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September 20, 2022

**BY E-FILING**

Mr. Adam Teitzman, Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**Re: Docket No. 20220067-GU: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.**

Dear Mr. Teitzman:

Attached, for electronic filing, please find the **Rebuttal Testimony of Michael Reno**, submitted on behalf of Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.

Sincerely,

/s/Beth Keating  
Beth Keating  
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cc.(Certificate of Service)

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **REBUTTAL TESTIMONY OF**

3 **MICHAEL J. RENO, ERNST & YOUNG, LLP**

4 **ON BEHALF OF FLORIDA PUBLIC UTILITIES COMPANY AND THE FLORIDA**  
5 **DIVISION OF CHESAPEAKE UTILITIES CORPORATION**

6 **DOCKET NO. 20220067-GU**

7 September 20, 2022

8 SECTION I. INTRODUCTION

9 **Q. Please state your name and business address.**

10 A. My name is Michael Reno. I am a managing director in Ernst & Young LLP's  
11 National Energy Practice. My business address is 11011 New York Avenue, NW,  
12 Washington, District of Columbia, 20005-4213.

13 **Q. Have you previously filed direct testimony in this docket?**

14 A. Yes, I filed direct testimony on behalf of Florida Public Utilities Company (all  
15 divisions) and the Florida Division of Chesapeake Utilities Corporation, which I refer  
16 to herein jointly as either "the Companies" or "FPUC."

17 **Q. Has your employment status and job responsibilities remained the same since**  
18 **discussed in your previous testimony?**

19 A. Yes.

20 **Q. Are you providing any exhibits with your rebuttal testimony?**

1 A. No.

2 II. PURPOSE AND SUMMARY OF TESTIMONY

3 **Q. What is the purpose of your rebuttal testimony?**

4 A. The purpose of my testimony is to rebut various conclusions contained in the direct  
5 testimony of OPC's Witness Ralph Smith pertaining to his adjustment to include a  
6 "Parent Debt Adjustment" and change the interest synchronization adjustment.

7 **Q. Do Florida regulations have an adjustment for tax benefits associated with**  
8 **parent company debt?**

9 A. Yes, Rule 25-14.004, F.A.C., addresses parent company debt. This rule is intended to  
10 capture the income tax benefit associated with "double leverage". It states, "the  
11 income tax expense of a regulated company shall be adjusted to reflect the income tax  
12 expense of the parent debt that may be invested in the equity of the subsidiary. . . ."

13 **Q. Does FPUC have third-party debt?**

14 A. No, FPUC is not a borrower under any third-party debt arrangement. Instead,  
15 Chesapeake Utilities Corporation ("CUC"), the parent company of FPUC, maintains  
16 all the third-party debt. When filing a consolidated tax return of CUC and its  
17 subsidiaries (including FPUC), the tax deduction for interest expense is determined by  
18 the interest associated with the third-party debt held by the parent. As FPUC has no  
19 third-party debt, there is no tax deduction for interest expense recorded on the  
20 subsidiary's Federal income tax return.

1 **Q. Does FPUC consider the impact of parent company debt in its cost of capital**  
2 **calculation?**

3 A. Yes, while FPUC has no debt on its books and records, an allocated portion of the  
4 parent's capital structure is applied to the rate base of FPUC as illustrated in MFR G-  
5 3 page 2.

6 **Q. How is the allocation of parent company debt calculated?**

7 A. The Company takes the total projected parent company equity, long-term debt and  
8 short-term debt to arrive at a ratio for each of these components. These ratios are then  
9 applied to the total rate base supported by these components after the total rate base is  
10 adjusted to account for the amount of rate base attributable to customer deposits,  
11 deferred taxes, and regulatory tax liabilities.

12 **Q. Has the Company adjusted FPUC's income tax expense for the impact of the**  
13 **parent company debt?**

14 A. Yes, as stated before, FPUC has no third-party debt, but an allocated portion of the  
15 parent company debt is included in the utility's capital structure. The related tax  
16 benefit of interest expense associated with the allocable parent company debt is  
17 calculated on MFR G-3 page 2 and deducted from income in calculating income tax  
18 expense on MFR G-2 page 30.

19 **Q. Do you agree with Witness Smith's recommendation to adjust income taxes for**  
20 **parent debt?**

1 A. No, while Rule 25-14.004, F.A.C. contemplates an adjustment for parent company  
2 debt, FPUC was acquired with one hundred percent equity and carries no associated  
3 debt. At the time of the acquisition, the parent company absorbed FPUC's long-term  
4 debt until it was either paid off or refinanced as parent company senior debt. FPUC's  
5 short-term debt was paid off at the time of the acquisition with the parent company's  
6 short-term debt facilities. Since there is no remaining debt at the FPUC level, the  
7 interest synchronization calculation explained above (using an allocable portion of the  
8 parent company debt to capture the tax benefits associated with the debt portion of the  
9 capital structure used for rate making purposes) is appropriate. The methodology used  
10 serves to achieve the intent of the rule since any income tax benefits resulting from the  
11 parent company debt are factored into FPUC's calculated costs.

12 **Q. If Witness Smith's adjustments to rate base and Witness Garrett's adjustment to**  
13 **the debt/equity ratio are not accepted by the Commission, would Witness Smith's**  
14 **calculation on his Exhibit RCS-2, Schedule C-10 result in an adjustment to**  
15 **income tax for interest synchronization?**

16 A. No, the adjustment that Witness Smith is proposing is resulting from OPC's proposed  
17 rate base and debt/equity ratios. Without these adjustments, there would not be a  
18 corresponding interest synchronization adjustment to consider in FPUC's cost of  
19 service amounts.

20 **Q. Does this concluded your testimony?**

21 A. Yes.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing Rebuttal Testimony has been served by Electronic Mail this 20<sup>th</sup> day of September, 2022, upon the following:

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