component, FPUC calculates the 2018 tax savings that will accumulate between the Jurisdictional Date and the date GRIP rates will be changed on customer bills (1/1/2019) to be $1,040,141. Exhibit NGMC-2 demonstrates this calculation. The Company proposes flowing this benefit back to customers by incorporating it as an over-recovery in the 2019 GRIP projection. This will have the effect of lowering customer GRIP surcharges by the amount of the benefit.

The second component is the GRIP surcharge rates for periods 2019 and beyond. The Company proposes, incorporating the new, lower federal tax rate into the 2019 GRIP surcharge projections and future projections, which will reduce the annual GRIP revenue amount by the annual tax savings. This is currently estimated to be approximately $1.2 million.

These two requests will, if approved, directly pass the benefit of the lower tax rate on GRIP related revenues created by the 2017 Tax Act back to FPUC's customers.

Q. Is FPUC's proposal the best approach for your customers?

A. Yes. FPUC's proposal provides a fair and reasonable balancing of the benefits of the 2017 Tax Act. It returns many of the benefits directly to FPUC's customers and does so in a manner that will reduce customer confusion and promote bill stability by applying those tax benefits to offset other beneficial system investments that otherwise would potentially subject our customers to rate increases. FPUC's proposal eliminates the inherent confusion of mixed price signals that exist when individual components of customer bills change in opposite directions. FPUC's proposal also allows FPUC to retain a fair portion of the tax benefit arising from the 2017 Tax Act in a manner that not only allows the Company to earn close to or within its jurisdictional range, but also allows the Company to recover costs not currently recovered in base rates such that the Company may be able to maintain base rates at their current levels for longer than would otherwise be possible given the Company's current earnings posture.

Q. Does FPUC believe this treatment is the most appropriate treatment for the Company?

A. Yes. Adjusting the rates for just one component, such as taxes, of a customer's bill is akin to single-issue rate-making and is inconsistent with fundamental regulatory principles. Additionally, this type of rate-making principle assumes that the Company is currently earning its authorized Return On Equity ("ROE") and that nothing has changed since the last rate proceeding. However, FPUC is currently under-earning relative to its authorized ROE so a reduction to its rates based on the authorized ROE would push the utility's earned ROE even lower on a pro-forma basis, which is again inconsistent with the objectives and goals of rate-making and produces an unreasonable result for FPUC.

Q. Will the impacts of the 2017 Tax Act put FPUC into an over-earnings position?

A. No. FPUC's proposed treatment of the impacts of the 2017 Tax Act benefits will not put the Company into an over-earning position.

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 encouraging investment in infrastructure, but it does so in the most efficient, timely and responsible manner possible. FPUC's proposal also allows FPUC to retain a fair portion of the tax benefit arising from the 2017 Tax Act in a manner that allows the Company to earn at or within its jurisdictional range, ensuring that FPUC's customers receive the dual benefits of direct savings and a financially strong service provider able to ensure continued system improvements for safe and reliable service consistent with fundamental regulatory principles.

Q. Does this conclude your testimony?

A. Yes.

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

DOCKET NO.: **20180051-GU**
EXHIBIT NO.: **NGMC-1 revised**

	FN	FC Allocated	Total FN	ANNUAL	
ANNUAL TAX SAVINGS FROM RATE CHANGE:					
NOI BEFORE TAX CHANGE	$ 10,640,348		$ 10,640,348		
NOI AFTER TAX CHANGE	$ 12,268,779		$ 12,268,779		
NET INCOME EFFECT OF TAX CHANGE	$ 1,628,431		$ 1,628,431		
GROSS UP	$ 552,844		$ 552,844		
PRETAX - GROSSED UP SAVINGS (EXPENSE)	$ 2,181,275	$ -	$ 2,181,275	$ 2,181,275	
REGULATORY TAX LIABILITY:					
ESTIMATED PROTECTED GROSSED UP REG TAX LIABILITY	$ 21,767,953	$ 188,039	$ 21,955,992	$ 844,461	26 YEARS
ESTIMATED UNPROTECTED ACQ ADJUSTMENT PRETAX GROSSED UP REG TAX LIABILITY	$ 6,518,569		$ 6,518,569	$ 298,560	LIFE OF ACQ. ADJ.
ESTIMATED UNPROTECTED GROSSED UP REG TAX LIABILITY	$ (2,724,746)	$ (348,128)	$ (3,072,874)	$ (307,287)	10 YEARS
NET ESTIMATED REGULATORY LIABILITY	$ 25,561,776	$ (160,088)	$ 25,401,688	$ 835,734	
TOTAL				$ 3,017,009	
As Filed NGMC-1				$ 3,026,609	
Difference				$ (9,600)	

Florida Public Utilities Company
Gas Reliability Infrastructure Program (GRIP)
Calculation of the Projected Revenue Requirements
January 1, 2018 through December 31, 2018

DOCKET NO.: **20180051-GU**
EXHIBIT NO.: **NGMC-2**
Page 1 of 1

Item	GRIP CALCULATION WITH NEW TAX EXPANSION FACTOR Year End Total/Balance	GRIP CALCULATION WITH 2017 TAX RATE IN EXPANSION FACTOR Year End Total/Balance	DIFFERENCE
Qualified Investment			
Qualified Investment - Mains - Current Year 1070 Activity	$5,412,000	$5,412,000	$0
Qualified Investment - Mains - Closed 1070 Activity to Plant	($5,141,400)	($5,141,400)	$0
Qualified Investment - Services - Current Year 1070 Activity	$1,188,000	$1,188,000	$0
Qualified Investment - Services - Closed 1070 Activity to Plant	($1,188,000)	($1,188,000)	$0
Qualified Investment - Mains - Current 1010 Activity	$5,141,400	$5,141,400	$0
Qualified Investment - Services - Current 1010 Activity	$1,188,000	$1,188,000	$0
Total Qualified Investment - Mains 1070	$1,268,943	$1,268,943	$0
Total Qualified Investment - Service 1070	$138,427	$138,427	$0
Total Qualified Investment - Mains 1010	$69,736,070	$69,736,070	$0
Total Qualified Investment - Service 1010	$21,655,147	$21,655,147	$0
Total Qualified Investment	$92,798,587	$92,798,587	$0
Less: Accumulated Depreciation	($7,932,305)	($7,932,305)	$0
Net Book Value	$84,866,282	$84,866,282	$0
Average Net Qualified Investment			
Depreciation Rates			
Approved Depreciation Rate-Mains	2.60%	2.60%	0.00%
Approved Depreciation Rate-Services	2.70%	2.70%	0.00%
Return on Average Net Qualified Investment			
Equity - Cost of Capital, inclusive of Income Tax Gross-up	6.470%	7.674%	-1.20%
Debt - Cost of Capital	1.410%	1.410%	0.00%
Equity Component - inclusive of Income Tax Gross-up	$5,352,891	$6,502,894	($1,150,003)
Debt Component	$1,166,550	$1,166,550	$0
Return Requirement	$6,519,441	$7,669,444	($1,150,003)
Investment Expenses			
Depreciation Expense - Mains	$1,740,730	$1,740,730	$0
Depreciation Expense - Services	$567,314	$567,314	$0
Property Taxes	$1,611,487	$1,611,487	$0
General Public Notice Expense & Customer Notice Expense	$52,000	$52,000	$0
Total Expense	$3,971,531	$3,971,531	$0
Total Revenue Requirements	$10,490,971	$11,640,975	($1,150,003)
Annual Revenue Requirement for Bare Steel Replacement Investment	$747,727	$747,727	$0
Net Annual Revenue Requirements	$9,743,244	$10,893,248	($1,150,003)
Less January 1 to February 6 Amount Revenue Requirement			$ 109,862
Net Effect on GRIP of Lower Expansion Factor			($1,040,141)

Before the Florida Public Service Commission

Docket No. 20180051-GU

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

Direct Testimony of Matthew Dewey

Date of Filing: May 31, 2018

Revised: August 27, 2018

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"), the parent of Florida Public Utilities Company, as an Accounting Director.

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 exhibit NGMD-1 (revised) and exhibit NGMD-2 (revised). The exhibit NGMD-1 (revised) shows the Company's calculations to support the estimated regulatory liabilities of $25,561,776. This amount resulted from implementing the reduction in federal tax rate from 35% to 21% per the 2017 Tax Act. The worksheet lists the estimated Accumulated Deferred Income Tax ("ADIT") revised account balances at the blended tax rate, which includes the federal tax rate at

35%. The worksheet also calculates the Company's estimated ADIT revised account balances 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 classifications: Protected, Unprotected plant and Unprotected. This classification is required since protected excess deferred income taxes are required to be flowed back based on Internal Revenue Service normalization guidelines. To record the regulatory liability we are required at 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, CUC, to all Chesapeake subsidiaries and divisions, including FPUC- Natural Gas, 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 NGMD-2 (revised) supports the same calculation described above for the Florida Corporate general ledger. The result is an estimated regulatory asset of $354,178 of which $160,088 or 45.2% is allocated to FPUC-Natural Gas.

Q. NGMD-1 is noted as revised. What line items changed between the original filed on May 31, 2018 and the revised NGMD-1?

A. The lines that changed between the filed exhibit NGMD-1 and the revised exhibit NGMD-1 (revised) are the lines that show "Depreciation", "Cost of Removal", and the "Repairs Deduction" in the "Name" column of the worksheet: The amounts for "Cost of Removal" and the "Repairs Deduction" on NGMD-1 only contained the ADIT balances that occurred after the "One Source" tax software was obtained in 2015. In prior years, this activity was recorded in the ADIT for "Depreciation". In order to accurately show the balances as protected or unprotected it was first necessary to separate the portion of ADIT that had been on the "Depreciation" line which related to the "Cost of Removal" and "Repairs Deduction" for periods prior to the tax software being obtained. The beginning balances and the tax change effect have been revised in NGMD-1 (revised) to the balances as if the prior year's data had been separated as "Cost of Removal" and the "Repairs Deduction" instead of being included in the "Depreciation" deferred tax amount.

Once the balances were separated, the tax change related to "Cost of Removal" was moved from the column titled "Protected" to the column titled "Unprotected Plant".

Although the "Repairs Deduction" was included in the "Unprotected Plant" column in the original NGMD-1, the amount related to this deduction is being decreased because the line now includes the amounts related prior to the implementation of the tax software in 2015 and the "Depreciation" line is being increased since prior to the tax software, "Depreciation" was the ADIT account that the deduction was recorded in. Therefore, the protected regulatory liability is increased and unprotected decreased.

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 total net estimated regulatory liability balance of $25,401,688 related to the federal rate change from 35% to 21% per the 2017 Tax Act, is described as estimated, why?

A. The staff of the U.S. Securities and Exchange Commission 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, 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 Act. These adjustments could affect the ADIT balances as of December 31, 2017.

Q. Does this conclude your testimony?

A. Yes.

FLORIDA PUBLIC UTILITIES

Computation of Regulatory Liability (FN)

Docket No.: 20180051-GU

Exhibit No.: NGMD-1 revised

Seg 3	FERC		Code	Name	Beginning Balance See Note A	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
FL	5.50%			Fed	BEFORE 35.00%	21.00%				AFTER	21.00%	Allocation from Parent	3/31/18		
				Blended	38.58%	25.35%					25.35%				
2500	282	UNNP	2500	ADIT Property LT	$ 258,328	$ (88,598)			$ (88,598)		$ 169,730				$ 169,730
25AA	283	UNPP	25AA	Acquisition Adjustment	$ (14,189,179)	$ 4,866,438		$ 4,866,438	$ -	$ (53)	$ (9,322,794)			$ 106,749	$ (9,216,045)
25AF	282	UNPP	25AF	AFUDC	$ -	$ -		$ -	$ -		$ -			$ -	$ -
25AM	283	UNNP	25AM	Customer Based Intangibles	$ 2,105,813	$ (722,227)			$ (722,227)		$ 1,383,586			$ 35,113	$ 1,418,699
25AM	283	UNNP	25AM.01	Amortization Schedules Prior Acquisitions	$ (147,060)	$ 50,437			$ 50,437		$ (96,623)			$ 1,226	$ (95,397)
25BD	283	UNNP	25BD	Bad Debts	$ 51,440	$ (17,642)			$ (17,642)		$ 33,798			$ 7,856	$ 41,654
25BN	283	UNNP	25BN.01	Short Term Bonus	$ -	$ -			$ -		$ -	$ 182,315	$ 72,484	$ -	$ 254,799
25CN	283	UNNP	25CN	Conservation	$ 297,076	$ (101,888)			$ (101,888)	$ (45)	$ 195,143			$ 60,523	$ 255,666
25DP	282	P	25DP.01	Depreciation	$ (48,697,009)	$ 16,701,528	$ 16,701,528		$ -	$ 618	$ (31,994,863)			$ (144,030)	$ (32,138,893)
25DP	282	P	25DP.02	Contribution in Aid of Construction	$ 1,350,259	$ (463,096)	$ (463,096)		$ -		$ 887,163			$ 82,766	$ 969,929
25DP	282	UNNP	25DP.03	Cost of Removal	$ 45,352	$ (114,229)		$ (114,229)	$ -		$ (68,877)			$ (104,876)	$ (173,753)
25DP	282	P	25DP.04	Asset Gain/Loss	$ (36,252)	$ 12,433	$ 12,433		$ -		$ (23,819)			$ 533	$ (23,286)
25DP	282	P	25DP.05	Adjustment for Repairs Depreciation	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25EN	283	UNNP	25EN	Environmental	$ 2,572,576	$ (882,312)			$ (882,312)	$ (8)	$ 1,690,256			$ 17,027	$ 1,707,283
25GP	282	UNNP	25GP	Grip Over Recoveries	$ -	$ -			$ -		$ -			$ -	$ -
25ID	283	UNNP	25ID	Reserve for Insurance Deductibles	$ (89,296)	$ 30,626			$ 30,626		$ (58,670)			$ (476)	$ (59,146)
25IT	255	UNNP	25IT	Investment Tax Credit	$ -	$ -			$ -		$ -			$ -	$ -
25MC	283	UNNP	25MC	Merger Cost Amortization	$ -	$ -			$ -		$ -			$ -	$ -
25PC	282	UNNP	25PC	Piping and Conservation	$ 410,586	$ (140,818)			$ (140,818)	$ (9)	$ 269,759			$ 9,130	$ 278,889
25PG	283	UNNP	25PG	Purchased Gas Cots	$ -	$ -			$ -		$ -			$ -	$ -
25PN	283	UNNP	25PN	Pension	$ (233,083)	$ 79,940			$ 79,940	$ 6	$ (153,137)			$ 26,462	$ (126,675)
25PR	283	UNNP	25PR	Post Retirement Benefits	$ 2	$ (1)			$ (1)	$ 1	$ 2			$ -	$ 2
25PR	283	UNNP	25PR.02	Post Retirement Benefits (Non-Current)	$ 251,877	$ (86,386)			$ (86,386)		$ 165,491			$ 135	$ 165,626
25RC	283	UNNP	25RC	Rate Case	$ -	$ -			$ -		$ -			$ -	$ -
25RE	282	UNPP	25RE	Repairs Deduction	$ (337,762)	$ 115,821		$ 115,821	$ -	$ 21	$ (221,920)			$ -	$ (221,920)
25RG	283	UNNP	25RG	ADIT Reg Asset	$ (98,878)	$ 33,912			$ 33,912	$ (33,920)	$ (98,886)			$ -	$ (98,886)
25RP	282	UNNP	25RP	Property Taxes	$ -	$ -			$ -		$ -			$ -	$ -
25RT	283	UNNP	25RT	Rabbi Trust					$ -		$ -	$ 135,072			$ 135,072
25SD	283	UNNP	25SD	ADIT State Decoupling	$ 1,177,120	$ 260,609			$ 260,609		$ 1,437,729			$ -	$ 1,437,729
25SI	283	UNNP	25SI.01	Self Insurance (Current)	$ (885)	$ 303			$ 303		$ (582)			$ -	$ (582)
25SR	283	UNNP	25SR.01	SERP (Current)					$ -		$ -	$ 303,293			$ 303,293
25SV	283	UNNP	25SV	ADIT Outside Services	$ -	$ -			$ -		$ -			$ -	$ -
25WR	283	UNNP	25WR	Storm Reserve	$ 258,161	$ (88,541)			$ (88,541)	$ 1	$ 169,621			$ 380	$ 170,001
25SL	283	UNNP	S_NOL_SYS	S_NOL_SYS	$ (56,291)	$ (12,124)			$ (12,124)	$ 6,202	$ (62,213)			$ -	$ (62,213)
25SL2	283	UNNP	S_NOL_SYS - 2014 - FL	S_NOL_SYS - 2014 - FL	$ 50,089	$ 10,788			$ 10,788		$ 60,877			$ -	$ 60,877
			Total		$ (55,057,016)	$ 19,444,973	$ 16,250,865	$ 4,868,030	$ (1,673,922)	$ (27,186)	$ (35,639,229)	$ 620,680	$ 72,484	$ 98,518	$ (34,847,547)
					$ (1)	$ (1)									
				Protected Gross-up			$ 5,517,088				$ 5,517,088				$ 5,517,088
				UnProtected Plant Gross-up				$ 1,652,672			$ 1,652,672				$ 1,652,672
				UnProtected NonPlant Gross-up					$ (568,288)		$ (568,288)	$ (109,994)	$ (12,845)		$ (691,127)
				Unrecorded adjustment to correct grossup calulation at year end							$ -				$ -
25TX			25TX	Tax Reform 2017 Reg Asset Gross Up			$ 5,517,088	$ 1,652,672	$ (568,288)		$ 6,601,471	$ (109,994)	$ (12,845)	$ -	$ 6,478,632
			Total with Gross-up				$ 21,767,953	$ 6,520,702	$ (2,242,210)		$ (29,037,758)	$ 510,686	$ 59,639	$ 98,518	$ (28,368,915)
							a	b	c						

FLORIDA PUBLIC UTILITIES

Computation of Regulatory Liability (FN)

Docket No.: 20180051-GU

Exhibit No.: NGMD-1 revised

				BEFORE					AFTER						
FL		5.50%	Fed	35.00%	21.00%					21.00%					
			Blended	38.58%	25.35%					25.35%	Allocation from Parent	3/31/18			
Seg 3	FERC	Code	Name	Beginning Balance See Note A	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	
		Excess Deferred Tax Liability before gross up													
			Excess Deferred Tax Liability - Protected			$ (16,250,865)								$ (16,250,865)	
			Excess Deferred Tax Liability - Unprotected Plant			$ (4,868,030)								$ (4,868,030)	
			Excess Deferred Tax Liability - Unprotected Non Plant			$ 1,673,922					$ (620,680)	$ (72,484)		$ 980,758	
			Excess Deferred Tax Liability - Total			$ (19,444,973)								$ (20,138,137)	
								FN ADIT	G/L	$ (29,037,782)				$ (28,368,939)	
								Adjust G/L 25TX		$ 24				$ 24	
		25TX	Tax Reform 2017 Reg Asset Gross Up							$ 6,601,471				$ 6,478,632	
		25TX	G/L							$ 6,601,471				$ 6,478,632	
								Adjust G/L 25TX		$ 0				$ 0	
										d					
		280R-254P	Reg Liability - Protected						a	$ (21,767,953)				$ (21,767,953)	
		280R-254N	Reg Liability -UnProtected						d-b-c	$ (4,278,491)	$ 433,987	$ 50,681		$ (3,793,823)	
										$ (26,046,444)				$ (25,561,776)	1
			Reg Liability -UnProtected Plant							$ (6,520,702)				$ (6,520,702)	
			Reg Liability -UnProtected Non Plant							$ 2,242,210	$ 433,987	$ 50,681		$ 2,726,878	
										$ (4,278,492)				$ (3,793,824)	

Note A: Highlighted numbers were revised for adjustments discussed in the revised testimony and will be booked in 4th quarter 2018.

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

Docket No.: 20180051-EI
Exhibit No.: NGMD-2 revised

Seg 3	FERC		Code	Name	Beginning Balance See Note A	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
					BEFORE					AFTER					
FL		5.50%		Fed	35.00%	21.00%					21.00%	Allocation from Parent	3/31/18		
				Blended	38.58%	25.35%					25.35%				
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	$ (888,432)	$ 304,565	$ 304,565		$ -		$ (583,867)			$ (43,664)	$ (627,531)
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	$ 6,003	$ (1,920)		$ (1,920)	$ -	$ 5	$ 4,088			$ (420)	$ 3,668
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)	$ 310,577	$ (1,920)	$ (575,110)	$ 27,293	$ 542,796	$ -	$ -	$ (31,584)	$ 511,212
					$ -	$ -									
				Protected Gross-up			$ 105,439				$ 105,439				$ 105,439
				UnProtected Plant Gross-up				$ (652)			$ (652)				$ (652)
				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			$ 105,439	$ (652)	$ (192,512)		$ (87,724)	$ -	$ -		$ (87,724)
			Total with Gross-up				$ 416,016	$ (2,572)	$ (767,622)		$ 455,072	$ -	$ -	$ (31,584)	$ 423,488
							a	b	c						

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

Docket No.: 20180051-EI
Exhibit No.: NGMD-2 revised

				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 See Note A	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
		Excess Deferred Tax Liability before gross up												
			Excess Deferred Tax Liability - Protected			$ (310,577)								$ (310,577)
			Excess Deferred Tax Liability - Unprotected Plant			$ 1,920								$ 1,920
			Excess Deferred Tax Liability - Unprotected Non Plant			$ 575,110					$ -	$ -		$ 575,110
			Excess Deferred Tax Liability - Total			$ 266,453								$ 266,453
								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	$ (416,016)				$ (416,016)
		280R-254N	Reg Liability -UnProtected						d-b-c	$ 770,194				$ 770,194
										$ 354,178				$ 354,178
			Reg Liability -UnProtected Plant							$ 2,572				$ 2,572
			Reg Liability -UnProtected Non Plant							$ 767,622	$ -	$ -		$ 767,622
										$ 770,194				$ 770,194

Note A: Highlighted numbers were revised for adjustments discussed in the revised testimony and will be booked in 4th quarter 2018.

Before the Florida Public Service Commission

Docket No. 20180051-GU

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

Supplemental Direct Testimony of Michael Cassel

Date of Filing: August 27, 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" or "the Company") 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, the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas ("CFG"), 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 for our electric division, Docket No. 20160001-EI, and the Gas Reliability Infrastructure Program ("GRIP") Cost Recovery Factors proceeding, Docket No. 20160199-GU for FPUC and our sister company, the Florida Division of Chesapeake Utilities Corporation ("CFG"). Most recently, I provided written, pre-filed testimony in FPUC's electric Limited Proceeding, Docket No. 20170150-EI, as well as Direct Testimony in this proceeding.

Q. What is the purpose of your supplemental direct testimony?

A. I will address the Company's position regarding seeking a Private Letter Ruling ("PLR") from the federal Internal Revenue Service ("IRS").

Q. Are you sponsoring any additional exhibits associated with your supplemental testimony?

A. No.

Q. Should FPUC be required to seek a PLR from the IRS regarding the proper classification of Accumulated Deferred Income Tax ("ADIT") associated with the cost of removal?

A. No. FPUC believes, for several reasons, that seeking a PLR from the IRS regarding this issue is not the most prudent action for its ratepayers. First, FPUC believes its revised treatment of this issue, resulting from the guidance of its tax experts, is consistent with the law. Second, while the ADIT at issue is unprotected, the Commission has historically allowed the Company to seek amortization of it in a manner similar to the protected plant related assets from which it is derived such that any change in classification is likely to have a minimal impact to FPUC and its ratepayers. Third, the Company estimates a conservative timeframe for the IRS to rule on a PLR to be between three to six months or longer depending on the complexity of the issue. Fourth, and most importantly is that retaining the tax expert needed to compile, file and resolve the PLR issue with the IRS, could potentially have a material financial impact on the Company. The Company's preliminary estimate to seek a PLR is somewhere between $20,000 and $50,000 to complete. FPUC believes that seeking a PLR adds value in that it may potentially clarify a complex tax issue for the IRS, but given the historical treatment of amortization allowed by the Commission, there would be little to no beneficial impact to FPUC and its ratepayers. Rather it would serve to add additional, unnecessary cost and time to arrive at a similar result.

Q. Does the Company know what the cost of obtaining a PLR for this issue will be?

A. The Company is currently working to obtain a more firm estimate of the cost that will be incurred should a PLR be requested. Should the Commission determine in this proceeding that the Company must seek a PLR, the Company would seek to mitigate as much of the cost as possible. To that end, FPUC should be allowed to file a PLR jointly with the other CUC entities in Florida. Filing individual PLR's on each company for the same issue would be highly inefficient and expensive, to the detriment of FPUC's ratepayers.

Q. If FPUC is required to pursue a PLR, should the Company be allowed to recover the costs associated with the process to obtain a PLR?

A. Yes. The Company is pursuing classification of the ADIT in a manner that it believes is correct and is consistent with the recommendations of its nationally-recognized tax experts. As such, should the Company be required to pursue a PLR, it should also be allowed to recover the costs associated with that process.

Q. How does FPUC propose that this amount be addressed?

A. At present, the Company is not over-earning and is projected to be earning at the bottom of its range for the foreseeable future. As such, the Company is requesting that the Commission allow it to defer the cost associated with seeking a PLR and to amortize the balance over four years in a manner consistent with rate case expense.

Q. Please summarize your testimony.

A. The Company believes its treatment of this ADIT is consistent with the law and that it should not be required to seek a PLR. This is a costly and time-consuming process that likely ends with a similar treatment for the Company and its ratepayers, except for an additional $20,000 - $50,000 in costs to seek a PLR. Should the Commission determine, however, that the Company should pursue a PLR, then the Company should be protected from the detrimental impacts associated with the expected high cost of pursuing guidance from the IRS. As such, if the Company is required to pursue a PLR, the Company should be allowed to do so on a joint basis with the other Florida natural gas business units of CUC. Additionally, the cost associated with seeking a PLR was not contemplated in FPUC's current base rates, and therefore FPUC should be allowed to defer its allocated portion of the cost and amortize the balance over four years.

Q. Does this conclude your testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing revised Direct Testimony and exhibits of Matthew Dewey, and the Supplemental Direct Testimony of Michael Cassel, in the referenced docket have been served by Electronic Mail this 27th day of August, 2018, upon the following:

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