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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. 20180054-GU	In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Division of Chesapeake Utilities Corporation.

Dear Ms. Stauffer:

Attached, for electronic filing in the above referenced docket, please find the **Florida Division of Chesapeake Utilities Corporation's Prehearing Statement**. 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. 20180054-GU Filed: October 22, 2018

FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
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 Division of Chesapeake Utilities Corporation ("Chesapeake") hereby submits its Prehearing Statement.

1. Known Witnesses

Chesapeake 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.	1-24
Matthew Dewey	Testimony filed on June 1, 2017, as revised on August 27, 2018.	1-5, 10-17
Michael J. Reno	Testimony filed on June 1, 2018.	1-5

2. Known Exhibits

Chesapeake intends to sponsor the following exhibits:

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

3. Basic Position

Chesapeake'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 Chesapeake used to calculate the impact of the TCJA appropriate?

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

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

Chesapeake: Yes, ADIT is appropriately calculated.

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

Chesapeake: Yes, Chesapeake'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?

Chesapeake: 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?

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

Chesapeake: 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?

Chesapeake: Chesapeake 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 Chesapeake 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”?

Chesapeake: No, Chesapeake 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 Chesapeake 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?

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

Chesapeake: If directed to obtain a private letter ruling, Chesapeake 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 Chesapeake's Gas Reliability Infrastructure Program "GRIP" for the impact of the TCJA for the tax year 2018?

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

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

Chesapeake: 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 CFG is $1,365,108. If GRIP is refunded and the ADIT amortized but not refunded, the forecasted tax expense using the 21% corporate tax rate for CFG is $1,305,217.

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

Chesapeake: 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 CFG is $2,077,689. If GRIP is refunded and the ADIT amortized but not refunded, the forecasted tax expense using the 35% corporate tax rate for CFG is $1,986,536.

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

Chesapeake: $5,158,109 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?

Chesapeake: $4,445,528 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?

Chesapeake:

			LOW POINT		MIDPOINT		HIGH POINT	
			COST	WEIGHTED	COST	WEIGHTED	COST	WEIGHTED
		RATIO	RATE	COST	RATE	COST	RATE	COST
AVERAGE	BALANCE	(%)	(%)	(%)	(%)	(%)	(%)	(%)
COMMON EQUITY	$36,533,291	40.48%	9.80%	3.97%	10.80%	4.37%	11.80%	4.78%
LONG TERM DEBT	$17,933,200	19.87%	4.54%	0.90%	4.54%	0.90%	4.54%	0.90%
SHORT TERM DEBT	$16,903,676	18.73%	1.77%	0.33%	1.77%	0.33%	1.77%	0.33%
CUSTOMER DEPOSITS	$1,198,772	1.33%	2.37%	0.03%	2.37%	0.03%	2.37%	0.03%
DEFFERED INCOME TAXES	$17,679,502	19.59%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	($1,276)	0.00%	5.20%	0.00%	5.60%	0.00%	6.01%	0.00%
TOTAL AVERAGE	$90,247,165	100.00%		5.23%		5.63%		6.04%

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

Chesapeake: 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 Chesapeake for the tax year 2018 using a 21 percent corporate tax rate?

Chesapeake: Using the midpoint rate of return, the revenue requirement is $6,816,048 using the 21% corporate tax rate.

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

Chesapeake: Using the midpoint rate of return, the revenue requirement is $8,426,190 using the 35% corporate tax rate.

ISSUE 18: Should Chesapeake be allowed to retain any of the tax benefit associated with the tax rate change implemented by the TCJA and if so, how much?

Chesapeake: Yes, Chesapeake should be allowed to retain any of the tax benefit associated with the tax rate change implemented by the TCJA in the amount of $845,652.

ISSUE 19: Should Chesapeake be allowed to retain the total net benefit associated with the Protected Deferred Tax Liability and the Unprotected Deferred Tax Asset, and should CFG be allowed to amortize the Protected Deferred Tax Liability over 26 years and the Unprotected Deferred Tax Asset over 10 years?

Chesapeake: Yes, Chesapeake should be allowed to retain the total net benefit associated with the Protected Deferred Tax Liability and the Unprotected Deferred Tax Asset, and should be allowed to amortize the Protected Deferred Tax Liability over 26 years and the Unprotected Deferred Tax Asset over 10 years.

ISSUE 20: Should the tax benefit arising from the TCJA rate reduction, excluding the 2018 GRIP savings, be retained by Chesapeake?

Chesapeake: Yes, Chesapeake should be able to retain the tax benefit arising from the TCJA rate reduction, excluding the 2018 GRIP savings.

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

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

ISSUE 23: Should Chesapeake 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?

Chesapeake: Yes, Chesapeake 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?

Chesapeake: Yes.

5. Stipulated Issues

Chesapeake 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 Chesapeake.

6. Pending Motions

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

7. Pending Confidentiality Requests

None.

8. Compliance With Order on Procedure

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

9. Objections to Witness Qualifications

Chesapeake 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 Chesapeake cannot comply.

RESPECTFULLY SUBMITTED this 22nd day of October, 2018.

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Attorney for Chesapeake

CERTIFICATE OF SERVICE

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

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