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September 21, 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– Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company - Electric.

Dear Ms. Stauffer:

Attached, please find 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-Electric** .

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

Kind regards,

Greg Munson
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cc:/ (Service List)

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 Michael Cassel

Date of Filing: May 31, 2018

Revised: September 21, 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 (revised) and MC-2, which are summaries of FPUC's proposed treatments of the impacts resulting from the 2017 Tax Act.

Q. Can you explain why Exhibit MC-1 was revised?

A. Exhibit MC-1 was revised to incorporate the revisions to protected and unprotected balances to the regulatory liability accounts and amortization of the protected liability based on Matt Dewey's revised testimony. These changes resulted in the unprotected liability falling below the $800k range specified in the Stipulation and Settlement agreement ("2017 Agreement") in Docket No. 20170150-EI. This changed the amortization period from a ten-year flow-back period to a five-year flow-back period. This change is reflected in MC-1 (revised).

I. FPUC's PROPOSAL

Q. Is FPUC 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.

Paragraph (b):

- 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 (revised) 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 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 shown on MC-1 (revised) is $7,155,154. This amount consists of $7,065,295 shown on MD-1 (revised) and $89,859 allocated to electric from the Florida Common Division at 21.6% of $416,016, as shown on MD-2 (revised). This amount, per the 2017 Agreement, is to be flowed back to FPUC's customers using the Internal Revenue Service ("IRS") prescribed methodology. As discussed in Matt Dewey's testimony, the Company's consultant has determined the amortization to be flowed back to the customers each year according to the Average Rate Assumption Method ("ARAM"). The amount of amortization for 2018 as shown in Exhibit MD-3 is $288,232. Exhibit MC-1 (revised) includes all changes to the testimony of Matt Dewey.

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 $576,464 to $864,696 over two and three years 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 a grossed-up Deferred Regulatory Tax Liability of $538,064. This amount, per the 2017 Agreement, is to flow back to FPUC's customers through base rates over a period of 5 years at approximately $107,613 per year. Exhibit MC-1 (revised) 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 $538,064 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 $288,232 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 $1,034,002, 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 five-year period at approximately $107,613 per year the estimated Unprotected Deferred Tax balance of $538,064. 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 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 $3.69 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 Revised**
Page 1 of 1	

With ARAM changes

	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	$ 7,065,295	$ 89,859	$ 7,155,154	$ 288,232	Note A
Estimated Unprotected Grossed Up Reg Tax Liability	$ 704,426	$ (166,362)	$ 538,064	$ 107,613	5 Year Amortization
Total Regulatory Tax Liability	$ 7,769,721	$ (76,502)	$ 7,693,219	$ 395,844	
Total				$ 1,034,002	

Note A:

Per ARAM 2018 Schedule	FE	FC	Total
Amoritization 2018 Per ARAM Schedules	$ 210,797	$ 4,382	$ 215,179
Gross Up	$ 71,565	$ 1,488	$ 73,053
	$ 282,362	$ 5,870	$ 288,232

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

DOCKET NO.: 20180048-EI
EXHIBIT: MC-2
PAGE 1 OF 3

		(1)	(2)	(3)	(4)	(5)	(6)
LINE NO.	RATE SCHEDULE	Customers at 12-31-18	Dec. 2018 12ME KWH	2018 Budget	PERCENT OF TOTAL	BASE RATE DECREASE AT UNIFORM PERCENT	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

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				Proposed Rates			
	Facility Charge	Energy Charge	Maint Charge	Total Charge	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

Revised: 9/21/18

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.

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 MD-1 (revised) and exhibit MD-2 (revised) and exhibit MD-3. The exhibit MD-1 (revised) 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 Act. 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 (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 $76,502 or 21.6% is allocated to FPU – Electric.

Q. MD-1 and MD-2 are noted as revised. What line items changed between the original filed on May 31, 2018, and MD-1 (revised) and MD-2 (revised)?

A. The lines that changed between the filed exhibits MD-1 and MD-2 and exhibits MD-1 (revised) and MD-2 (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 MD-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 MD-1 (revised) to the balances as if the prior years' 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 MD-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. Can you describe the new schedule MD-3 that is included with this revised testimony?

A. Our tax consultants have been in the process of determining the amortization per year using the Average Rate Assumption Method ("ARAM"). This schedule summarizes the ARAM calculations. The grossed up electric amortization and 21.6% of the FC amortization totals $288,232 for 2018 for the protected liability.

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 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 (revised)

Seg 3	FERC	Code	Name	12/31/2017 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	2018 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	$ 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	$ (15,969,306)	$ 5,476,964	$ 5,476,964		$ -	$ 149	$ (10,492,193)			$ (152)	$ (10,492,345)
25DP	282 P	25DP.02	Contribution in Aid of Construction	$ 282,911	$ (97,029)	$ (97,029)		$ -		$ 185,882			$ 22,152	$ 208,034
25DP	282 UNNP	25DP.03	Cost of Removal	$ 2,305,865	$ (838,007)		$ (838,007)	$ -		$ 1,467,858			$ (70,014)	$ 1,397,844
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	$ (2,511,253)	$ 861,304		$ 861,304	$ -	$ (24)	$ (1,649,973)			$ 35,297	$ (1,614,676)
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	$ 5,274,596	$ 23,297	$ 685,389	$ 176	$ (10,588,440)	$ 269,340	$ 34,079	$ (49,226)	$ (10,334,247)
				$ -	$ 2									
			Protected Gross-up			$ 1,790,699				$ 1,790,699				$ 1,790,699
			UnProtected Plant Gross-up				$ 7,909			$ 7,909				$ 7,909
			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			$ 1,790,699	$ 7,909	$ 199,986		$ 1,998,594	$ (47,732)	$ (6,039)		$ 1,944,823
		Total with Gross-up				$ 7,065,295	$ 31,206	$ 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 (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	12/31/2017 Balance See Note A	Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	12/31/2017 Balance	UnProtecte d NonPlant	NetAdjust to LT Bonus	2018 Q1 Entries	03/31/2018 Balance
		Excess Deferred Tax Liability before gross up												
			Excess Deferred Tax Liability - Protected			$ (5,274,596)								$ (5,274,596)
			Excess Deferred Tax Liability - Unprotected Plant			$ (23,297)								$ (23,297)
			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)
								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	$ (7,065,295)				$ (7,065,295)
		280R-254N	Reg Liability -UnProtected						d-b-c	$ (916,581)	$ 188,327	$ 23,828		$ (704,426)
										$ (7,981,876)				$ (7,769,721)
			Reg Liability -UnProtected Plant							$ (31,206)				$ (31,206)
			Reg Liability -UnProtected Non Plant							$ (885,375)	$ 188,327	$ 23,828		$ (673,220)
										$ (916,581)				$ (704,426)

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.: 20180048-EI
Exhibit No.: MD-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
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	[illegible]	[illegible]	25EN	Environmental	$ -	$ -			$ -		$ -	$ -		$ -	$ -
25ID	[illegible]	[illegible]	25ID	Reserve for Insurance Deductibles	$ (1,421)	$ 487			$ 487	$ (1)	$ (935)			$ (1)	$ (936)
25PN	[illegible]	[illegible]	25PN	Pension	$ 1,281,408	$ (439,482)			$ (439,482)	$ 15	$ 841,941			$ (5,222)	$ 836,719
25PR	[illegible]	[illegible]	25PR	Post Retirement Benefits	$ (3,007)	$ 1,031			$ 1,031	$ (3,550)	$ (5,526)			$ -	$ (5,526)
25PR	[illegible]	[illegible]	25PR.02	Post Retirement Benefits (Non-Current)	$ (7,376)	$ 2,530			$ 2,530		$ (4,846)			$ -	$ (4,846)
25RC	[illegible]	[illegible]	25RC	Rate Case	$ -	$ -			$ -		$ -			$ -	$ -
25RD	[illegible]	[illegible]	25RD	Loss on Reacquired Debt	$ (397,679)	$ 136,391			$ 136,391	$ 33,873	$ (227,415)			$ 7,208	$ (220,207)
25RE	[illegible]	[illegible]	25RE	Repairs Deduction	$ 6,003	$ (1,920)		$ (1,920)	$ -	$ 5	$ 4,088			$ (420)	$ 3,668
25RT	[illegible]	[illegible]	25RT	Rabbi Trust					$ -		$ -				$ -
25SD	[illegible]	[illegible]	25SD	ADIT State Decoupling					$ -		$ -			$ -	$ -
25SD	[illegible]	[illegible]	25SD	ADIT State Decoupling	$ -	$ -			$ -		$ -			$ -	$ -
25SI	[illegible]	[illegible]	25SI.01	Self Insurance (Current)	$ -	$ -			$ -		$ -			$ -	$ -
25SI	[illegible]	[illegible]	25SI.02	Self Insurance (Non-Current)	$ -	$ -			$ -		$ -			$ -	$ -
25SL	[illegible]	[illegible]	25SL	ADIT State NOL	$ -	$ -			$ -		$ -			$ -	$ -
25VA	[illegible]	[illegible]	25VA	Vacation	$ 144,792	$ (49,659)			$ (49,659)	$ 12	$ 95,145			$ (1,613)	$ 93,532
NOL_	[illegible]	[illegible]	NOL_SYS	NOL_SYS	$ -	$ -			$ -		$ -			$ -	$ -
25SL	[illegible]	[illegible]	S_NOL_SYS	S_NOL_SYS	$ (253,510)	$ (54,602)			$ (54,602)	$ (3,104)	$ (311,216)			$ -	$ (311,216)
25SL	[illegible]	[illegible]	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.: 20180048-EI
Exhibit No.: MD-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%				
			Blended	38.58%	25.35%					25.35%	Allocation from Parent	3/31/18		
		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
		[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	$ (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.

Per ARAM 2018 Schedule	**FE**	**FC Allocated at 21.6%**	**Total**
Amoritization 2018 Per ARAM Schedules	$ 210,797	$ 4,382	$ 215,179
Gross Up	$ 71,565	$ 1,488	$ 73,053
2018 Amortization Grossed Up	$ 282,362	$ 5,870	$ 288,232

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 the Florida Division of Chesapeake Utilities Corporation

Supplemental Direct Testimony of Michael Cassel

Date of Filing: 9/21/2018

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 CFG, 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 CFG and our sister Company, FPUC. 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 Chesapeake Utilities Corporation ("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.

I. SUMMARY

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 Michael Cassel, the revised Direct Testimony and exhibits of Matthew Dewey, and the Supplemental Direct Testimony of Michael Cassel on behalf of FPUC-Electric in the referenced docket have been served by Electronic Mail this 21st day of September, 2018, upon the following:

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