BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20180051-GU

CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FLORIDA PUBLIC UTILITIES COMPANY - GAS.
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DOCKET NO. 20180052-GU

CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FOR FLORIDA PUBLIC UTILITIES COMPANY - INDIANTOWN DIVISION.
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DOCKET NO. 20180053-GU

CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FOR FLORIDA PUBLIC UTILITIES COMPANY - FORT MEADE DIVISION.
______________________________/

DOCKET NO. 20180054-GU

CONSIDERATION OF THE TAX IMPACTS ASSOCIATED WITH TAX CUTS AND JOBS ACT OF 2017 FOR FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION.
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VOLUME 1
PAGES 1 through 199

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: COMMISSIONER JULIE I. BROWN
COMMISSIONER GARY F. CLARK
COMMISSIONER ANDREW G. FAY

DATE: Tuesday, November 27, 2018

TIME: Commenced: 10:06 a.m.
Concluded: 11:49 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: ANDREA KOMARIDIS
Court Reporter

PREMIER REPORTING
114 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

APPEARANCES:

BETH KEATING and GREGORY MUNSON, ESQUIRES, Gunster Law Firm, 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301-1839, appearing on behalf of Florida Public Utilities Company, Indiantown Division, Fort Meade Division, and Florida Division of Chesapeake Utilities Corporation.

J.R. KELLY, PUBLIC COUNSEL; CHARLES REHWINKEL, DEPUTY PUBLIC COUNSEL; VIRGINIA PONDER and PATRICIA A. CHRISTENSEN, ESQUIRES, Office of Public Counsel, c/o the Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

RACHEL DZIECHCIARZ, MARGO DUVAL, and CHARLES MURPHY, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission Staff.

KEITH HETRICK, GENERAL COUNSEL; MARY ANNE HELTON, DEPUTY GENERAL COUNSEL; Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, adviser to the Florida Public Service Commission.

I N D E X

WITNESSES

I N D E X

WITNESSES

EXHIBITS

DOCKET NO. 20180051-GU

NUMBER:	ID	ADMITTED
1 - Comprehensive exhibit list	79	79
2 through 16 (as identified on comprehensive exhibit list)		80
17 - Reedy Creek court case	187	
18 - Quarterly earnings surveillance report for FPUC Indiantown Division, 2012 through 2018	192	
19 - Quarterly earnings surveillance report for FPUC's Fort Meade Division, 2014 through 2018	197	

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DOCKET NO. 20180052-GU

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17 - FPUC Indiantown's response to staff's second set of interrogatories, No. 4		81
18 - Reedy Creek court case	187	
19 - Quarterly earnings surveillance report for FPUC Indiantown Division, 2012 through 2018	192	
20 - Quarterly earnings surveillance report for FPUC's Fort Meade Division, 2014 through 2018	197	

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P R O C E E D I N G S

COMMISSIONER BROWN: Good morning, again. I would like to convene this hearing for Docket No. -- Nos. 20180051-GU, 20180052-GU, 20180053-GU, and 20180054-GU. This is a consolidated hearing. And today is November 27th. The time is 10:07.

Staff, can you please read the notice for us.

MS. DZIECHCIARZ: Thank you. By notice issued October 24th, 2018, this time and place was set for hearing in Docket Nos. 20180051-GU, 20180052-GU, 20180053-GU, and 20180054-GU. The purpose of the hearing is set out in the notice.

COMMISSIONER BROWN: Thank you.

And for our court reporter, when we reference those, everyone, please just reference them with 51, 52, 53, and 54.

So, we will take appearances at this time, starting with Ms. Keating.

MS. KEATING: Good morning, Commissioners. Beth Keating with the Gunster Law Firm here today on behalf of Florida Public Utilities, Florida Public Utilities Indiantown Division, Florida Public Utilities Fort Meade, and the Florida Division of Chesapeake Utilities, in their respective dockets. I'd also like to enter an appearance for Gregory Munson, also on behalf of parties.

COMMISSIONER BROWN: Thank you.

Office of Public Counsel, Ms. Ponder.

MS. PONDER: Good morning, Commissioners. Virginia Ponder with the Office of Public Counsel. I's also to make an appearance for Patti Christensen, Charles Rehwinkel, and J.R. Kelly, the Public Counsel.

COMMISSIONER BROWN: Thank you.

Staff, please.

MS. DZIECHCIARZ: Rachel Dziechciarz and Margo Duval and Charles Murphy for Commission staff.

MS. HELTON: And Mary Anne Helton. I'm here as your adviser. I'd also like to enter an appearance for your general counsel, Keith Hetrick.

COMMISSIONER BROWN: Thank you.

And I will note that this is a panel consisting of Commissioner Fay and Commissioner Clark.

So, with that, let's talk about preliminary matters. Staff, are there any ones to address?

MS. DZIECHCIARZ: Yes. The following issues are contested and will require a vote by the Commission after the post-hearing briefs are filed:

For the 51 docket, Issue 4B, 5B, 21 and 24; for the 52 docket, Issue 4B, 5B, 17, 18, 19, and 21; for the 53 docket, Issue 4B, 5B, 18, 19, 20, 21, and 24; and for the 54 docket, Issue 4B, 5B, 18, 19, 20, and 23.

COMMISSIONER BROWN: Thank --

MS. DZIECHCIARZ: All -- oh, sorry.

COMMISSIONER BROWN: That's okay.

MS. DZIECHCIARZ: All of the other issues are Type 1 stipulations, in which the parties agree, or Type 2 stipulations, in which OPC has taken no position and can be voted on today, if the Commission finds this appropriate.

COMMISSIONER BROWN: Thank you.

Are there any other preliminary matters that the parties would like to address?

Ms. Keating.

MS. KEATING: Not at this time, Commissioner.

COMMISSIONER BROWN: Ms. Ponder.

MS. PONDER: No questions.

COMMISSIONER BROWN: All right. Okay. Let's move to the record, staff, with regard to the prefiled testimony for excused witnesses.

MS. DZIECHCIARZ: We ask that the prefiled testimony of Witnesses Matthew Dewey and Michael

Reno, identified in Section 6, which is on Page 4 of the prehearing orders for each docket be inserted into the record as though read.

COMMISSIONER BROWN: Okay. We'll go ahead and insert into the record as though read prefiled testimony of Witnesses Dewey and Reno.

(Whereupon, the prefiled revised direct testimony of Witness Dewey was entered into the record of Docket No. 20180051-GU as though read.)

Before the Florida Public Service Commission

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

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"), of which the Florida Division is an operating entity, 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 CFMD-1 (revised) and exhibit CFMD-2 (revised). The exhibit CFMD-1 (revised) shows the Company's calculations to support the estimated regulatory liabilities of $8,475,577. 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, Chesapeake Utilities Corporation, to all Chesapeake subsidiaries and divisions, including the Florida 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 CFMD-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 $61,627 or 17.4% is allocated to Florida division.

Q. CFMG-1 is noted as revised. What line items changed between the original filed on June 1, 2018, and the revised CFMD-1?

A. The lines that changed between the filed exhibit CFMD-1 and the revised exhibit CFMD-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 CFMD-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 CFMD-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".

Although the "Repairs Deduction" was included in the "Unprotected Plant" column in the original CFMD-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. Therefore, the protected regulatory liability is increased and unprotected decreased.

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 $8,413,950 related to the federal rate change from 35% to 21% per the 2017 Tax Act, is described as an estimated, why?

A. The staff of the U.S. 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, 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.

(Whereupon, the prefiled revised direct testimony of Witness Dewey was entered into the record of Docket No. 20180052-GU as though read.)

Before the Florida Public Service Commission

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

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 FIMD-1 (revised) and exhibit FIMD-2 (revised). The exhibit FIMD-1 (revised) shows the Company's calculations to support the estimated regulatory liabilities of $216,202. 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, Chesapeake Utilities Corporation, to all Chesapeake subsidiaries and divisions, including FPUC-Indiantown, 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 FIMD-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 $1,417 or 0.4% is allocated to FPUC- Indiantown.

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

A. The lines that changed between the filed exhibit FIMD-1 and the revised exhibit FIMD-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 FIMD-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 FIMD-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". This reclassification increased the protected liability and decreased the unprotected liability.

Although the "Repairs Deduction" was included in the "Unprotected Plant" column in the original FIMD-1, the amount related to this deduction is being increased because the line now includes the amounts related prior to the implementation of the tax software in 2015 and the "Depreciation" line is being decreased 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 increased and the unprotected liability decreased.

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 $214,785 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.

(Whereupon, the prefiled revised direct testimony of Witness Dewey was entered into the record of Docket No. 20180053-GU as though read.)

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

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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.

(Whereupon, the prefiled revised direct testimony of Witness Dewey was entered into the record of Docket No. 20180054-GU as though read.)

Before the Florida Public Service Commission

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

Direct Testimony of Matthew Dewey

Date of Filing: June 1, 2018

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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.

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A. I am employed by Chesapeake Utilities Corporation ("CUC"), of which the Florida Division is an operating entity, 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 CFMD-1 (revised) and exhibit CFMD-2 (revised). The exhibit CFMD-1 (revised) shows the Company's calculations to support the estimated regulatory liabilities of $8,475,577. 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, Chesapeake Utilities Corporation, to all Chesapeake subsidiaries and divisions, including the Florida 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 CFMD-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 $61,627 or 17.4% is allocated to Florida division.

Q. CFMG-1 is noted as revised. What line items changed between the original filed on June 1, 2018, and the revised CFMD-1?

A. The lines that changed between the filed exhibit CFMD-1 and the revised exhibit CFMD-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 CFMD-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 CFMD-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".

Although the "Repairs Deduction" was included in the "Unprotected Plant" column in the original CFMD-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. Therefore, the protected regulatory liability is increased and unprotected decreased.

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 $8,413,950 related to the federal rate change from 35% to 21% per the 2017 Tax Act, is described as an estimated, why?

A. The staff of the U.S. 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, 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.

(Whereupon, the prefiled revised direct testimony of Witness Reno was entered into the record of Docket No. 20180051-GU as though read.)

I. **Introduction**

Q. Please state your name, business address and by whom you are employed, and in what capacity.

A. My name is Michael Reno. My business address is 1101 New York Avenue, NW, Washington, District of Columbia, 20005-4213. I am an executive director in Ernst & Young LLP's National Energy Practice.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Florida Public Utilities Company ("FPUC").

Q. What is your educational and professional background?

A. I graduated from Kansas State University with a Bachelor of Science degree in Business Administration, with an emphasis in accounting, in 1987, and a Masters of Science, with an emphasis in accounting, in 1988. After completion of my Masters of Science in Accounting, I joined Deloitte Tax LLP, formerly Deloitte Haskins & Sells. In 2012, I joined Ernst & Young LLP as an executive director in the National Energy Practice. I am a Certified Public Accountant, licensed in the District of Columbia and in the Commonwealth of Virginia. I have practiced public accounting for over 29 years. In my practice, I provide tax services to regulated water, electric and gas utilities. I regularly assist clients with tax planning, supporting and explaining tax reporting positions, and tax return reviews. My experience includes providing advice on accounting for income taxes and performing tax provision reviews. I also regularly consult with companies regarding tax accounting and its impact on the rate setting process as well as compliance with the normalization rules. Additionally, I am a frequent speaker at industry seminars and conferences on the topic of tax accounting for rate-regulated utilities. I have spoken at the Edison Electric Institute tax committee meetings and the American Gas Association tax committee meetings in addition to other industry meetings.

Q. Have you testified in any regulatory proceedings?

A. Yes, I have provided expert testimony on multiple occasions over the last 10 years on tax, tax accounting and regulatory tax matters before the New Jersey Board of Public Utilities, the California Public Utilities Commission, the Connecticut Public Utilities Regulatory Authority and the Federal Energy Regulatory Commission.

II. Purpose of Testimony

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain how the 2017 tax law changes, commonly known as the "the Tax Cuts and Jobs Act" (the TCJA), impact FPUC's revenue requirement.

III. Overview of the TCJA

Q. Can you describe what specifically is meant by the term TCJA?

A. The TCJA was signed into law by President Trump on December 22, 2017 and is the first major overhaul of federal income tax in more than

30 years. The stated purpose of the TCJA is to deliver historic tax relief for workers, families and job creators, and revitalize the US economy.

Q. How broad are the changes to the tax law?

A. All taxpayer groups, including corporations, pass-through entities and individuals, are affected, although the effects of the law change will vary widely based on each taxpayer's situation. Key domestic business provisions of the TCJA include: (i) permanently reducing the 35% corporate income tax rate to 21%, (ii) repeal of the corporate alternative minimum tax (AMT), (iii) change in the taxability of contributions to the capital of a corporation, (iv) interest expense limitation, (v) immediate expensing of qualified property, (vi) limiting net operating loss (NOL) usage to 80%, and (vii) repeal of domestic production activities deduction.

Q. What impact does the TCJA have on utilities?

A. The TCJA has many provisions that will impact the tax liability of utilities. The two most significant of those business provisions include the reduction in the corporate income tax rate and the disallowance of immediate expensing of property acquired.

Corporate taxpayers were previously subject to a top corporate rate of 35% under a graduated rate structure. Under the TCJA, corporate taxpayers are subject to a 21% corporate tax rate with no graduated rate structure, effective January 1, 2018.

Under prior law, utilities were allowed to claim bonus depreciation during the year in which qualified property was placed in service. The TCJA extended the bonus depreciation provisions and increased it to 100% expensing of qualified property. However, regulated utilities are no longer eligible to claim bonus depreciation. Under the TCJA, utilities engaged in a certain trade or business as described in clause (iv) of section 163(j)(7)(A) are precluded from immediate expensing while other taxpayers are eligible for immediately expensing certain qualified property. For purposes of the exception (i.e., the inability to claim immediate expensing), clause (iv) of section 163(j)(7)(A) defines the trade or business to include the furnishing or sale of – electrical energy, water, or sewage disposal services, gas or steam through a local distribution system, or transportation of gas or steam by pipeline. Consequently, utilities such as FPU will see some reduction in the savings associated with the reduction from 35% to 21% because of the elimination of this bonus depreciation.

Q. Does the TCJA have any provisions impacting how utility rates may be set?

A. Yes. The corporate income tax rate change has specific provisions requiring that a normalization method of accounting be applied to the rate change. The corporate taxpayer must normalize the excess tax reserves resulting from the reduction of the corporate income tax rates

with respect to prior depreciation or recovery allowances taken on assets placed in service prior to when the corporate rate reduction takes effect.

Q. What is meant by the term "normalization" or "normalize"?

A. "Normalization" requirements apply to section 167 or 168 of the Internal Revenue Code. Compliance with the normalization rules involves: (1) setting up a deferred tax reserve for the difference between depreciation expense used by regulators to determine cost of service (normally the straight line method) and the accelerated method used for calculating tax expense on income tax returns and then (2) drawing down that reserve in later years as the accelerated depreciation benefits reverse. With respect to the TCJA and the change in tax rates, the law states a public utility is not in compliance with the normalization rules if the utility "reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method."

Q. What is the term "excess tax reserve"?

A. The term tax reserve represents the amount of tax depreciation in excess of book depreciation multiplied by the tax rate, also known as the deferred tax liability. The excess tax reserve is the portion of such a reserve for deferred taxes (as of the day before the corporate rate reduction takes effect) that is greater than what the reserve for deferred taxes would be had the corporate rate reduction been in effect for all prior periods. The reserve for deferred taxes arising through the use of a

normalization method of accounting represents a liability for federal income taxes payable at a future date. Accordingly, the reserve for deferred taxes is usually considered a form of interest-free financing in the ratemaking process. This treatment typically is achieved by treating the reserve as either a reduction to the rate base or, less frequently, as a zero-cost source of capital.

Q. How is compliance with the normalization requirements met?

A. There are two methods for normalization computation, (1) average rate assumption method (ARAM), and (2) Reverse South Georgia Method (RSGM).

ARAM is the required method and reduces the excess tax reserve over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes. Under this method, the excess tax reserve is reduced as the timing differences (i.e., differences between tax depreciation and regulatory depreciation with respect to the property) reverse over the remaining life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the same asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a taxable year is multiplied by the ratio of (1) the aggregate deferred taxes as of the

beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question.

An alternative method, the RSGM, requires that the excess tax reserve on all public utility property in the plant account is computed based on the weighted average life or composite rate used to calculate depreciation for regulatory purposes. The excess tax reserve is then reduced ratably over the regulatory life of the property.

Q. Does the TCJA mandate a method for flowing back the excess reserve?

A. The TCJA specifically provides the method of flowing back the excess reserve solely as it relates to accelerated depreciation. It states that the excess amount in the reserve for deferred taxes is to be reversed using ARAM to be in compliance with the normalization rules. The alternative RSGM is available to certain taxpayers where the utilities books and records do not have sufficient vintage account data records to make the required computations under ARAM. In other words, the use of RSGM in lieu of ARAM is an alternative where the utility is unable to utilize ARAM with their existing books and records.

Q. Does TCJA mandate treatment of excess deferred taxes to deferred items other than section 167/168?

A. No. As mentioned above, normalization provisions only apply to the accelerated depreciation under section 167 and 168, which is commonly

referred to as "protected" excess deferred tax reserves. The balance of the excess reserves outside of section 167 and 168 are "unprotected" and may be handled at the discretion of the utility and commission.

Q. What are the consequences of not complying with the normalization rules?

A. Failure to use a normalization method may result in the loss of accelerated depreciation deductions. If an excess tax reserve is reduced more rapidly or to a greater extent than such reserve would be reduced under ARAM or RSGM, if applicable, the taxpayer will not be treated as having used a normalization method with respect to the corporate rate reduction. If the taxpayer has not used a normalization method of accounting for the corporate rate reduction, the taxpayer's tax for the taxable year shall be increased by the amount by which it reduced its excess tax reserve more rapidly than permitted under a normalization method of accounting and the taxpayer will not be treated as using a normalization method of accounting for purposes of section 168(f)(2) and (i)(9)(C). The penalty for noncompliance includes an immediate tax for the amount improperly amortized as well as the inability to claim accelerated depreciation (including any eligible bonus depreciation) for the current and future years.

IV. <u>FPUC calculation of effects of TCJA</u>

Q. How has FPUC computed the excess deferred taxes?

A. FPUC computed excess deferred taxes in two categories, those related to plant and those related to non-plant. The plant related excess deferred taxes includes those that are associated with accelerated depreciation and subject to the normalization rules as well as other book/tax differences associated with plant. The non-plant related excess deferred taxes include all other book/tax differences that are not associated with plant. The normalization rules only require excess deferred income taxes associated with accelerated depreciation to be amortized under the average rate assumption method or reverse South Georgia method, if applicable. All other excess deferred income taxes are not subject to the normalization rules and may be amortized at the discretion of the utility and commission.

Q. Over what period are the excess deferred taxes to be amortized?

A. The excess deferred taxes related to plant are anticipated to be amortized utilizing the ARAM method, assuming the books and records allow for that calculation. The excess deferred taxes related to non-plant are anticipated to be amortized over a 10-year period.

Q. Does FPU's approach to amortization of excess deferred taxes comply with the normalization rules?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.

(Whereupon, the prefiled revised direct testimony of Witness Reno was entered into the record of Docket No. 20180052-GU as though read.)

I. Introduction

Q. Please state your name, business address and by whom you are employed, and in what capacity.

A. My name is Michael Reno. My business address is 1101 New York Avenue, NW, Washington, District of Columbia, 20005-4213. I am an executive director in Ernst & Young LLP's National Energy Practice.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Florida Public Utilities Company – Indiantown Division ("FPUC").

Q. What is your educational and professional background?

A. I graduated from Kansas State University with a Bachelor of Science degree in Business Administration, with an emphasis in accounting, in 1987, and a Masters of Science, with an emphasis in accounting, in 1988. After completion of my Masters of Science in Accounting, I joined Deloitte Tax LLP, formerly Deloitte Haskins & Sells. In 2012, I joined Ernst & Young LLP as an executive director in the National Energy Practice. I am a Certified Public Accountant, licensed in the District of Columbia and in the Commonwealth of Virginia. I have practiced public accounting for over 29 years. In my practice, I provide tax services to regulated water, electric and gas utilities. I regularly assist clients with tax planning, supporting and explaining tax reporting positions, and tax return reviews. My experience includes providing advice on accounting for income taxes and performing tax provision reviews. I also regularly

consult with companies regarding tax accounting and its impact on the rate setting process as well as compliance with the normalization rules. Additionally, I am a frequent speaker at industry seminars and conferences on the topic of tax accounting for rate-regulated utilities. I have spoken at the Edison Electric Institute tax committee meetings and the American Gas Association tax committee meetings in addition to other industry meetings.

Q. Have you testified in any regulatory proceedings?

A. Yes, I have provided expert testimony on multiple occasions over the last 10 years on tax, tax accounting and regulatory tax matters before the New Jersey Board of Public Utilities, the California Public Utilities Commission, the Connecticut Public Utilities Regulatory Authority and the Federal Energy Regulatory Commission.

II. <u>Purpose of Testimony</u>

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain how the 2017 tax law changes, commonly known as the "the Tax Cuts and Jobs Act" (the TCJA), impact FPUC's revenue requirement.

III. <u>Overview of the TCJA</u>

Q. Can you describe what specifically is meant by the term TCJA?

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A. The excess deferred taxes related to plant are anticipated to be amortized utilizing the ARAM method, assuming the books and records allow for that calculation. The excess deferred taxes related to non-plant are anticipated to be amortized over a 10-year period.

Q. Does FPU's approach to amortization of excess deferred taxes comply with the normalization rules?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.

(Whereupon, the prefiled revised direct testimony of Witness Reno was entered into the record of Docket No. 20180053-GU as though read.)

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Q. Please state your name, business address and by whom you are employed, and in what capacity.

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Q. What is your educational and professional background?

A. I graduated from Kansas State University with a Bachelor of Science degree in Business Administration, with an emphasis in accounting, in 1987, and a Masters of Science, with an emphasis in accounting, in 1988. After completion of my Masters of Science in Accounting, I joined Deloitte Tax LLP, formerly Deloitte Haskins & Sells. In 2012, I joined Ernst & Young LLP as an executive director in the National Energy Practice. I am a Certified Public Accountant, licensed in the District of Columbia and in the Commonwealth of Virginia. I have practiced public accounting for over 29 years. In my practice, I provide tax services to regulated water, electric and gas utilities. I regularly assist clients with tax planning, supporting and explaining tax reporting positions, and tax return reviews. My experience includes providing advice on accounting for income taxes and performing tax provision reviews. I also regularly

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Q. Does TCJA mandate treatment of excess deferred taxes to deferred items other than section 167/168?

A. No. As mentioned above, normalization provisions only apply to the accelerated depreciation under section 167 and 168, which is commonly

referred to as “protected” excess deferred tax reserves. The balance of the excess reserves outside of section 167 and 168 are “unprotected” and may be handled at the discretion of the utility and commission.

Q. What are the consequences of not complying with the normalization rules?

A. Failure to use a normalization method may result in the loss of accelerated depreciation deductions. If an excess tax reserve is reduced more rapidly or to a greater extent than such reserve would be reduced under ARAM or RSGM, if applicable, the taxpayer will not be treated as having used a normalization method with respect to the corporate rate reduction. If the taxpayer has not used a normalization method of accounting for the corporate rate reduction, the taxpayer's tax for the taxable year shall be increased by the amount by which it reduced its excess tax reserve more rapidly than permitted under a normalization method of accounting and the taxpayer will not be treated as using a normalization method of accounting for purposes of section 168(f)(2) and (i)(9)(C). The penalty for noncompliance includes an immediate tax for the amount improperly amortized as well as the inability to claim accelerated depreciation (including any eligible bonus depreciation) for the current and future years.

IV. FPUC calculation of effects of TCJA

Q. How has FPUC computed the excess deferred taxes?

A. FPUC computed excess deferred taxes in two categories, those related to plant and those related to non-plant. The plant related excess deferred taxes includes those that are associated with accelerated depreciation and subject to the normalization rules as well as other book/tax differences associated with plant. The non-plant related excess deferred taxes include all other book/tax differences that are not associated with plant. The normalization rules only require excess deferred income taxes associated with accelerated depreciation to be amortized under the average rate assumption method or reverse South Georgia method, if applicable. All other excess deferred income taxes are not subject to the normalization rules and may be amortized at the discretion of the utility and commission.

Q. Over what period are the excess deferred taxes to be amortized?

A. The excess deferred taxes related to plant are anticipated to be amortized utilizing the ARAM method, assuming the books and records allow for that calculation. The excess deferred taxes related to non-plant are anticipated to be amortized over a 10-year period.

Q. Does FPU's approach to amortization of excess deferred taxes comply with the normalization rules?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.

(Whereupon, the prefiled revised direct testimony of Witness Reno was entered into the record of Docket No. 20180054-GU as though read.)

I. Introduction

Q. Please state your name, business address and by whom you are employed, and in what capacity.

A. My name is Michael Reno. My business address is 1101 New York Avenue, NW, Washington, District of Columbia, 20005-4213. I am an executive director in Ernst & Young LLP's National Energy Practice.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Florida Division of Chesapeake Utilities Corporation ("CHPK").

Q. What is your educational and professional background?

A. I graduated from Kansas State University with a Bachelor of Science degree in Business Administration, with an emphasis in accounting, in 1987, and a Masters of Science, with an emphasis in accounting, in 1988. After completion of my Masters of Science in Accounting, I joined Deloitte Tax LLP, formerly Deloitte Haskins & Sells. In 2012, I joined Ernst & Young LLP as an executive director in the National Energy Practice. I am a Certified Public Accountant, licensed in the District of Columbia and in the Commonwealth of Virginia. I have practiced public accounting for over 29 years. In my practice, I provide tax services to regulated water, electric and gas utilities. I regularly assist clients with tax planning, supporting and explaining tax reporting positions, and tax return reviews. My experience includes providing advice on accounting for income taxes and performing tax provision reviews. I also regularly

consult with companies regarding tax accounting and its impact on the rate setting process as well as compliance with the normalization rules. Additionally, I am a frequent speaker at industry seminars and conferences on the topic of tax accounting for rate-regulated utilities. I have spoken at the Edison Electric Institute tax committee meetings and the American Gas Association tax committee meetings in addition to other industry meetings.

Q. Have you testified in any regulatory proceedings?

A. Yes, I have provided expert testimony on multiple occasions over the last 10 years on tax, tax accounting and regulatory tax matters before the New Jersey Board of Public Utilities, the California Public Utilities Commission, the Connecticut Public Utilities Regulatory Authority and the Federal Energy Regulatory Commission.

II. <u>Purpose of Testimony</u>

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain how the 2017 tax law changes, commonly known as the "the Tax Cuts and Jobs Act" (the TCJA), impact CHPK's revenue requirement.

III. <u>Overview of the TCJA</u>

Q. Can you describe what specifically is meant by the term TCJA?

A. The TCJA was signed into law by President Trump on December 22, 2017 and is the first major overhaul of federal income tax in more than

30 years. The stated purpose of the TCJA is to deliver historic tax relief for workers, families and job creators, and revitalize the US economy.

Q. How broad are the changes to the tax law?

A. All taxpayer groups, including corporations, pass-through entities and individuals, are affected, although the effects of the law change will vary widely based on each taxpayer's situation. Key domestic business provisions of the TCJA include: (i) permanently reducing the 35% corporate income tax rate to 21%, (ii) repeal of the corporate alternative minimum tax (AMT), (iii) change in the taxability of contributions to the capital of a corporation, (iv) interest expense limitation, (v) immediate expensing of qualified property, (vi) limiting net operating loss (NOL) usage to 80%, and (vii) repeal of domestic production activities deduction.

Q. What impact does the TCJA have on utilities?

A. The TCJA has many provisions that will impact the tax liability of utilities. The two most significant of those business provisions include the reduction in the corporate income tax rate and the disallowance of immediate expensing of property acquired.

Corporate taxpayers were previously subject to a top corporate rate of 35% under a graduated rate structure. Under the TCJA, corporate taxpayers are subject to a 21% corporate tax rate with no graduated rate structure, effective January 1, 2018.

Under prior law, utilities were allowed to claim bonus depreciation during the year in which qualified property was placed in service. The TCJA extended the bonus depreciation provisions and increased it to 100% expensing of qualified property. However, regulated utilities are no longer eligible to claim bonus depreciation. Under the TCJA, utilities engaged in a certain trade or business as described in clause (iv) of section 163(j)(7)(A) are precluded from immediate expensing while other taxpayers are eligible for immediately expensing certain qualified property. For purposes of the exception (i.e., the inability to claim immediate expensing), clause (iv) of section 163(j)(7)(A) defines the trade or business to include the furnishing or sale of – electrical energy, water, or sewage disposal services, gas or steam through a local distribution system, or transportation of gas or steam by pipeline. Consequently, utilities such as FPU will see some reduction in the savings associated with the reduction from 35% to 21% because of the elimination of this bonus depreciation.

Q. Does the TCJA have any provisions impacting how utility rates may be set?

A. Yes. The corporate income tax rate change has specific provisions requiring that a normalization method of accounting be applied to the rate change. The corporate taxpayer must normalize the excess tax reserves resulting from the reduction of the corporate income tax rates

with respect to prior depreciation or recovery allowances taken on assets placed in service prior to when the corporate rate reduction takes effect.

Q. What is meant by the term "normalization" or "normalize"?

A. "Normalization" requirements apply to section 167 or 168 of the Internal Revenue Code. Compliance with the normalization rules involves: (1) setting up a deferred tax reserve for the difference between depreciation expense used by regulators to determine cost of service (normally the straight line method) and the accelerated method used for calculating tax expense on income tax returns and then (2) drawing down that reserve in later years as the accelerated depreciation benefits reverse. With respect to the TCJA and the change in tax rates, the law states a public utility is not in compliance with the normalization rules if the utility "reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method."

Q. What is the term "excess tax reserve"?

A. The term tax reserve represents the amount of tax depreciation in excess of book depreciation multiplied by the tax rate, also known as the deferred tax liability. The excess tax reserve is the portion of such a reserve for deferred taxes (as of the day before the corporate rate reduction takes effect) that is greater than what the reserve for deferred taxes would be had the corporate rate reduction been in effect for all prior periods. The reserve for deferred taxes arising through the use of a

normalization method of accounting represents a liability for federal income taxes payable at a future date. Accordingly, the reserve for deferred taxes is usually considered a form of interest-free financing in the ratemaking process. This treatment typically is achieved by treating the reserve as either a reduction to the rate base or, less frequently, as a zero-cost source of capital.

Q. How is compliance with the normalization requirements met?

A. There are two methods for normalization computation, (1) average rate assumption method (ARAM), and (2) Reverse South Georgia Method (RSGM).

ARAM is the required method and reduces the excess tax reserve over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes. Under this method, the excess tax reserve is reduced as the timing differences (i.e., differences between tax depreciation and regulatory depreciation with respect to the property) reverse over the remaining life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the same asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a taxable year is multiplied by the ratio of (1) the aggregate deferred taxes as of the

beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question.

An alternative method, the RSGM, requires that the excess tax reserve on all public utility property in the plant account is computed based on the weighted average life or composite rate used to calculate depreciation for regulatory purposes. The excess tax reserve is then reduced ratably over the regulatory life of the property.

Q. Does the TCJA mandate a method for flowing back the excess reserve?

A. The TCJA specifically provides the method of flowing back the excess reserve solely as it relates to accelerated depreciation. It states that the excess amount in the reserve for deferred taxes is to be reversed using ARAM to be in compliance with the normalization rules. The alternative RSGM is available to certain taxpayers where the utilities books and records do not have sufficient vintage account data records to make the required computations under ARAM. In other words, the use of RSGM in lieu of ARAM is an alternative where the utility is unable to utilize ARAM with their existing books and records.

Q. Does TCJA mandate treatment of excess deferred taxes to deferred items other than section 167/168?

A. No. As mentioned above, normalization provisions only apply to the accelerated depreciation under section 167 and 168, which is commonly

referred to as "protected" excess deferred tax reserves. The balance of the excess reserves outside of section 167 and 168 are "unprotected" and may be handled at the discretion of the utility and commission.

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Q. Does CHPK's approach to amortization of excess deferred taxes comply with the normalization rules?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.

COMMISSIONER BROWN: With regard to exhibits, staff.

MS. DZIECHCIARZ: We have a stipulated comprehensive exhibit list for each docket, which includes the prefiled exhibits attached to the witnesses' testimony in each docket. The lists have been provided to the parties, the Commissioners, as well as the court reporter. The list for each docket is marked as the first hearing exhibit, and the other exhibits should be marked as set forth in the chart.

At this time, we ask that the comprehensive exhibit list for each docket, marked as Exhibit No. 1, be entered into the record.

COMMISSIONER BROWN: All right. Seeing no objection from the parties, we will go ahead and enter into the record Exhibit 1 for each docket, 52, 53, 51, and 54. Okay.

(Whereupon, Exhibit No. 1 was marked for identification and admitted into the record of Docket Nos. 20180051-GU, 20180052-GU, 20180053-GU, and 20180054-GU.)

COMMISSIONER BROWN: Okay.

MS. DZIECHCIARZ: We also ask that, for Docket Nos. 20180051, 0052, and 0053, Exhibits 2 through

16 be moved into the record as set forth in the respective comprehensive exhibit lists; and for Docket 0054, Exhibits 2 through 17 be moved into the record as set forth in the comprehensive exhibit list for that docket.

COMMISSIONER BROWN: Are there any objections to the entry of these exhibits into the record?

MS. PONDER: None.

MS. KEATING: No, Commissioner.

COMMISSIONER BROWN: Okay. We will go ahead and move those as identified by staff into the record at this time.

(Whereupon, Exhibit Nos. 2 through 16 were admitted into the record of Docket Nos. 20180051-GU, 20180052-GU, and 20180053-GU; and Exhibit Nos. 2 through 17 were admitted into the record of Docket No. 20180054-GU.)

MS. DZIECHCIARZ: We also ask that, for Docket 0052, FPUC Indiantown's response to staff's second set of interrogatories, No. 4, be entered into the record as Exhibit No. 17 for the comprehensive exhibit lists in Docket 20180052. And that has been passed around to the parties and should be in front of you all.

COMMISSIONER BROWN: Just a second. All

right. So, this is in the 52 docket. It's FPUC's Indiantown response to staff's second set of rogs, No. 4. Do the parties have that?

MS. KEATING: Yes, Commissioner.

COMMISSIONER BROWN: Do you have any objection with us entering that into the record at this time?

MS. KEATING: No, Commissioner.

COMMISSIONER BROWN: Seeing none, we will go ahead and enter Exhibit 17 in Docket 52 into the record.

(Whereupon, Exhibit No. 17 was admitted into the record of Docket No. 20180052-GU.)

COMMISSIONER BROWN: Okay. All right. Staff, regarding the stipulated issues, are -- is -- are we in a posture to make a bench decision at this time on those issues that have been stipulated?

MS. DZIECHCIARZ: Yes, Commissioner. If you decide that it's appropriate, we can recommend the proposed stipulations. And if you'd like, I can list out the issue numbers.

COMMISSIONER BROWN: Yeah, let's start -- let's go ahead and do that, and just identify the -- each docket as we indicated, by 51 -- starting with 51.

MS. DZIECHCIARZ: Sure. So, for the 51

docket, the Type 1 stipulations are Issue Nos. 1, 2, 3, 4A, 5A, 6, 7, 8, 9, 12, 13, 18, 19, 20, 22, and 23; and for the Type 2 stipulations, the issue numbers are 10, 11, 14, 15, 16, and 17.

Moving on to the 52 docket, the Type 1 stipulations are Issue Nos. 1, 2, 3, 4A, 5A, 6, 7, 8, 11, 12, 20; and the Type 2 stipulations are Issue Nos. 9, 10, 13, 14, 15, and 16.

Moving on to the 53 docket, the Type 1 stipulations are Issues Nos. 1, 2, 4A, 5A, 6, 7, 8, 9, 12, 13, 22, and 23; and the Type 2 stipulations are Issues Nos. 3, 10, 11, 14, 15, 16, and 17.

And finally, for the 54 docket, the Type 1 stipulations are Issue Nos. 1, 2, 3, 4A, 5A, 6, 7, 8, 9, 13, 21, and 22; and the Type 2 stipulations are Issue Nos. 10, 11, 12, 14, 15, 16, and 17.

COMMISSIONER BROWN: Thank you. Appreciate you reading those off for us.

Commissioners, are there any questions?

Commissioner Clark?

COMMISSIONER CLARK: Madam Chair, I move to approve the stipulated issues as mentioned.

COMMISSIONER BROWN: Thank you.

Is there a second?

COMMISSIONER FAY: Second.

COMMISSIONER BROWN: Any further discussion?
Seeing none, all those in favor, say aye.
(Chorus of ayes.)
COMMISSIONER BROWN: Motion passes unanimously.
Okay. So, now we're going to move into opening statements. And each party has five minutes to present an opening statement. And we will start with Ms. Keating for all the dockets.
MS. KEATING: Thank you, Commissioners.
Good morning. We're here today, Commissioners, on four tax dockets for the natural -- natural gas business units owned by Chesapeake Utilities: FPUC, FPUC Indiantown Division, FPUC Fort Meade, and the Florida Division of Chesapeake.
As reflected by the prehearing order, we've been able to reach stipulations, as you're aware, and -- with regard to the calculation of the tax benefits. I want to express our appreciation to both OPC and your staff for working with us in that regard.
The remaining issues, Commissioners, pertain to the companies' proposals to either retain some portion of the tax benefits or be allowed to

recover the tax det- -- detriment arising from the TCJA, depending on the circumstances of the business unit.

Commissioners, as we see it, there's really no facts that are in dispute at this time. The remaining issues to be resolved at this point come down to two policy questions, which we think could have been briefed.

The questions are: Should a utility that's either under-earning or earning below the mid-point of its allowed range be allowed to retain the tax benefits arising from the TCJA; and two, should a utility that's adversely impacted by the TCJA and otherwise earning at or below the bottom of its allowed earnings range be allowed to recoup that adverse impact from customers.

You'll hear from only two witnesses today addressing those policy questions from two very different perspectives. Contrary to what you will here OPC argue, customers can and would benefit from FPUC's proposals to address the tax benefits and detriments arising out of the Act.

FPUC's approach allows the companies to retain the tax benefits of the TCJA to the extent that they're not over-earning. FPUC's proposal also contemplates that companies that are under-earning and also experience a detrimental impact are made whole.

Both aspects of FPUC's proposals would enable these companies to earn at or at least near their Commission-authorized range and thereby earn a reasonable return as contemplated by Florida Statutes.

FPUC's approach is also the more practical approach. It will reduce customer confusion and potential rate shock that could otherwise arise from rate reductions in this proceeding, followed in short order by rate increases arising from a rate case.

This approach will also sustain these companies at or near their Commission-approved earnings range, as I mentioned, pending preparation of complete rate cases.

The relief we've requested, Commissioners, is well within your authority to provide and it's consistent with the Commission's historical approach to tax changes. FPUC's approach will benefit both customers and the business units and is, therefore, in the public interest.

As such, we'll ask that you approve FPUC's request in each docketed proceeding.

Thank you.

COMMISSIONER BROWN: Thank you.

Ms. Ponder.

MS. PONDER: Thank you. Good morning, Commissioners.

In two of the dockets before you today, FPUC Gas and Chesapeake, their respective company has asked to retain all the tax savings for base rates generated by the Tax Cuts and Jobs Act.

All four companies seek to retain the excess accumulated deferred income tax amortization. In the rate-setting process, the taxes are a pass-through expense. In other words, a hundred percent of the utilities' taxes related to providing gas service is borne by the customers.

When the rates for these companies was last set, the pass-through rate -- excuse me -- pass-through tax rate was 35 percent. Under the Tax Cuts and Jobs Act of 2017, the utilities' tax rate is now 21 percent, effective January 1, 2018.

The difference between the 35-percent tax rate and the 21-percent tax rate is the tax savings. These tax savings represent monies ratepayers have paid to the utilities; monies that the u- -- that would not be available to the utility but for the good fortune of the federal tax legislation.

The situation is somewhat different for the two smaller utilities, Indiantown and Fort Meade, which have been experiencing net operating losses for several years. OPC urges the Commission to require each company to -- excuse me -- to refund or flow back the tax savings to the ratepayers of FPUC Gas and Chesapeake and to reflect the amortization of the excess ADIT for all four utilities.

In Docket 2000- -- excuse me -- 51, in Docket 51, Florida Public Utilities Company Gas proposes to keep the annual base-rate tax -- tax savings of $2,181,275. Additionally, this company seeks to retain the net annual amortization of the protected and unprotected excess ADIT of approximately $537,174.

It is simply not fair or reasonable for the company to keep this money and not return it to the ratepayers; therefore, OPC requests the Commission to reject the company's proposal to retain these tax benefits and, instead, order the company to return or flow back the tax benefits to its ratepayers.

In Docket 52, the Indiantown Division, alleges an annual tax detriment resulting from the Tax Cuts and Jobs Act of approximately $54,090 -- $96, and seeks the Commission's approval to recover this amount through the Energy Conservation Cost Recovery Clause, the ECCR.

The fact that Indiantown is not over-earning, and has, in fact, intentionally chosen to under-earn for at least the past five years, is not a reason to allow the company to charge its ratepayers for this alleged tax detriment via the ECCR clause. Additionally, clause recovery has nothing to do with the base-rate tax impacts, which are the focus of these tax dockets.

The Indiantown Division also seeks to retain the net gross-up tax benefits from the excess accumulated deferred income taxes, which is approximately $7,862 annually.

OPC requests the Commission deny Indiantown's request to charge its customers through the ECCR clause to recover any alleged tax detriment, and deny its request to retain ratepayers' money and, instead, order the company to return or flow back these monies to customers.

In Docket 53, the Fort Meade Division seeks to recover the alleged tax detriment of approximately $70,929 through the ECCR. Again, the fact that Fort Meade has intentionally chosen to under-earn for several years is not now a basis to allow the company to charge its ratepayers for its alleged tax detriment via a clause, a clause which has nothing to do with this base-rate impact that is the focus of these tax dockets.

Fort Meade also seeks this Commission's approval to retain the estimated annual amount of unprotected and protected excess accumulated deferred income tax liability amortization for a net benefit amount of $6,375 annually, instead of refunding these monies to its customers.

Fort Meade further seeks to retain the tax savings generate- -- generated by the tax act on the 2018 Gas Reliability Infrastructure Program surcharge from the jurisdictional date until December 31, 2018, which the company calculates to be approximately $2,376.

OPC urges the Commission to order the company to refund these tax savings associated with both the 2018 Gas Reliability Infrastructure Program surcharge and the estimated annual amount of protected and unprotected excess accumulated deferred income tax liability amortization to its customers.

In the 54 docket, Chesapeake -- the Chesapeake Division proposes to retain the annual tax savings of approximately $954,499 and to retain the protected excess accumulated deferred income tax liability annual amortization, less the annual unprotected excess ADIT for a net benefit of $250,042.

Again, these tax savings are a direct result of the federal income tax legislation and represent money Chesapeake's ratepayers have already paid to the utility. This is nei- -- it is neither fair nor reasonable, and OPC requests the Commission order the company to flow back both the annual tax savings and the net benefit of the excess accumulated deferred income tax amortization to the company's ratepayers.

As the Florida Supreme Court stated in Reedy Creek, "A change in the tax law should not result in a windfall to a utility, but in a refund to the customer, who paid the revenue that translated into the tax savings."

Thank you.

COMMISSIONER BROWN: Thank you, Ms. Ponder.

Okay. We will go to the order of witnesses. We have two, as mentioned -- as was mentioned earlier: Michael Cassel, proffered by FPUC Indiantown, Fort Meade, and Chesapeake; and Mr. Ralph Smith, proffered by OPC.

So, I will now ask the witnesses to please stand and raise their right hand. And I would ask Commissioner Clark to administer the oath, since he's so good at it.

COMMISSIONER CLARK: Raise your right hand. Repeat after me.

(Witnesses sworn en masse.)

COMMISSIONER BROWN: Thank you, Commissioner Clark, too.

All right. Each witness will be allowed five minutes to summarize their testimony as it pertains to all four dockets, including the direct and rebuttal. I understand Mr. Cassel will be stand -- up on the stand, taking both direct and rebuttal at the same time. We will be a little -- give a little latitude with that as well.

And I think we have all of the preliminary matters established before we get into the hearing; is that correct?

MS. DZIECHCIARZ: Yes, Commissioner. That's

correct.
COMMISSIONER BROWN: All right. Ms. Keating, will you please call your first and only witness.
MS. KEATING: Thank you, Commissioner. FPUC and the Chesapeake companies call Mike Cassel.
COMMISSIONER BROWN: Thank you.
THE WITNESS: Good morning, Commissioners.
COMMISSIONER BROWN: Oh, just a moment.
Whenever you're ready.
MS. KEATING: Thank you, Commissioner.

EXAMINATION

BY MS. KEATING:
Q Good morning, Mr. Cassel. Could you please state your name and business address for the record.
A Yes. My name is Mike Cassel. I work for Florida Public Utilities. My business is 1750 South 14th Street, Suite 200, in Fernandina Beach, Florida.
Q And just so that the record is clear, given that we're -- we've got sort of a consolidated hearing, could you please identify for the record which entities you're appearing on behalf of today.
A It would be Florida Public Utilities Company Gas, Florida Public Utilities Company Fort Meade, Florida Public Indiantown and Florida Division of Chesapeake Utilities Corporation.

Q Are you the same Mike Cassel that, in Docket 20180051, filed revised direct testimony?

A Yes, I am.

Q And if I asked you the same questions, would you have the same answers that you gave in that prefiled testimony?

A Yes, I would.

Q Do you have any changes or corrections to that testimony?

A No, I do not.

MS. KEATING: Madam Chair, FPU would ask that Mr. Cassel's direct testimony be moved into the record as though read.

COMMISSIONER BROWN: In all of the dockets or just the 51?

MS. KEATING: For purposes of the clarity, I thought we were going to go docket by docket, but I can -- however you think is --

COMMISSIONER BROWN: Well --

MS. KEATING: -- most administratively efficient.

COMMISSIONER BROWN: I think you're doing a good job. We'll do -- we'll go ahead and move the 51 prefiled testimony into the record as though read.

(Whereupon, the prefiled revised direct testimony of Witness Cassel was entered into the record of Docket No. 20180051-GU as though read.)

Before the Florida Public Service Commission

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

Direct Testimony of Michael Cassel

Date of Filing: May 31, 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 ("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 for our electric division, Docket No.

20160001-EI, and the Gas Reliability Infrastructure Program ("GRIP") Cost Recovery Factors proceeding, Docket No. 20160199-GU for FPUC and our sister company, the Florida Division of Chesapeake Utilities Corporation. 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 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 NGMC-1 (revised) and NGMC-2, which provide a summary of FPUC's natural gas proposed treatments of the impacts resulting from the 2017 Tax Act.

I. FPUC's PROPOSAL

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

A. No, FPUC 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 FPUC in this proposal?

A. The components of the 2017 Tax Act being addressed by FPUC are: 1) the federal rate change from 35% to 21%; 2) the Unprotected Deferred Tax Liability and Tax Asset; 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 FPUC, the annual tax savings amount associated with the tax rate change, based on the 2018 proforma surveillance report, is estimated to be approximately $2,181,275.

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 should be allowed to retain the annual tax benefit excluding the portion related to the GRIP, for purposes of addressing ongoing, incremental costs that have been incurred since the Company's last base rate increase. This amount is $1,141,134. This will enable the Company to earn within, or near, its allowed range until its next base rate increase while continuing to make additional investments in infrastructure. The Company does believe that the tax savings associated with GRIP investments should be returned to customers as discussed in more detail on page seven of my testimony.

Q. What are the different components to the Unprotected Deferred Tax balance and the proposed treatment?

A. FPUC has a regulatory liability and asset recorded on its balance sheet for the 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 NGMC-1 (revised) demonstrates the impact of these calculations. There are two distinct components of the Unprotected Deferred Tax balance.

The first component is a deferred tax liability associated with the acquisition adjustment. This grossed up balance is $6,518,569 and the Company requests that this be included with the net acquisition adjustment and amortized at $298,560 per year based on the remaining amortization months of the acquisition adjustment.

The second component is a net Unprotected Deferred Tax Asset and has an estimated balance of $3,072,874. The Company requests this Deferred Tax Asset be amortized over 10 years at $307,287 per year. This annual amortization detriment could be netted against the annual Protected benefit, as discussed below, and the Company requests that the net of these amounts be retained by the Company.

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

A. FPUC 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 benefit in the Protected Deferred Tax is recorded on FPUC's balance sheet as a grossed-up Deferred Regulatory Tax Liability currently estimated to be $21,955,992. 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 $844,461 per year. Exhibit NGMC-1 (revised) provides the calculation of this amount. 2018 final amounts will not be available until late 2018, as further explained by FPUC's witness Matthew Dewey. FPUC proposes retaining the estimated annual amount of $844,461 less the Unprotected Deferred Tax Amortization, as discussed above, of $307,287 for a net benefit of $537,174. 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. Is there a direct tax impact to the Company's GRIP?

A. Yes. There are two components of the tax rate change that impact GRIP. The first component is the amount of tax savings on the 2018 GRIP surcharge from the jurisdictional date. The second component is the change in the ongoing GRIP surcharge from 2019 and beyond.

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

A. For the first component, FPUC 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 $1,040,141. Exhibit NGMC-2 demonstrates this calculation. The Company proposes flowing this benefit back to customers by incorporating it as an over-recovery in the 2019 GRIP projection. This will have the effect of lowering customer GRIP surcharges by the amount of the 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 $1.2 million.

These two requests will, if approved, directly pass the benefit of the lower tax rate on GRIP related revenues created by the 2017 Tax Act back to FPUC's customers.

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

A. Yes. FPUC's proposal provides a fair and reasonable balancing of the benefits of the 2017 Tax Act. It returns many of the benefits directly to FPUC's customers and does so in a manner that will reduce customer confusion and promote bill stability by applying those tax benefits to offset other beneficial system investments that otherwise would potentially subject our customers to rate increases. FPUC's proposal eliminates the inherent confusion of mixed price signals that exist when individual components of customer bills change in opposite directions. FPUC's proposal also allows FPUC to 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 close to or within 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.

Q. Does FPUC 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, FPUC 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 FPUC.

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

A. No. FPUC'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. FPUC'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. FPUC's proposal also allows FPUC to retain a fair portion of the tax benefit arising from the 2017 Tax Act in a manner that allows the Company to earn at or within its jurisdictional range, ensuring that FPUC'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.

BY MS. KEATING:

Q And you -- are you also the same Mike Cassel that filed supplemental direct?

A Yes, I am.

Q And do you have any changes or corrections to that?

A No, I do not.

MS. KEATING: We'd also ask that his supplemental direct be entered into the record of 051.

COMMISSIONER BROWN: Seeing no objections, we'll go ahead and enter into Mr. Cassel's supplemental direct testimony into the record as though read in the 51 docket.

(Whereupon, the prefiled supplemental direct testimony of Witness Cassel was entered into the record of Docket No. 20180051-GU as though read.)

Before the Florida Public Service Commission

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

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 ("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 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 FPUC 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 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 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.

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.

BY MS. KEATING:
Q And did you also file rebuttal testimony --
A Yes.
Q -- in 051?
A Yes, I did.
Q And if I asked you those questions, would you have the same answers?
A Yes, I would.
Q Do you have any changes or corrections?
A No, I do not.
MS. KEATING: We would ask that his rebuttal testimony also be moved in, in the 051 docket.
COMMISSIONER BROWN: We will go ahead and move into the record the rebuttal testimony in -- as though read, in the 51 Docket.
(Whereupon, the prefiled rebuttal testimony of Witness Cassel was entered into the record of 200180051-GU as though read.)

Before the Florida Public Service Commission

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

Prepared Rebuttal Testimony of Michael Cassel

Date of Filing: 10/17/2018

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. Have you previously filed direct testimony in this case?

A. Yes, I have.

Q. Have you read the testimony of Ralph Smith on behalf of the Citizens of the State of Florida?

A. Yes, I have.

Q. **Are you familiar with the Reedy Creek case mentioned by Witness Smith?**

A. I was not prior to this proceeding, but have since reviewed the case.

Q. Are the facts in the Reedy Creek case the same as the facts in this docket?

A. No, there are different facts in this docket. As I understand the case, Reedy Creek was in an over earnings position, which FPUC is not. The decision also indicates that when the Commission opened the docket to review the impact of the 1978 tax changes, the Commission had stated that if the tax reduction resulted in revenue to the utilities that exceeded a fair and reasonable return upon their investment, then utilities could be required to refund these revenues to the consumers. FPUC's posture is different. Even if the entire tax benefit is retained by the Company, FPUC would not be in an over-earnings posture. Therefore, the tax changes have not resulted in a "windfall" to the utility, which is the concern upon which the Commission, and the Court, in Reedy Creek, seemed to focus.

Q. Does this conclude your rebuttal testimony?

A. Yes.

MS. KEATING: And if it would be more expeditious, I can group the other three together.

COMMISSIONER BROWN: Seeing that there's no objection, and it seems very clear the way you're doing it, you can go ahead and group them together in the 52, 53, and 54 docket.

BY MS. KEATING:

Q Mr. Cassel, did you also file revised direct testimony in Dockets 052, 053, and 054?

A Yes, I did.

Q And if I asked you all those questions again, would you have the same answers?

A Yes, I would.

Q Do you have any changes or corrections to that supp- -- that revised direct testimony?

A No, I do not.

MS. KEATING: Madam Chair --

COMMISSIONER BROWN: Yes.

MS. KEATING: -- we'd ask --

COMMISSIONER BROWN: We will go ahead -- seeing no objection from OPC, we will go ahead and move into the record the prefiled direct testimony of Mr. Cassel's in the 52, 53, and 54 docket.

(Whereupon, the prefiled revised direct testimony of Witness Cassel was entered into the record of Docket No. 20180052-GU as though read.)

Before the Florida Public Service Commission

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

Prepared 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 ("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 for our electric division, Docket No.

20160001-EI, and the Gas Reliability Infrastructure Program ("GRIP") Cost Recovery Factors proceeding, Docket No. 20160199-GU for FPUC and our sister company, the Florida Division of Chesapeake Utilities Corporation. 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-Indiantown'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 Exhibit FIMC-1 (revised), which provides a summary of FPUC-Indiantown's natural gas proposed treatments of the impacts resulting from the 2017 Tax Act.

I. FPUC-Indiantown's PROPOSAL

Q. **Is FPUC-Indiantown subject to a settlement that includes provisions addressing the 2017 Tax Act?**

A. No, FPUC-Indiantown 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 FPUC-Indiantown in this proposal?

A. The components of the 2017 Tax Act being addressed by FPUC-Indiantown 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 FPUC-Indiantown, the annual tax detriment amount associated with the tax rate change, based on the 2018 proforma surveillance report, is estimated to be approximately $54,096.

Q. How does FPUC-Indiantown 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 should be allowed to recover this annual tax detriment through the Energy Conservation Cost Recovery ("ECCR") clause for purposes of addressing ongoing, incremental costs that have been incurred since the Company's last base rate increase, which was initiated in 2003. Even with this recovery, the Company will still be operating at a loss.

Q. What are the different components to the Unprotected Deferred Tax balance and the proposed treatment?

A. FPUC-Indiantown has a regulatory liability recorded on its balance sheet for the 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 FIMC-1 (revised) demonstrates the impact of these calculations.

The Unprotected Deferred Tax Asset is an estimated balance of $6,484. The Company requests this Deferred Tax Asset be amortized over 10 years or $648 per year. This annual amortization could be netted with the annual Protected benefit, as discussed below on page 5, and the Company requests that the total of these amounts be retained by the Company.

Q. What is FPUC-Indiantown's proposed resolution for the Protected Deferred Tax savings?

A. FPUC-Indiantown 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 benefit in the Protected Deferred Tax is recorded on FPUC-Indiantown's balance sheet as a grossed-up Deferred Regulatory Tax Liability currently estimated to be $221,269. This deferred balance will be amortized using the Internal Revenue Service's prescribed methodology and is estimated to flow back over 26 years at approximately \$8,510 per year. Exhibit FIMC-1 (revised) provides the calculation of this amount. 2018 final amounts will not be available until late 2018, as further explained by FPUC-Indiantown's witness Matthew Dewey. FPUC-Indiantown proposes retaining the estimated annual amount of \$8,510 less the Unprotected Deferred Tax Amortization, as discussed above, of \$648 for a total benefit of \$7,862. 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. Is FPUC-Indiantown's proposal the best approach for your customers?

A. Yes. FPUC-Indiantown's proposal provides a fair and reasonable resolution of the impacts of the 2017 Tax Act. The annual detriment will be collected in the ECCR clause rather than increasing the Company's base rates. FPUC-Indiantown's proposal eliminates the inherent confusion of mixed price signals that exist when individual components of customer bills change in opposite directions. FPUC-Indiantown's proposal also allows FPUC-Indiantown to 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 close to or within 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. As such, our customers benefit from extended stability of our base rates.

Q. Does FPUC-Indiantown 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, FPUC-Indiantown 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 FPUC-Indiantown.

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

A. No. FPUC-Indiantown's proposed treatment of the impacts of the 2017 Tax Act benefits and detriments will not put the Company into an over-earning position.

II. SUMMARY

Q. Please summarize your testimony.

A. FPUC-Indiantown'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. FPUC-Indiantown's proposal also allows FPUC-Indiantown to retain a fair portion of the tax benefit arising from the 2017 Tax Act in a manner that allows the Company to earn at or within its jurisdictional range, ensuring that FPUC-Indiantown's customers receive the benefit of 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.

(Whereupon, the prefiled revised direct testimony of Witness Cassel was entered into the record of Docket No. 20180053-GU as though read.)

<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

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.

(Whereupon, the prefiled revised direct testimony of Witness Cassel was entered into the record of Docket No. 20180054-GU as though read.)

Before the Florida Public Service Commission

Docket No. 20180054-GU

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

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 ("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, 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 FPUC and our sister company, CFG. 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 CFG'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 CFMC-1 (revised) and CFMC-2, which provide a summary of CFG's natural gas proposed treatments of the impacts resulting from the 2017 Tax Act.

I. CFG's PROPOSAL

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

A. No, CFG 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 CFG in this proposal?

A. The components of the 2017 Tax Act being addressed by CFG are: 1) the federal rate change from 35% to 21%; 2) the Unprotected Deferred Tax Asset; 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 CFG, the annual tax savings amount associated with the tax rate change, based on the 2018 proforma surveillance report, is estimated to be approximately $954,499.

Q. How does CFG 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 should be allowed to retain the annual tax benefit excluding the portion related to the Gas Reliability Infrastructure Program ("GRIP"), for purposes of addressing ongoing, incremental costs that have been incurred since the Company's last base rate increase. This amount is $630,137. This will enable the Company to earn within, or near, its allowed range until its next base rate increase while continuing to make additional investments in infrastructure. The Company does believe that the tax savings associated with GRIP investments should be returned to customers as discussed in more detail on page seven of my testimony.

Q. What are the different components to the Unprotected Deferred Tax balance and the proposed treatment?

A. CFG has a regulatory asset recorded on its balance sheet for the 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 CFMC-1 (revised) provides these calculations.

The net Unprotected Deferred Tax Asset has an estimated balance of $1,195,541. The Company requests this Deferred Tax Asset be amortized over 10 years at $119,554 per year. This annual amortization detriment could be netted against the annual Protected benefit, as discussed below, and the Company requests that the net of these amounts be retained by the Company.

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

A. CFG 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 benefit in the Protected Deferred Tax is recorded on CFG's balance sheet as a grossed-up Deferred Regulatory Tax Liability currently estimated to be $9,609,491. This deferred balance will be amortized using the Internal Revenue Service's prescribed methodology and is estimated to flow back over 26 years at approximately $369,596 per year. Exhibit CFMC-1 (revised) provides the calculation of this amount. The 2018 Final amounts will not be available until late 2018, as further explained by CFG's witness Matthew Dewey. CFG proposes retaining the estimated annual amount of $369,596 less the Unprotected Deferred Tax Amortization, as discussed above, of $119,554 for a net benefit of $250,042. 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. Is there a direct tax impact to the Company's Gas Reliability Infrastructure Program ("GRIP")?

A. Yes. There are two components of the tax rate change that impact 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 CFG propose treating the tax impact of these two components relative to the GRIP?

A. For the first component, CFG 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 $324,362. Exhibit CFMC-2 demonstrates this calculation. The Company proposes flowing this benefit back to customers by incorporating it as an over-recovery in the 2019 GRIP projection. This will have the effect of lowering customer GRIP surcharges by the amount of the 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 $358,889.

These two requests will, if approved, directly pass the benefit of the lower tax rate on GRIP related revenues created by the 2017 Tax Act back to CFG's customers.

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

A. Yes. CFG's proposal provides a fair and reasonable balancing of the benefits of the 2017 Tax Act. It returns many of the benefits directly to CFG's customers and does so in a manner that will reduce customer confusion and promote bill stability by applying those tax benefits to offset other beneficial system investments that otherwise would potentially subject our customers to rate increases. CFG's proposal eliminates the inherent confusion of mixed price signals that exist when individual components of customer bills change in opposite directions. CFG's proposal also allows CFG to 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 close to or within 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.

Q. Does CFG 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, CFG 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 CFG.

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

A. No. CFG'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. CFG'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. CFG's proposal also allows CFG to retain a fair portion of the tax benefit arising from the 2017 Tax Act in a manner that allows the Company to earn at or within its jurisdictional range, ensuring that CFG'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.

BY MS. KEATING:

Q And Mr. Cassel, for each of those three dockets, did you also file supplemental direct testimony?

A Yes, I did.

Q And if I asked you those questions, would you have the same answers?

A Yes, I would.

Q Do you have any changes or corrections?

A No, I do not.

MS. KEATING: Madam Chair, we'd ask --

COMMISSIONER BROWN: We will go ahead and move into the record the supplemental direct testimony of Mr. Cassel's in the 52, 53 and 54 dockets.

(Whereupon, the prefiled supplemental direct testimony of Witness Cassel was entered into the record of Docket No. 20180052-GU as though read.)

Before the Florida Public Service Commission

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

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 ("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 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 FPUC and our sister company, the Florida Division of Chesapeake Utilities Corporation. 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-Indiantown 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-Indiantown 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-Indiantown 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-Indiantown 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-Indiantown 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-Indiantown 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-Indiantown 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 FPUC-Indiantown's ratepayers.

Q. If FPUC-Indiantown 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-Indiantown 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 FPUC-Indiantown's current base rates, and therefore FPUC-Indiantown 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.

(Whereupon, the prefiled supplemental direct testimony of Witness Cassel was entered into the record of Docket No. 20180053-GU as though read.)

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

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.

(Whereupon, the prefiled supplemental direct testimony of Witness Cassel was entered into the record of Docket No. 20180054-GU as though read.)

Before the Florida Public Service Commission

Docket No. 20180054-GU

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

Q. If CFG 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 CFG 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 CFG's current base rates, and therefore CFG 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.

BY MS. KEATING:

Q And last, but not least, did you also file rebuttal testimony in 02, 03 -- I mean, 052, 053, and 054?

A Yes, I did.

Q And if I asked you those questions, would you have the same answers?

A Yes, I would.

Q Do you have any changes or corrections?

A No, I do not.

MS. KEATING: Madam Chair.

COMMISSIONER BROWN: We will go ahead and move into the record the rebuttal testimony of Mr. Cassel's in the 52, 53 and 54 dockets, seeing that there are no objections.

(Whereupon, the prefiled rebuttal testimony of Witness Cassel was entered into the record of Docket No. 20180052-GU as though read.)

Before the Florida Public Service Commission

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

Prepared Rebuttal Testimony of Michael Cassel

Date of Filing: 10/17/2018

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. Have you previously filed direct testimony in this case?

A. Yes, I have.

Q. Have you read the testimony of Ralph Smith on behalf of the Citizens of the State of Florida?

A. Yes, I have.

Q. **Are you familiar with the Reedy Creek case mentioned by Witness Smith?**

A. I was not prior to this proceeding, but have since reviewed the case.

Q. Are the facts in the Reedy Creek case the same as the facts in this docket?

A. No, there are different facts in this docket. As I understand the case, Reedy Creek was in an over earnings position, which Indiantown is not. The decision also indicates that when the Commission opened the docket to review the impact of the 1978 tax changes, the Commission had stated that if the tax reduction resulted in revenue to the utilities that exceeded a fair and reasonable return upon their investment, then utilities could be required to refund these revenues to the consumers. Indiantown's posture is different. Even if the entire tax benefit is retained by the Company, Indiantown would not be in an over-earnings posture. Therefore, the tax changes have not resulted in a "windfall" to the utility, which is the concern upon which the Commission, and the Court, in Reedy Creek, seemed to focus.

Q. Does this conclude your rebuttal testimony?

A. Yes.

(Whereupon, the prefiled rebuttal testimony of Witness Cassel was entered into the record of Docket No. 20180053-GU as though read.)

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

Prepared Rebuttal Testimony of Michael Cassel

Date of Filing: 10/17/2018

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. Have you previously filed direct testimony in this case?

A. Yes, I have.

Q. Have you read the testimony of Ralph Smith on behalf of the Citizens of the State of Florida?

A. Yes, I have.

Q. **Are you familiar with the Reedy Creek case mentioned by Witness Smith?**

A. I was not before witness Smith referenced it. I have since become more familiar with the case.

Q. **Are the facts in the Reedy Creek case the same as the facts in this docket?**

A. No, there are different facts in this docket. As I understand the case, Reedy Creek was in an <u>over earnings</u> position, which Fort Meade is not. The decision also indicates that when the Commission opened the docket to review the impact of the 1978 tax changes, the Commission had stated that if the tax reduction resulted in revenue to the utilities that exceeded a fair and reasonable return upon their investment, then utilities could be required to refund these revenues to the consumers. Fort Meade's posture is different. Even if the entire tax benefit is retained by the Company, Fort Meade would not be in an over-earnings posture. Therefore, the tax changes have not resulted in a "windfall" to the utility, which is the concern upon which the Commission, and the Court, in Reedy Creek, seemed to focus.

Q. Does this conclude your rebuttal testimony?

A. Yes.

(Whereupon, the prefiled rebuttal testimony of Witness Cassel was entered into the record of Docket No. 20180054-GU as though read.)

Before the Florida Public Service Commission

Docket No. 20180054-GU

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

Prepared Rebuttal Testimony of Michael Cassel

Date of Filing: 10/17/2018

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. **Have you previously filed direct testimony in this case?**

A. Yes, I have.

Q. **Have you read the testimony of Ralph Smith on behalf of the Citizens of the State of Florida?**

A. Yes, I have.

Q. **Are you familiar with the Reedy Creek case mentioned by Witness Smith?**

A. I was not prior to this proceeding, but have since reviewed the case.

Q. **Are the facts in the Reedy Creek case the same as the facts presented in this docket?**

A. No, there are different from the facts in this docket. As I understand the case, Reedy Creek was in an <u>over earnings</u> position, which CFG is not. The decision also indicates that when the Commission opened the docket to review the impact of the 1978 tax changes, the Commission had stated that if the tax reduction resulted in revenue to the utilities that exceeded a fair and reasonable return upon their investment, then utilities could be required to refund these revenues to the consumers. CFG's posture is different. Even if the entire tax benefit is retained by the Company, CFG would not be in an over-earnings posture. Therefore, the tax changes have not resulted in a "windfall" to the utility, which is the concern upon which the Commission, and the Court, in Reedy Creek, seemed to focus.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BY MS. KEATING:

Q Mr. Cassel, in each of those dockets, did you also prepare exhibits with your testimony?

A Yes, I did.

Q In the 051 docket, did you prepare Exhibit NGMC-1 and NGMC-2?

A Yes, I did.

Q In the 052 docket, did you prepare FIMC-1?

A Yes, I did.

Q And in the 053 docket, did you prepare FTMC-1 and FTMC-2?

A Yes I did.

Q And are you also providing Exhibits CFMC-1 and CFMC-2 in the 054 docket?

A Yes, I am.

MS. KEATING: Madam Chair, we'd ask that -- these are preliminarily marked on staff's exhibit list, and we'd just ask that they remain marked.

COMMISSIONER BROWN: Yes. Noted.

BY MS. KEATING:

Q Mr. Cassel, did you prepare a summary of your testimony?

A Yes, I have.

Q If you would, please go ahead and present that.

A Thank you.

Good morning, Commissioners. My name is Mike Cassel. I am the director of regulatory affairs for Florida Public Utilities Company. I've been with the Chesapeake family of companies for over ten years and, in this particular role, for Florida Public, for about four years. And my summary today will include all four entities in Dockets 20180051, 52, 53, and 54.

Commissioners, we have reached agreement with OPC regarding the calculations of the tax benefits and detriments for our Florida business units. So, ultimately, we're here today for two requests regarding the disposition of those impacts.

We're requesting the Commission first allow the business units to retain at least some portion of the tax benefits that arise from the tax act, or TCJA, and second, to allow our smallest business units to recover the detriment from that same new law.

Each of our business units is earning below the bottom of its Commission-approved earnings range. So, retention of these proposed benefits will not push us into over-earnings; it will simply allow those units to earn at or close to the bottom of their same approved ranges, which means they'll be closer to earning the reasonable return allowed by statute.

If the companies are not allowed to retain this benefit, they'll be -- they will be put in an even-worse earnings position than they are currently. In the case of Indiantown and Fort Meade, we actually experienced a tax detriment as a result of the tax act, and we're asking the Commission for approval to recover these costs through the ECCR clause.

And recovery through this mechanism will protect these smaller entities from having their earnings driven even lower as a result of the tax act, while doing so through a mechanism that already exists and it oppose- -- as opposed to a costly rate case.

Our approach will provide two primary benefits for our ratepayers. First, its allowing the company to retain the requested portion of the tax benefits should enable us to appropriately plan for the timing of rate cases in each of the entities and, thus, that defers the significant rate-case expense and, likely, rate increases.

And second, and perhaps more importantly, it will -- it provides the companies with the ability to smooth the effects of these changes in the taxes. And it allows us to eventually, as we do come in to -- to do our rate relief and request rate relief, it allows us to put some downward pressure on the amount of any future requested increase.

In addition, with regards to our Gas Reliability Infrastructure Program, or GRIP -- as you're aware, we've got that program designed to increase the safety and reliability of our infrastructure by replacing suspect facilities with -- with suspect materials such as bare steel.

And for Chesapeake and FPU both, we're asking that we be able to flow back those benefits that have accumulated since the jurisdictional date, and do so on an annual basis.

OPC witness has suggested that letting the companies retain any portion of this tax benefit would constitute a windfall for the utilities. And this is just simply not true. He's relying on a case that involved a utility that was actually over-earning. And in that particular situation, retention of those tax savings would have put that utility into a windfall position. As I stated earlier, our utilities are not over-earning now, nor will they be over-earning if we're allowed to keep the re- -- the tax benefit that results from the tax act.

Simply put, Commissioners, our approach will prevent further erosion of the fis- -- of the utilities' financial position. It will also allow us to more appropriately time the needed -- the timing for our needed rate cases, and it will place a downward pressure on any future requests for rate increase.

As such, we think that this is not only in the best interest of our company and our ratepayers, but it's absolutely the right thing to do for them at this time, given the position of our utilities.

Thank you.

COMMISSIONER BROWN: Thank you.

MS. KEATING: I tender.

COMMISSIONER BROWN: He is tendered for cross.

Office of Public Counsel.

MS. PONDER: Thank you.

EXAMINATION

BY MS. PONDER:

Q Good morning, Mr. Cassel.

A Good morning.

Q Initially, can we agree that, for the purposes of the question today in all four dockets that the term 2017 tax act will refer to the Tax Cuts and Jobs Act of 2017?

A Yes.

Q Okay. And also, additionally, that ECCR will mean the Energy Conservation Cost Recovery Clause?

A Yes.

MS. PONDER: Excuse me, Commissioners. Also, I have exhibits to hand out.

COMMISSIONER BROWN: Great.

MS. PONDER: Would now be a good time to do that?

COMMISSIONER BROWN: Thank you, Ms. Ponder. We will have our staff help assist you, if you'd like.

So, I would ask, Ms. Ponder, when -- when actually addressing the exhibits, if you could, reference which docket, since they all have separate --

MS. PONDER: Right.

COMMISSIONER BROWN: -- exhibit lists.

MS. PONDER: Right.

COMMISSIONER BROWN: If you could, just say we're going to identify those.

MS. PONDER: Cert- -- certainly, yes.

COMMISSIONER BROWN: Thank you.

And I thank you for organizing this for us.

MS. PONDER: Sure. Sorry for the delay.

COMMISSIONER BROWN: You have the floor whenever you're ready.

MS. PONDER: Okay. Thank you.

///

BY MS. PONDER:

Q Mr. Cassel, beginning with the 51 docket, I'll be referring to Florida Public Utilities Company Gas as FPUC, if that's acceptable to you.

A Yes.

Q Okay. Thank you.

If you could, refer to your revised direct testimony at Page 4, Lines 10 through 12. You state that the annual tax savings for the company to be approximately $2,181,275; is that correct?

A That's correct, yes.

Q This annual tax savings is a direct result of the federal income tax legislation, specifically the 2017 tax act; is that correct?

A That is correct, yes.

Q So, FPUC did not do anything to generate these tax savings as a company, correct?

A That's correct.

Q You would agree that -- so, you would agree that on the -- all the tax savings were generated by the 2017 tax act.

A That's correct, yes.

Q And isn't it correct that the tax savings represent money that your ratepayers have already paid to FPUC?

A   That is true.

Q   It's essentially the ratepayers' money that we are talking about, right?

A   That is correct.

Q   On Page 4 of your revised direct, you state that: FPUC should be allowed to retain the annual tax savings.

COMMISSIONER BROWN: Do you mean -- I'm sorry for interrupting. The supplemental direct -- is -- are you ref- -- referencing that?

MS. PONDER: Yes, I'm sorry.

COMMISSIONER BROWN: Supplemental.

MS. PONDER: Correct, yeah. Uh-huh. And all the questions will be based off the supplemental --

COMMISSIONER BROWN: Thank you.

MS. PONDER: -- and revised direct.

BY MS. PONDER:

Q   You state that: FPUC should be allowed to retain the annual tax savings of the $2,181,275, as the company is not over-earning; and by retaining this tax benefit, the company will be able to address ongoing incremental costs that have been incurred since the company's last base-rate increase; is that correct?

A   Yes, that's correct.

Q   And do you agree that the current return-on-

equity range is 9.5 percent to 11.85 percent for this particular company?

A I believe that is correct, yes.

Q And you cannot point to where in your testimony that you provided calculations showing where, in the authorized earnings range, FPUC will be earning, should the Commission allow FPUC to retain its tax savings; is that correct?

A That's correct.

Q On Pages 5 and 6 of your testimony, the -- the 2017 tax act lowered the federal income tax rate to 21. And this lower federal corporate income tax rate has resulted in the company now having excess accumulated deferred income taxes. You address that --

A That's correct.

Q -- on these pages.

And again, this is money that your ratepayers have paid to the company already, to FPUC?

A Yes, that's correct.

Q I'm going to refer to these excess accumulated deferred income taxes, in short, as EADIT; is that okay?

A Yes.

Q The company has calculated the amounts of EADIT, correct?

A That's correct.

Q And the EADIT amount is included in the total tax savings of $2,181,275 that you have identified earlier.
A That is correct.
Q The EADIT amounts include EADIT for the company and an allocated amount from common operations it shares with affiliates, correct?
A That would be correct.
Q And the EADIT amount includes what are considered protected EADIT and unprotected EADIT, correct?
A That is correct, yes.
Q You testify that the company proposes to retain the estimated annual amount of protected EADIT liability amortization of $844,461 and 370- -- 7,000 -- excuse me -- $287 per year; is that correct?
A That is correct.
Q And the unprotected net asset amortization for a net benefit amount of $537,174 -- is that also correct, for the unprotected?
A That is correct.
Q An alternative treatment would be to return or flow back the annual amortization of those EADIT amounts to your customers, correct?
A That would be an alternative, yes.

Q On Page 6 of your testimony, you state that: In retaining this net benefit of $537,174, the intended goal of the 2017 tax act is met by allowing the company to continue to make capital investments while potentially delaying the need for a costly rate proceeding; is that right?

A That is correct, yes.

Q But -- can you -- you can't point to any language within the 2017 tax act suggesting that an intended goal of the act is to allow a utility to keep tax savings so as to continue making capital investments while potentially delaying the need for a costly rate proceeding?

A I would agree that that's not expressly written in that tax law, no.

Q In your rebuttal, you state that the -- you have reviewed the Reedy Creek case; is that correct?

A That's correct, yes.

Q I believe it should be the second exhibit that was handed out to you. It's the Reedy Creek case. So, I'm sorry, I -- well, let me get mine.

COMMISSIONER BROWN: Would you like to mark it, just for identification purposes? I mean, it's -- it's a PSC case, but -- or -- it's applicable. It looks like it's in -- you have it

for all the 51, 52, 53, 54 docket.

MS. PONDER: Right.

COMMISSIONER BROWN: Do you want to mark it?

MS. PONDER: That's fine. Yeah.

COMMISSIONER BROWN: Okay. So --

MS. PONDER: But, yes, I did want it entered for all four dockets. Yeah.

COMMISSIONER BROWN: Okay.

MS. PONDER: But I --

COMMISSIONER BROWN: So, at this time, we will go ahead in the 51 docket and mark it as Exhibit 17. And it is the Reedy Creek -- Reedy -- Reedy Creek case. And that is in the 51 docket -- I wish we had a master exhibit list.

In the 52 docket, we will go ahead and mark it -- unless anybody here sees a more efficient way to do this, I'm just going to go and mark it separately for each docket; is that correct?

MS. HELTON: Or we don't need to mark it at all because it's a Commission order. And we -- our practice is to officially recognize all Commission orders. And we can see, then, if we can figure out a more expedient way to --

MS. PONDER: It's -- it's --

MS. HELTON: -- to handle --

MS. PONDER: It -- excuse me. It's a Supreme Court decision.
COMMISSIONER BROWN: And she -- she indicated she would like to move it in. And that --
MS. HELTON: I'm sorry -- well, the same would go for Supreme Court decisions. The Supreme Court decision is the Supreme Court decision. And I don't think that we need to enter it into the record. If you want to have it there for a matter of convenience, obviously, there's no reason --
COMMISSIONER BROWN: We're --
MS. HELTON: Nothing --
COMMISSIONER BROWN: We're going to need to figure it out, how to do it.
MS. HELTON: Okay.
COMMISSIONER BROWN: Because there are several exhibits. So, if the -- for now, I'm going to go ahead and mark it in each docket. If staff can come up with a more efficient way to do it as we progress, please advise when we get to the next exhibit.
So, we're on the 52 docket, and we're going to mark that in the 52 docket, the Reedy case, as Exhibit 18.
Okay. We're going to move on to the 53

docket. And in that -- on that exhibit list, we're going to mark it as Exhibit 17. Again, in the 53 docket.

And then in the 54 docket, we are going to go ahead and mark it as Exhibit 18.

And I would ask staff to come up with a -- maybe a -- an easier way, if there is one, to do it while -- while the case progresses here.

(Whereupon, Exhibit No. 17 was marked for identification in Docket Nos. 20180051-GU and 20180053-GU; and Exhibit No. 18 was marked for identification in Docket Nos. 20180052-GU and 20180054-GU.)

COMMISSIONER BROWN: And Ms. Ponder, with that --

MS. PONDER: And I -- I did note -- thank you. On -- on -- just to note it, on the cover page, I notice there was an error that obviously the witness is Mike Cassel --

COMMISSIONER BROWN: Yes.

MS. PONDER: Okay.

COMMISSIONER BROWN: We have -- thank you.

Again, you have the floor whenever you're ready.

MS. PONDER: Yeah, I apologize. I was trying to be more specific in my direction to Mr. Cassel.

COMMISSIONER BROWN: Take your time.

MS. PONDER: I apologize.

BY MS. PONDER:

Q Okay. Sorry, Mr. Cassel. If I could direct you to Page 4, the bottom of Page 4. Could you read Footnote 4 in its entirety there. Again, at the bottom of Page 4, on the left-hand side.

A It appears to be the practice of utilities to pass through as an expense to the customer the payment of income taxes. In so doing, the utility collects roughly twice as much from the customers it expects to pay in income taxes.

Q So, in this case, wouldn't you agree that the Florida Supreme Court recognizes that it's a practice of utilities to pass through to customers as an expense the payment of income taxes?

A I think that would be the intention, but again, this particular case is a wholly-different set of circumstances.

Q So, do you agree that, except for cost-of-capital components, that you would have to replace, because of less-deferred taxes, these funds are basically revenue-neutral for the utility?

A I would agree with that, yes.

Q That concludes my questions for the 51 docket.
Moving to the 52 docket, can we agree, for the purposes of questions here, that I'm referring -- when I say Indiantown, that I'm referring to the Indiantown Division?
A Yes.
Q On Page 4, Line 12 of your testimony, you state the annual tax detriment amount resulting from the 2017 tax act is approximately $54,096 for Indiantown; is that correct?
A Yes, that is.
Q Also on Page 4, beginning at Line 16, you state that because Indiantown has been earning below its earnings range and is projected to continue to do so, the company should be allowed to recover this annual tax detriment through the ECCR clause; is that correct?
A That's correct, yes.
Q And again, aren't the taxes we're talking about part of base rates?
A They are.
Q And isn't it correct that the clause recovery has nothing do with ba- -- base-rate tax impact? Excuse me.
A I would agree that that's the case, but it is an available mechanism.

Q The lower federal corporate income tax rate resulted in a company now having excess accumulated deferred income taxes, or EADIT, right, as we addressed in the other docket?

A That's correct.

Q They're -- they're for Indiantown as well.

And the EADIT is calculated into the tax detriment amount of $54,096; is that correct?

A That's correct, yes.

Q On Page 6, you testified that the company proposes to retain the estimated annual amount of protected EADIT liability amortization of $8,510 -- $10, and the $648 per year unprotected EADIT net asset amortization, for a net benefit amount to be retained by the company of $7,862; is that right?

A That's correct.

Q And on Page 6, on Line 22 and 23, you state: The company will still be operating at a loss, even with the ECCR recovery; is that correct?

A That is correct, yes.

Q Are you the person who generally has signed the earnings surveillance reports for Indiantown?

A Yes, I am.

Q For the period ending December 31, 2014, you signed the report; is that correct?

A I believe I would have, yes.
Q Let me show you that --
A Okay.
Q -- that report. It should be entitled -- should be the third pack- -- bunch there in your packet, and it's marked with the yellow flag there.
COMMISSIONER BROWN: Ms. Ponder, would you do me a favor, when -- could you just bring the mic a little bit closer.
MS. PONDER: Yes, I can.
COMMISSIONER BROWN: Thank you.
So, would you like it marked at this time?
MS. PONDER: Yes, please.
COMMISSIONER BROWN: I think I have a more efficient process already. Okay. So, you're addressing, though, the 02 docket -- pardon me -- the 52 docket, but it does have 51 through 54 on here.
MS. PONDER: Correct.
COMMISSIONER BROWN: So, what I'm going to do is just go ahead and mark this quarterly earnings surveillance report for FPUC's -- was it the Indiantown Division?
MS. PONDER: Yes, it is.
COMMISSIONER BROWN: 2012 through 2018?

MS. PONDER: Yes.

COMMISSIONER BROWN: Okay. We're going to mark that in the 51 docket as Exhibit 18; in the 52 docket as Exhibit 19; in the 53 docket as Exhibit 18; and in the 54 docket as Exhibit 19.

MS. PONDER: Okay. Thank you.

COMMISSIONER BROWN: I think it's more efficient that way.

MS. PONDER: It seems to be. Yeah.

(Whereupon, Exhibit No. 18 was marked for identification in Docket Nos. 20180051-GU and 20180053-GU; and Exhibit No. 19 was marked for identification in Docket Nos. 20180052-GU and 20180054-GU.)

BY MS. PONDER:

Q Okay. Mr. Cassel -- so, if you could look at the report and -- is that your signature on this report?

A Yes, that is.

Q And could you read the verbiage that appears above, to the left of your signature, the attestation.

A Whoever knowingly makes this false statement in writing with the in- -- excuse me, it's a little blurry here -- with the intent to mislead the public in performance of its official duties shall be guilty of misdemeanor of the -- of a second degree, punishable under provided for 775.062.

Q Yeah, I believe it goes -- I know it's fuzzy print.

A It's a little hard to read.

Q So, I'll just -- subject to check, I believe it also references Section 775.083 or Section 775.084.

Indiantown did not file sworn revisions to any of the December 31 surveillance reports for the years 2013 to '17; is that correct?

A I believe that's correct, yes.

Q And you would agree that FPUC Indiantown Division does not manage the company in a haphazard way?

A I would agree with that.

Q And in fact, isn't it true that you apply a principled and rigorous set of management practices that includes budgeting, forecasting, and strategic-planning assumptions for O&M, capital, and funding needs, priorities, and objectives?

A Yes, that's true.

Q You would agree that Indiantown's authorized ROE range of -- of 10.5 to 12.5 with a mid-point of 11.5?

A I would agree with that.

Q And so, you would agree that Indiantown has been reporting earnings below its authorized range for

the past five years?

A I would agree. That's true.

Q And is it your opinion that, because of the reduction in income taxes -- taxes, that you should, today, raise the customers' rates through the ECCR even though it was the company's choice to be in its current earning position?

A I think it's a mechanism we would use the ECCR, but we're not wed to that ECCR either.

Q Again, you acknowledge that you had -- as you've already stated, you reviewed the Reedy Creek case. And -- and again, you would still agree that, except for the cost-of-capital components that you would have to replace because of less-deferred taxes, these funds are basically revenue-neutral for the utility.

A I would say, with those minor exceptions, true.

Q I'm proceeding on to the 53 docket, Fort Meade.

COMMISSIONER BROWN: Just a moment.

Commissioner Fay has a question.

COMMISSIONER FAY: Just really quick, Madam Chairman. I -- are we also going to, I guess, correct or amend these exhibits for the proper witness reference? The document that I have says

Ralph Smith on all of these. Is that something that we need to --

COMMISSIONER BROWN: Yes.

COMMISSIONER FAY: -- change?

COMMISSIONER BROWN: Ms. Ponder?

MS. PONDER: Ri- -- yes, we would like to amend that.

COMMISSIONER BROWN: So, when we get to the exhibits -- and we will make sure that the record is clear that -- that the correct witness is listed on the -- the document page, but -- thank you.

MS. PONDER: Sorry. Yeah, that was my intention when I mentioned it before. I'm sorry I didn't make that more-formal request.

COMMISSIONER FAY: No, and you did mention it. I just wanted to make sure it carried over --

MS. PONDER: No, I appreciate -- yeah.

COMMISSIONER FAY: -- to the rest of them. Thank you.

COMMISSIONER BROWN: Thank you.

So, we're on the 53 docket at this time.

BY MS. PONDER:

Q And again, I'll be refer- -- referring to the Fort Meade as the Fort Meade Division for Indiantown --

A Fine.

Q -- for this particular docket.

On Page 4 of your testimony, you address the impact of the 2017 tax act and the federal rate change from 35 percent to 21 percent. You indicate that Fort Meade has an annual tax detriment of approximately $17,929; is that correct?

A Yes, that's correct.

Q And you allege that because Fort Meade is earning below its allowable earnings range and is projected to continue to do so, the company proposes to recover the tax detriment of $17,929 via the ECCR; is that correct?

A That's correct, yes.

Q And again, aren't the taxes we're talking about part of base rates?

A They are, yes.

Q And it's correct that the clause recovery has nothing to do with the base-rate impact.

A I would agree with that.

Q Isn't it correct that the authorized earnings range for Fort Meade is between 10.0 percent and 12.0 --

A That's --

Q -- percent?

A -- correct, yes.

Q And are you generally the person who is

responsible for signing the earnings surveillance reports for Fort Meade?

A   Yes, I am.

MS. PONDER: Okay. And if you would, refer to the next -- well, I guess it might be the last one that's marked for the earnings surveillance reports for Fort Meade.

And if we could go ahead and have these marked.

COMMISSIONER BROWN: Yeah, absolutely.

Okay. So, we are looking at -- again, the witness will be changed on this to Mr. Cassel. And it does apply to all dockets. So -- and the title is -- I'll say the title first. It's quarterly earnings surveillance report for FPUC's Fort Meade Division, 2014 through 2018.

That document will be marked for identification in the 51 docket as 19; in the 52 docket as 20; in the 53 docket as 19; and in the 54 docket as 20.

MS. PONDER: Thank you.

(Whereupon, Exhibit No. 19 was marked for identification in Docket Nos. 20180051-GU and 20180053-GU; and Exhibit No. 20 was marked for identification in Docket Nos. 20180052-GU and

20180054-GU.)

(Transcript continues in sequence in Volume 2.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, ANDREA KOMARIDIS, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 6th day of December, 2018.

ANDREA KOMARIDIS
NOTARY PUBLIC
COMMISSION #GG060963
EXPIRES February 9, 2021