FILED 10/22/2018
DOCUMENT NO. 06733-2018
FPSC - COMMISSION CLERK

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October 22, 2018

E-PORTAL FILING

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

Re:

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 – Gas.

Dear Ms. Stauffer:

Attached, for electronic filing in the above referenced docket, please find the **Prehearing Statement for Florida Public Utilities Company–Gas**. Should you have any questions whatsoever, please do not hesitate to contact me. Thank you for your assistance in this matter.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Consideration of the tax impacts associated with the Tax Cuts and Jobs Act	)))	Docket No. 20180051-GU Filed: October 22, 2018

FLORIDA PUBLIC UTILITIES COMPANY
<u>PREHEARING STATEMENT</u>

Pursuant to the requirements of the Order on Procedure, Order No. PSC-2018-0213-PCO-GU, as amended by Order No. PSC-2018-0274-PCO-GU and Order No. PSC-2018-0412-PCO-GU, Florida Public Utilities Company ("FPUC") hereby submits its Prehearing Statement.

1. <u>Known Witnesses</u>

FPUC intends to offer the testimony of:

Witness	Subject Matter	Issues Numbers
Michael Cassel	Testimony filed on May 31, 2018, as revised and supplemented on August 27, 2018. Rebuttal testimony filed on October 17, 2018.	1-24
Matthew Dewey	Testimony filed on May 31, 2018, as revised on August 27, 2018.	1-5, 9-21
Michael J. Reno	Testimony filed on May 31, 2018.	1-5

2. Known Exhibits

FPUC intends to sponsor the following exhibits:

Witness	Proffered By	Exhibit No.	Description
Direct			
Michael Cassel	FPUC	NGMC-1 (revised)	Computation of Gas Tax Savings
Michael Cassel	FPUC	NGMC-2	GRIP Calculation of the Projected Revenue Requirements
Matthew Dewey	FPUC	NGMD-1 (revised)	Computation of Regulatory Liability
Matthew Dewey	FPUC	NGMD-2 (revised)	Computation of Regulatory Liability Common Division

3. Basic Position

FPUC's computation of the tax benefits from the Tax Cut and Jobs Act of 2017 ("TCJA") is correct, and its proposed disposition of the tax benefits is appropriate.

4. Issues

ISSUE 1: Is the methodology and process FPUC used to calculate the impact of the TCJA appropriate?

FPUC: Yes, the methodology and process FPUC used to calculate the impact of the TCJA is appropriate.

ISSUE 2: Were Accumulated Deferred Income Taxes ("ADIT") appropriately calculated?

FPUC: Yes, ADIT is appropriately calculated.

ISSUE 3: Are FPUC's classifications of the excess ADIT between "protected" and "unprotected" appropriate?

FPUC: Yes, FPUC's classifications of the excess ADIT between "protected" and "unprotected" is appropriate.

ISSUE 4: A. Were "protected excess deferred taxes" for 2018 using a 21 percent corporate tax rate appropriately calculated?

FPUC: Yes, "protected excess deferred taxes" for 2018 using a 21 percent corporate tax rate are appropriately calculated.

B. What is the appropriate disposition of the protected excess deferred taxes?

FPUC: FPUC proposes to retain the estimated amortized deferred balance less the unprotected deferred tax amortization, thereby fulfilling the purpose of the TCJA by allowing FPUC to continue making capital improvements and potentially delaying a rate proceeding.

ISSUE 5: A. Were "unprotected excess deferred taxes" for 2018 using a 21 percent corporate tax rate appropriately calculated?

FPUC: Yes, the "unprotected excess deferred taxes" for 2018 using a 21 percent corporate tax rate are appropriately calculated.

B. What is the appropriate disposition of the unprotected excess deferred taxes?

FPUC: FPUC proposes to retain the deferred tax liability associated with the net acquisition adjustment amortized over the life of the acquisition adjustment and unprotected deferred tax asset amortized over 10 years, netted against the protected excess deferred taxes.

ISSUE 6: Should FPUC seek a private letter ruling from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as "unprotected"?

FPUC: No, FPUC should not be required to seek a private letter ruling from the IRS regarding its classification of the excess ADIT relating to cost of removal/negative net salvage as "unprotected."

ISSUE 7: If FPUC seeks a private letter ruling and the IRS rules therein (or in another private letter ruling) that the excess ADIT relating to cost of removal/negative net salvage is to be treated as "protected," what process should be followed for the reclassification?

FPUC: The change would require a different amortization rate and a reclassification of the ledger amounts. FPUC would continue to propose retaining the estimated amortization of the balances whether they relate to protected or unprotected ADIT.

ISSUE 8: What mechanism should be utilized to avoid the negative impact to FPUC of the cost of seeking a Private Letter Ruling?

FPUC: If directed to obtain a private letter ruling, FPUC should be allowed to recover the costs associated with obtaining a private letter ruling by deferring the cost and to amortize the balance over four years in a manner consistent with rate case expense.

ISSUE 9: Were appropriate adjustments made to FPUC's Gas Reliability Infrastructure Program "GRIP" for the impact of the TCJA for the tax year 2018?

FPUC: Appropriate adjustments have not yet been made to FPUC's GRIP for the impact of the TCJA for the tax year 2018. FPUC is proposing in this case to treat the adjustments as a GRIP over-recovery in 2019, which FPUC believes would be an appropriate adjustment.

ISSUE 10: What is the forecasted tax expense for FPUC for the tax year 2018 at a 21 percent corporate tax rate?

FPUC: Excluding the effects of any amortization of protected and unprotected ADIT, or the refund of any benefits, the forecasted tax expense using the 21% corporate tax rate for FPUC is $3,535,175. If GRIP is refunded and the ADIT amortized but not refunded, the forecasted tax expense using the 21% corporate tax rate for FPUC is $3,407,695.

ISSUE 11: What is the forecasted tax expense for FPUC for the tax year 2018 at a 35 percent corporate tax rate?

FPUC: Excluding the effects of any amortization of protected and unprotected ADIT, or the refund of any benefits, the forecasted tax expense using the 35% corporate tax rate for FPUC is $5,163,603. If GRIP is refunded and the ADIT amortized but not refunded, the forecasted tax expense using the 35% corporate tax rate for FPUC is $4,969,584.

ISSUE 12: What is the forecasted NOI for the tax year 2018 at a 21 percent corporate tax rate?

FPUC: $12,268,779 excluding the effects of any amortization of protected and unprotected ADIT, and the refund of any benefits.

ISSUE 13: What is the forecasted NOI for the tax year 2018 at a 35 percent corporate tax rate?

FPUC: $10,640,348 excluding the effects of any amortization of protected and unprotected ADIT, and the refund of any benefits.

ISSUE 14: What is the forecasted capital structure for the tax year 2018 at a 21 percent corporate tax rate?

FPUC:

			LOW POINT		MIDPOINT		HIGH POINT	
			COST	WEIGHTED	COST	WEIGHTED	COST	WEIGHTED
		RATIO	RATE	COST	RATE	COST	RATE	COST
AVERAGE	BALANCE	(%)	(%)	(%)	(%)	(%)	(%)	(%)
COMMON EQUITY	$ 92,294,263	39.34%	9.85%	3.88%	10.85%	4.27%	11.85%	4.66%
LONG TERM DEBT - CU	$ 41,036,305	17.49%	4.54%	0.79%	4.54%	0.79%	4.54%	0.79%
SHORT TERM DEBT	$ 43,846,558	18.69%	1.77%	0.33%	1.77%	0.33%	1.77%	0.33%
LONG TERM DEBT - FC	$ 5,480,739	2.34%	12.04%	0.28%	12.04%	0.28%	12.04%	0.28%
CUSTOMER DEPOSITS	$ 8,258,945	3.52%	2.36%	0.08%	2.36%	0.08%	2.36%	0.08%
DEFFERED INCOME TAXES	$ 43,668,344	18.62%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	$ -	0.00%	5.29%	0.00%	5.68%	0.00%	6.07%	0.00%
TOTAL AVERAGE	$ 234,585,154	100.00%		5.36%		5.75%		6.14%

ISSUE 15: What is the annual forecasted capital structure for the tax year 2018 at a 35 percent corporate tax rate?

FPUC: The capital structure is the same as the capital structure at 21% because the Company has assumed that the regulatory liability should be grouped with deferred income taxes as a part of the capital structure at a zero cost rate.

ISSUE 16: What is the forecasted annual revenue requirement for FPUC for the tax year 2018 using a 21 percent corporate tax rate?

FPUC: Using the midpoint rate of return, the revenue requirement is $18,241,342 using the 21% corporate tax rate.

ISSUE 17: What is the forecasted annual revenue requirement for FPUC for the tax year 2018 using a 35 percent corporate tax rate?

FPUC: Using the midpoint rate of return, the revenue requirement is $22,170,662 using the 35% corporate tax rate.

ISSUE 18: What is the tax benefit arising from the TCJA rate reduction that FPUC requests to be retained?

FPUC: $1,678,308 including the estimated amortization of the protected and unprotected regulatory tax liability (excluding the acquisition adjustment).

ISSUE 19: What is the estimated amount of the Deferred Tax portion of the Protected regulatory asset that is not associated with the acquisition adjustment that FPUC is requesting to be retained?

FPUC: A regulatory tax liability of $21,955,992 in total or $844,461 of estimated amortization a year.

ISSUE 20: What is the estimated amount of the Deferred Tax portion of the Unprotected regulatory asset that is not associated with the acquisition adjustment that FPUC is requesting to be retained?

FPUC: $3,072,874 in total or a negative $307,287of amortization a year.

ISSUE 21: Should FPUC be allowed to retain the tax benefits arising from the TCJA rate reduction, excluding the 2018 GRIP savings, as well as the estimated Deferred Tax portion of the Protected and estimated Unprotected Deferred Tax regulatory asset that are not associated with the acquisition adjustment?

FPUC: Yes, FPUC should be allowed to retain the tax benefits arising from the TCJA rate reduction, excluding the 2018 GRIP savings, as well as the estimated Deferred Tax portion of the Protected and estimated Unprotected Deferred Tax regulatory asset including those that are associated with the acquisition adjustment.

ISSUE 22: Should the tax benefits directly associated with the GRIP program be passed-on to customers through future GRIP surcharges?

FPUC: Yes, the tax benefits directly associated with the GRIP program should be passed-on to customers through future GRIP surcharges.

ISSUE 23: Should FPUC update the estimated tax benefit to be consistent with any adjustments to those estimates through December 22, 2018? If so, how should it be handled?

FPUC: Yes, FPUC should update the estimated tax benefit to be consistent with any adjustments to those estimates through December 22, 2018 by flowing the benefit back to customers by incorporating it as an over-recovery in the 2019 GRIP projection.

ISSUE 24: Should this docket be closed?

FPUC: Yes.

5. Stipulated Issues

FPUC is not a party to any stipulations at this time, although it believes that it should be possible to reach a stipulation on each of the above issues as they relate to FPUC.

6. Pending Motions

FPUC has no pending motions or other matters requiring attention at this time.

7. Pending Confidentiality Requests

None.

8. Compliance With Order on Procedure

FPUC believes that this Prehearing Statement fully complies with the requirements of the Order on Procedure.

9. Objections to Witness Qualifications

FPUC has no objection to the qualifications of any expert witness.

10. Requirements of Order

There are no requirements of the Order Establishing Procedure of which FPUC cannot comply.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing Prehearing Statement, on behalf of Florida Public Utilities Company, in the referenced docket have been served by Electronic Mail this 22nd day of October, 2018, upon the following:

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