

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. 20180052-GU

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

**Dear Ms. Stauffer:**

Attached, for electronic filing in the above referenced docket, please find the **Prehearing Statement for Florida Public Utilities Company–Indiantown Division**. 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 ) Docket No. 20180052-GU  
associated with the Tax Cuts and Jobs Act )  
\_\_\_\_\_ ) Filed: October 22, 2018

**FLORIDA PUBLIC UTILITIES COMPANY – INDIANTOWN DIVISION  
PREHEARING STATEMENT**

Pursuant to the requirements of the Order on Procedure, Order No. PSC-2018-0216-PCO-GU, as amended by Order No. PSC-2018-0277-PCO-GU and Order No. PSC-2018-0412-PCO-GU, Florida Public Utilities Company – Indiantown Division (“Indiantown”) hereby submits its Prehearing Statement.

**1. Known Witnesses**

Indiantown intends to offer the testimony of:

Witness	Subject Matter	Issues Numbers
Michael Cassel	Testimony filed on June 1, 2018, as revised and supplemented on August 27, 2018. Rebuttal testimony filed on October 17, 2018.	1-21
Matthew Dewey	Testimony filed on June 1, 2018, as revised on August 27, 2018.	1-5, 9-16
Michael J. Reno	Testimony filed on June 1, 2018.	1-5

2. Known Exhibits

Indiantown intends to sponsor the following exhibits:

Witness	Proffered By	Exhibit No.	Description
<u>Direct</u>			
Michael Cassel	INDIANTOWN	FIMC-1 (revised)	Computation of Gas Tax Savings
Matthew Dewey	INDIANTOWN	FIMD-1 (revised)	Computation of Regulatory Liability
Matthew Dewey	INDIANTOWN	FIMD-2 (revised)	Computation of Regulatory Liability Common Division

3. Basic Position

INDIANTOWN'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 Indiantown used to calculate the impact of the TCJA appropriate?

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

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

Indiantown: Yes, ADIT is appropriately calculated.

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

Indiantown: Yes, Indiantown'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?

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Indiantown: 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?

Indiantown: Indiantown proposes to retain the estimated amortized deferred balance less the unprotected deferred tax amortization, thereby fulfilling the purpose of the TCJA by allowing INDIANTOWN 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?

Indiantown: 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?

Indiantown: Indiantown proposes to retain the deferred tax liability associated with the unprotected deferred tax asset amortized over 10 years, netted against the protected excess deferred taxes.

ISSUE 6: Should Indiantown 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”?

Indiantown: No, Indiantown 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 Indiantown 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?

Indiantown: The change would require a different amortization rate and a reclassification of the ledger amounts. Indiantown 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 Indiantown of the cost of seeking a Private Letter Ruling?

Indiantown: If directed to obtain a private letter ruling, Indiantown 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.

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ISSUE 9: What is the forecasted tax expense for Indiantown for the tax year 2018 at a 21 percent corporate tax rate?

Indiantown: 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 Indiantown is negative \$77,366. If the ADIT is amortized but not refunded, the forecasted tax expense using the 21% corporate tax rate is a negative \$75,374.

ISSUE 10: What is the forecasted tax expense for Indiantown for the tax year 2018 at a 35 percent corporate tax rate?

Indiantown: 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 Indiantown is a negative \$117,752. If the ADIT is amortized but not refunded, the forecasted tax expense using the 35% corporate tax rate is a negative \$114,719.

ISSUE 11: What is the forecasted NOI for the tax year 2018 at a 21 percent corporate tax rate?

Indiantown: A net operating loss of \$196,879 excluding the effects of any amortization of protected and unprotected ADIT, and the refund of any benefits.

ISSUE 12: What is the forecasted NOI for the tax year 2018 at a 35 percent corporate tax rate?

Indiantown: A net operating loss of \$156,494 excluding the effects of any amortization of protected and unprotected ADIT, and the refund of any benefits.

ISSUE 13: What is the forecasted capital structure for the tax year 2018 at a 21 percent corporate tax rate?

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Indiantown:

			LOW POINT		MIDPOINT		HIGH POINT	
			COST	WEIGHTED	COST	WEIGHTED	COST	WEIGHTED
			RATE	COST	RATE	COST	RATE	COST
AVERAGE	BALANCE	(%)	(%)	(%)	(%)	(%)	(%)	(%)
COMMON EQUITY	\$1,009,314	42.31%	10.50%	4.44%	11.50%	4.87%	12.50%	5.29%
LONG TERM DEBT	\$ 495,445	20.77%	4.54%	0.94%	4.54%	0.94%	4.54%	0.94%
SHORT TERM DEBT	\$ 467,002	19.58%	1.77%	0.35%	1.77%	0.35%	2.09%	0.41%
CUSTOMER DEPOSITS	\$ 8,389	0.35%	2.37%	0.01%	2.37%	0.01%	2.37%	0.01%
DEFERRED INCOME TAXES	\$ 405,156	16.99%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL AVERAGE	\$2,385,306	100.00%		5.74%		6.17%		6.65%

ISSUE 14: What is the annual forecasted capital structure for the tax year 2018 at a 35 percent corporate tax rate?

Indiantown: 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 15: What is the forecasted annual revenue requirement for Indiantown for the tax year 2018 using a 21 percent corporate tax rate?

Indiantown: Using the midpoint rate of return, the revenue requirement is \$200,818 using the 21% corporate tax rate.

ISSUE 16: What is the forecasted annual revenue requirement for Indiantown for the tax year 2018 using a 35 percent corporate tax rate?

Indiantown: Using the midpoint rate of return, the revenue requirement is \$244,072 using the 35% corporate tax rate.

ISSUE 17: Should Indiantown be allowed to recover any detrimental impact associated with the corporate income tax rate change implemented by the TCJA? If so, what amount, and should Indiantown be allowed to recover such amount through the Energy Conservation Cost Recovery (ECCR) clause?

Indiantown: Yes, Indiantown should be allowed to recover any detrimental impact associated with the corporate income tax rate change implemented by the TCJA. The amount Indiantown should be allowed to recover through the ECCR clause is \$54,096.

ISSUE 18: Should Indiantown be allowed to retain and amortize, over 26 years, the total annual benefit associated with the Protected Deferred Tax liabilities?

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Indiantown: Yes, Indiantown should be allowed to retain and amortize, over 26 years, the total annual benefit associated with the Protected Deferred Tax liabilities.

ISSUE 19: Should Indiantown be allowed to retain and amortize, over 10 years, the total annual benefit associated with the Unprotected Deferred Tax liabilities?

Indiantown: Yes, Indiantown should be allowed to retain and amortize, over 10 years, the total annual benefit associated with the Unprotected Deferred Tax liabilities.

ISSUE 20: Should Indiantown 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?

Indiantown: Yes, Indiantown should update the estimated tax benefit to be consistent with any adjustments to those estimates through December 22, 2018 by adjusting the amount Indiantown is able to retain.

ISSUE 21: Should this docket be closed?

Indiantown: Yes.

5. Stipulated Issues

Indiantown 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 Indiantown.

6. Pending Motions

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

7. Pending Confidentiality Requests

None.

8. Compliance With Order on Procedure

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

9. Objections to Witness Qualifications

Indiantown 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 Indiantown cannot comply.

Respectfully Submitted this 22<sup>nd</sup> day of October, 2018.



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*Attorney for FPUC-Indiantown*



**CERTIFICATE OF SERVICE**

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

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