GUNSTER
FLORIDA'S LAW FIRM FOR BUSINESS

Writer's Direct Dial Number: (850) 521-1706
Writer's E-Mail Address: bkeating@gunster.com

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. 20180053-GU – In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company – Fort Meade.

Dear Ms. Stauffer:

Attached for filing in the referenced docket, 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 Florida Public Utilities Company – Fort Meade.

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
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

MEK

Before the Florida Public Service Commission

Docket No. 20180053-GU

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

Direct Testimony of Michael Cassel

Date of Filing: June 1, 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 – Fort Meade ("Ft. Meade") 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 Ft. Meade and our sister company, the Florida Division of Chesapeake Utilities Corporation. Most recently, I provided written, pre-filed testimony in Fort Meade's electric Limited Proceeding, Docket No. 20170150-EI.

Q. What is the purpose of your testimony?

A. I will explain and support Ft. Meade'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 FTMC-1 (revised) and FTMC-2, which provide a summary of Ft. Meade's natural gas proposed treatments of the impacts resulting from the 2017 Tax Act.

I. FT. MEADE'S PROPOSAL

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

A. No, Ft. Meade 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 Ft. Meade in this proposal?

A. The components of the 2017 Tax Act being addressed by Ft. Meade are: 1) the federal rate change from 35% to 21%; 2) the Unprotected Deferred Tax Liability; 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 Ft. Meade, the annual tax detriment amount associated with the tax rate change, based on the 2018 proforma surveillance report, is estimated to be approximately $17,929.

Q. How does Ft. Meade propose that this amount be addressed?

A. At present, the Company is not over-earning. In fact, the Company is earning below its allowable range and is projected to continue to do so for the foreseeable future. As such, the Company is requesting that the detriment of $17,929, resulting from the federal tax rate change, be recovered through the Energy Conservation Cost Recovery ("ECCR") clause. While this amount will not put the Company into its allowed range, it will help the Company continue to make additional investments in infrastructure.

Q. What is Ft. Meade's proposed resolution for the Unprotected Deferred Tax balance?

A. Ft. Meade has a regulatory liability recorded on its balance sheet for the estimated 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 FTMC-1 (revised) demonstrates the impact of these calculations.

The Unprotected Deferred Tax Liability is an estimated balance of $45,881. Because the Company is earning well below its authorized range and anticipates that condition to continue into the foreseeable future, we request to amortize the regulatory tax liability over ten years and retain the estimated annual Unprotected Deferred Tax Liability amortization benefit of $4,588.

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

A. Ft. Meade 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 estimated benefit in the Protected Deferred Tax is recorded on Ft. Meade's balance sheet as an estimated grossed-up Deferred Regulatory Tax liability of approximately $46,451. 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 $1,787 per year. Exhibit FTMC-1 (revised) provides the calculation of this amount. 2018 final amounts will not be available until late 2018, as further explained by FPUC's Ft Meade witness Matthew Dewey. Ft Meade proposes retaining the estimated annual amount of $1,787 plus the Unprotected Deferred Tax Amortization, as discussed above, of $4,588 for a net benefit of $6,375. 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. Will the retention of the estimated Unprotected and Protected Deferred Tax balances put the Company in an over-earnings position?

A. No. The Company is earning well below its authorized range and anticipates that condition to continue into the foreseeable future. While retention of the estimated Unprotected and estimated Protected Deferred Tax liabilities will not put Ft. Meade into its authorized range, it will meet the intended goal of the 2017 Tax Act by allowing the Company to continue making capital investments. Additionally, the Company anticipates the eventual consolidation of the CUC's natural gas units and this interim step helps to build consistency amongst those units.

Q. Is there a direct tax impact to the Company's Gas Reliability Infrastructure Program ("GRIP")?

A. Yes. There is a benefit related to the tax rate change that impacts GRIP. The first component is the amount of tax savings on the 2018 GRIP surcharge from the jurisdictional date until December 31, 2018. The second component is the change in the ongoing GRIP surcharge from 2019 and beyond.

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

A. For the first component, Ft. Meade 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 approximately $2,376. Exhibit FTMC-2 demonstrates this calculation. The Company proposes retaining that 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 two thousand dollars.

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

A. Yes. Ft. Meade's proposal provides a fair and reasonable resolution of the impacts of the 2017 Tax Act. Ft. Meade's proposal allows Ft. Meade to collect the annual tax detriment through its ECCR clause and 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 closer to 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. It also returns benefits directly to Ft. Meade's customers through the GRIP surcharge, while encouraging continued investment of capital. As such, our customers benefit from extended stability of our base rates.

Q. Does Ft. Meade 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, Ft. Meade 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 Ft. Meade.

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

A. No. Ft. Meade'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. Ft. Meade'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. Ft. Meade's proposal also allows it to retain a fair portion of the tax benefit arising from the 2017 Tax Act in a manner that allows the Company to earn closer to its jurisdictional range, ensuring that Ft. Meade'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-FT. MEADE
Computation of Gas Tax Savings
Projected 2018 Test Year

DOCKET NO.: **20180053-GU**
EXHIBIT NO.: **FTMC-1 - revised**

	FT	FC Allocated	Total FT	ANNUAL	
ANNUAL TAX SAVINGS FROM RATE CHANGE:					
NOI BEFORE TAX CHANGE	$ (50,941)		$ (50,941)		
NOI AFTER TAX CHANGE	$ (64,326)		$ (64,326)		
NET INCOME EFFECT OF TAX CHANGE	$ (13,385)		$ (13,385)		
GROSS UP	$ (4,544)		$ (4,544)		
PRETAX - GROSSED UP SAVINGS (EXPENSE)	$ (17,929)	$ -	$ (17,929)	$ (17,929)	
REGULATORY TAX LIABILITY:					
ESTIMATED PROTECTED GROSSED UP REG TAX LIABILITY	$ 45,619	$ 832	$ 46,451	$ 1,787	26 YEARS
ESTIMATED UNPROTECTED GROSSED UP REG TAX LIABILITY	$ 47,421	$ (1,540)	$ 45,881	$ 4,588	10 YEARS
NET ESTIMATED REGULATORY TAX LIABILITY	$ 93,040	$ (708)	$ 92,332	$ 6,375	
TOTAL				$ (11,554)	
As Filed FTMC-1				$ (12,032)	
Difference				$ 478	

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

DOCKET NO.: **20180053-GU**
EXHIBIT NO.: **FTMC-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 1070 Activity	$0	$0	$0
Qualified Investment - Mains - Closed 1070 Activity to Plant	$0	$0	$0
Qualified Investment - Services - Current 1070 Activity	$100,000	$100,000	$0
Qualified Investment - Services - Closed 1070 Activity to Plant	($100,000)	($100,000)	$0
Qualified Investment - Mains - Current 1010 Activity	$0	$0	$0
Qualified Investment - Services - Current 1010 Activity	$100,000	$100,000	$0
Total Qualified Investment - Mains 1070	$0	$0	$0
Total Qualified Investment - Services 1070	$1,589	$1,589	$0
Total Qualified Investment - Mains 1010	$0	$0	$0
Total Qualified Investment - Services 1010	$250,998	$250,998	$0
Total Qualified Investment	$252,587	$252,587	$0
Less: Accumulated Depreciation	($8,554)	($8,554)	$0
Net Book Value	$244,033	$244,033	$0
Average Net Qualified Investment			
Depreciation Rates			
Approved Depreciation Rate-Mains	2.60%	2.600%	0.00%
Approved Depreciation Rate-Services	2.70%	2.700%	0.00%
Return on Average Net Qualified Investment			
Equity - Cost of Capital, inclusive of Income Tax Gross-up	6.1400%	7.450%	-1.31%
Debt - Cost of Capital	1.0400%	1.040%	0.00%
Equity Component - inclusive of Income Tax Gross-up	$12,090	$14,670	($2,580)
Debt Component	$2,048	$2,048	$0
Return Requirement	$14,138	$16,718	($2,580)
Investment Expenses			
Depreciation Expense - Mains	$0	$0	$0
Depreciation Expense - Services	$5,313	$5,313	$0
Property Taxes	$2,988	$2,988	$0
General Public Notice Expense and Customer Notice Expense	$0	$0	$0
Total Expense	$8,301	$8,301	$0
Total Revenue Requirements	$22,439	$25,019	($2,580)
Less January 1 to February 6 Amount Revenue Requirement			$204
Net Effect on GRIP of Lower Expansion Factor			($2,376)

Before the Florida Public Service Commission

Docket No. 20180053-GU

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

Direct Testimony of Matthew Dewey

Date of Filing: June 1, 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, 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 FTMD-1 (revised) and exhibit FTMD-2 (revised). The exhibit FTMD-1 (revised) shows the Company's calculations to support the estimated regulatory liabilities of $93,040. 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-FT Meade, 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 FTMD-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 $708 or 0.2% is allocated to FPUC-FT Meade.

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

A. The lines that changed between the filed exhibit FTMD-1 and the revised exhibit FTMD-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 the original FTMD-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 FTMD-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". In this case, the separation decreased the protected liability and increased the unprotected liability.

Although the "Repairs Deduction" was included in the "Unprotected Plant" column in the original FTMD-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. The net of the above adjustments results in the protected regulatory liability being decreased and the unprotected increased.

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 $92,332 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-FT MEADE DIVISION
Computation of Regulatory Liability (FT)

Docket No.: 20180053-GU
Exhibit No.: FTMD-1 revised

Seg 3	FERC		Code	Name	BEFORE 35.00% / 38.58% Beginning Balance See Note A	21.00% / 25.35% Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	AFTER 21.00% / 25.35% 12/31/2017 Balance	Allocation from Parent UnProtected NonPlant	3/31/18 NetAdjust to LT Bonus	Q1 Entries	03/31/2018 Balance
FL		5.50%		Fed											
				Blended											
25AF	282	UNPP	25AF	AFUDC	$ -	$ -		$ -	$ -		$ -			$ -	$ -
25AM	283	UNNP	25AM	Customer Based Intangibles	$ 347	$ (119)			$ (119)	$ (5)	$ 223			$ -	$ 223
25AM	283	UNNP	25AM.01	Amortization Schedules Prior Acquisitions	$ (92,141)	$ 31,602			$ 31,602		$ (60,539)			$ (3,016)	$ (63,555)
25BD	283	UNNP	25BD	Bad Debts	$ 706	$ (242)			$ (242)		$ 464			$ 258	$ 722
25BN	283	UNNP	25BN.01	Short Term Bonus	$ -	$ -			$ -		$ -	$ 1,426	$ 969	$ -	$ 2,395
25CN	283	UNNP	25CN	Conservation	$ 3,169	$ (1,087)			$ (1,087)		$ 2,082			$ 492	$ 2,574
25DP	282	P	25DP.01	Depreciation	$ (99,301)	$ 34,057	$ 34,057		$ -	$ (3)	$ (65,247)			$ (44)	$ (65,291)
25DP	282	P	25DP.02	Contribution in Aid of Construction	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25DP	282	UNNP	25DP.03	Cost of Removal	$ (16,926)	$ 5,805		$ 5,805	$ -		$ (11,121)			$ (1,286)	$ (12,407)
25DP	282	P	25DP.04	Asset Gain/Loss	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25ID	283	UNNP	25ID	Reserve for Insurance Deductibles	$ (456)	$ 156			$ 156		$ (300)			$ (1)	$ (301)
25PG	283	UNNP	25PG	Purchased Gas Cots	$ 4,561	$ (1,564)			$ (1,564)	$ (4)	$ 2,993			$ 12,997	$ 15,990
25RE	282	UNPP	25RE	Repairs Deduction	$ -	$ -		$ -	$ -		$ -			$ -	$ -
25RT	283	UNNP	25RT	Rabbi Trust							$ -	$ 1,369			$ 1,369
25SI	283	UNNP	25SI.01	Self Insurance (Current)	$ (12,869)	$ 4,414			$ 4,414		$ (8,455)			$ -	$ (8,455)
25SR	283	UNNP	25SR.01	SERP (Current)					$ -		$ -	$ 3,063			$ 3,063
25SL	283	UNNP	S_NOL_SYS	S_NOL_SYS	$ -	$ -			$ -		$ -			$ -	$ -
			Total		$ (212,910)	$ 73,022	$ 34,057	$ 5,805	$ 33,160	$ (12)	$ (139,900)	$ 5,858	$ 969	$ 9,400	$ (123,673)
					$ 1	$ -									
				Protected Gross-up			$ 11,562				$ 11,562				$ 11,562
				UnProtected Plant Gross-up				$ 1,971			$ 1,971				$ 1,971
				UnProtected NonPlant Gross-up					$ 11,258		$ 11,258	$ (1,039)	$ (171)		$ 10,048
				Unrecorded adjustment to correct grossup calulation at year end							$ -				$ -
25TX			25TX	Tax Reform 2017 Reg Asset Gross Up			$ 11,562	$ 1,971	$ 11,258		$ 24,791	$ (1,039)	$ (171)		$ 23,581
			Total with Gross-up				$ 45,619	$ 7,776	$ 44,418		$ (115,109)	$ 4,819	$ 798	$ 9,400	$ (100,092)
							a	b	c						

Excess Deferred Tax Liability before gross up

	Protected	Allocation from Parent UnProtected NonPlant	NetAdjust to LT Bonus	03/31/2018 Balance
Excess Deferred Tax Liability - Protected	$ (34,057)			$ (34,057)
Excess Deferred Tax Liability - Unprotected Plant	$ (5,805)			$ (5,805)
Excess Deferred Tax Liability - Unprotected Non Plant	$ (33,160)	$ (5,858)	$ (969)	$ (39,987)
Excess Deferred Tax Liability - Total	$ (73,022)			$ (79,849)

Code	Name			12/31/2017 Balance	Allocation from Parent UnProtected NonPlant	NetAdjust to LT Bonus	03/31/2018 Balance
		FT ADIT	G/L	$ (115,109)			$ (100,092)
		Adjust G/L 25TX		$ (0)			$ (0)
25TX	Tax Reform 2017 Reg Asset Gross Up			$ 24,791			$ 23,581
25TX	G/L			$ 24,791			$ 23,581
		Adjust G/L 25TX		$ (0)			$ (0)
				d			
280R-254P	Reg Liability - Protected		a	$ (45,619)			$ (45,619)
280R-254N	Reg Liability -UnProtected		d-b-c	$ (52,194)	$ 4,097	$ 676	$ (47,421)
				$ (97,813)			$ (93,040)
	Reg Liability -UnProtected Plant			$ (7,776)			$ (7,776)
	Reg Liability -UnProtected Non Plant			$ (44,418)	$ 4,097	$ 676	$ (39,645)
				$ (52,193)			$ (47,420)

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

Docket No.: 20180053-EI
Exhibit No.: FTMD-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	Allocation from Parent UnProtected NonPlant	3/31/18 NetAdjust to LT Bonus	Q1 Entries	03/31/2018 Balance
					BEFORE				AFTER						
FL	5.50%			Fed	35.00%	21.00%					21.00%				
				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.: 20180053-EI
Exhibit No.: FTMD-2 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			$ (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.

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

Docket No. 20180053-GU

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

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 – Fort Meade ("Ft. Meade") 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 Ft. Meade 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 Ft. Meade 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. Ft. Meade believes, for several reasons, that seeking a PLR from the IRS regarding this issue is not the most prudent action for its ratepayers. First, Ft. Meade 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 Ft. Meade 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. Ft. Meade 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 Ft. Meade 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, Ft. Meade 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 Ft. Meade's ratepayers.

Q. If Ft. Meade 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 Ft. Meade 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 Ft. Meade's current base rates, and therefore Ft. Meade 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 Michael Cassel, the revised Direct Testimony and exhibits of Matthew Dewey and the Supplemental Direct Testimony of Michael Cassel, on behalf of FPUC-Ft. Meade Division the referenced docket, have been served by Electronic Mail this 27th day of August, 2018, upon the following:

Margo Duval Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850 mduval@psc.state.fl.us	J.R. Kelly/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 Ponder.Virginia@leg.state.fl.us

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706