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August 27, 2018

E-PORTAL FILING

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

Re: Docket No. 20180052 – In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Florida Public Utilities Company – Indiantown Division.

Dear Ms. Stauffer:

Attached for filing, please find the revised Direct Testimony and exhibit of Michael Cassel, the revised Direct Testimony and exhibits of Matthew Dewey, and the Supplemental Direct Testimony of Michael Cassel on behalf of FPUC-Indiantown Division.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

Kind regards,

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MEK

<u>Before the Florida Public Service Commission</u>

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.

FLORIDA PUBLIC UTILITIES COMPANY - INDIANTOWN
Computation of Gas Tax Savings
Projected 2018 Test Year

DOCKET NO.: 20180052-GU
EXHIBIT NO.: FIMC-1 - revised
Page 1 of 1

	FI	FC Allocated	Total FI	ANNUAL	
ANNUAL TAX SAVINGS FROM RATE CHANGE:					
NOI BEFORE TAX CHANGE	$ (156,494)		$ (156,494)		
NOI AFTER TAX CHANGE	$ (196,879)		$ (196,879)		
NET INCOME EFFECT OF TAX CHANGE	$ (40,385)		$ (40,385)		
GROSS UP	$ (13,711)		$ (13,711)		
PRETAX - GROSSED UP SAVINGS (EXPENSE)	$ (54,096)	$ -	$ (54,096)	$ (54,096)	
REGULATORY TAX LIABILITY:					
ESTIMATED PROTECTED GROSSED UP REG TAX LIABILITY	$ 219,605	$ 1,664	$ 221,269	$ 8,510	26 YEARS
ESTIMATED UNPROTECTED GROSSED UP REG TAX LIABILITY	$ (3,403)	$ (3,081)	$ (6,484)	$ (648)	10 YEARS
NET ESTIMATED REGULATORY TAX LIABILITY	$ 216,202	$ (1,417)	$ 214,785	$ 7,862	
TOTAL				$ (46,234)	
As Filed FIMC-1				$ (44,207)	
Difference				$ (2,027)	

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.

FLORIDA PUBLIC UTILITIES-INDIANTOWN DIVISION
Computation of Regulatory Liability (FI)

Docket No.: 20180052-GU
Exhibit No.: FIMD-1 revised

Seg 3	FERC		Code	Name	Beginning Balance See Note A	Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	12/31/2017 Balance	Allocation from Parent UnProtected NonPlant	3/31/18 NetAdjust to LT Bonus	Q1 Entries	03/31/2018 Balance
					BEFORE				AFTER						
FL		5.50%		Fed	35.00%	21.00%					21.00%				
				Blended	38.58%	25.35%					25.35%				
25AF	282	UNPP	25AF	AFUDC	$ -	$ -		$ -	$ -		$ -			$ -	$ -
25AM	283	UNNP	25AM	Customer Based Intangibles	$ (65,525)	$ 22,473			$ 22,473	$ 43,052	$ -			$ -	$ -
25BD	283	UNNP	25BD	Bad Debts	$ 756	$ (259)			$ (259)		$ 497			$ (90)	$ 407
25BN	283	UNNP	25BN.01	Short Term Bonus	$ -	$ -			$ -		$ -	$ 1,637	$ 1,158	$ -	$ 2,795
25CN	283	UNNP	25CN	Conservation	$ 3,563	$ (1,222)			$ (1,222)		$ 2,341			$ 644	$ 2,985
25DP	282	P	25DP.01	Depreciation	$ (450,908)	$ 154,647	$ 154,647		$ -	$ (28)	$ (296,289)			$ 4,448	$ (291,841)
25DP	282	P	25DP.02	Contribution in Aid of Construction	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25DP	282	UNNP	25DP.03	Cost of Removal	$ 72,370	$ (24,821)		$ (24,821)	$ -		$ 47,549			$ (80)	$ 47,469
25DP	282	P	25DP.04	Asset Gain/Loss	$ (27,113)	$ 9,299	$ 9,299		$ -		$ (17,814)			$ -	$ (17,814)
25DP	282	P	25DP.05	Adjustment for Repairs Depreciation	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25ID	283	UNNP	25ID	Reserve for Insurance Deductibles	$ (756)	$ 259			$ 259	$ (1)	$ (498)			$ 63	$ (435)
25PG	283	UNNP	25PG	Purchased Gas Cots	$ -				$ -	$ (1)	$ (1)			$ (495)	$ (496)
25RE	282	UNPP	25RE	Repairs Deduction	$ (3,620)	$ 1,242		$ 1,242	$ -	$ (1)	$ (2,379)				$ (2,379)
25RP	282	UNNP	25RP	Property Taxes	$ -	$ -			$ -		$ -			$ -	$ -
25RT	283	UNNP	25RT	Rabbi Trust					$ -		$ -	$ 1,835			$ 1,835
25SR	283	UNNP	25SR.01	SERP (Current)					$ -		$ -	$ 3,889			$ 3,889
25SD	283	UNNP	25SD	ADIT State Decoupling	$ -	$ -			$ -		$ -			$ -	$ -
25SL	283	UNNP	S_NOL_SYS	S_NOL_SYS	$ -	$ -			$ -		$ -			$ -	$ -
25SL	283	UNNP	S_NOL_SYS - 2014 -	S_NOL_SYS - 2014 - FL	$ 3,094	$ 666			$ 666	$ (3,094)	$ 666			$ -	$ 666
			Total		$ (468,139)	$ 162,284	$ 163,946	$ (23,579)	$ 21,917	$ 39,927	$ (265,928)	$ 7,361	$ 1,158	$ 4,490	$ (252,919)
					$ -	$ (1)									
				Protected Gross-up			$ 55,659				$ 55,659				$ 55,659
				UnProtected Plant Gross-up				$ (8,005)			$ (8,005)				$ (8,005)
				UnProtected NonPlant Gross-up					$ 7,441		$ 7,441	$ (1,304)	$ (205)		$ 5,932
				Unrecorded adjustment to correct grossup calulation at year end					$ 4,778		$ 4,778				$ 4,778
25TX			25TX	Tax Reform 2017 Reg Asset Gross Up			$ 55,659	$ (8,005)	$ 12,219		$ 59,873	$ (1,304)	$ (205)		$ 58,364
			Total with Gross-up				$ 219,605	$ (31,584)	$ 34,136		$ (206,055)	$ 6,057	$ 953	$ 4,490	$ (194,555)
							a	b	c						
			Excess Deferred Tax Liability before gross up												
				Excess Deferred Tax Liability - Protected			$ (163,946)								$ (163,946)
				Excess Deferred Tax Liability - Unprotected Plant			$ 23,579								$ (1,762)
				Excess Deferred Tax Liability - Unprotected Non Plant			$ (21,917)					$ (7,361)	$ (1,158)		$ (30,436)
				Excess Deferred Tax Liability - Total			$ (162,284)								$ (196,144)
									FN ADIT	G/L	$ (206,055)				$ (194,555)
									Adjust G/L 25TX		$ (0)				$ (0)
			25TX	Tax Reform 2017 Reg Asset Gross Up							$ 59,873				$ 58,364
			25TX	G/L							$ 59,873				$ 58,364
									Adjust G/L 25TX		$ (0)				$ (0)
											d				
			280R-254P	Reg Liability - Protected						a	$ (219,605)				$ (219,605)
			280R-254N	Reg Liability -UnProtected						d-b-c	$ (2,552)	$ 5,146	$ 809		$ 3,403
											$ (222,157)				$ (216,202)
				Reg Liability -UnProtected Plant							$ 31,584				$ 31,584
				Reg Liability -UnProtected Non Plant							$ (34,136)	$ 5,146	$ 809		$ (28,181)
											$ (2,552)				$ 3,403

Note A: Highlighted numbers were revised for adjustments discussed in the revised testimony and will be booked in 4th quarter 2018.

FLORIDA PUBLIC UTILITIES COMPANY
Computation of Regulatory Liability Common Division (FC)

Docket No.: 20180052-EI
Exhibit No.: FIMD-2 revised

Seg 3	FERC		Code	Name	BEFORE					AFTER					
FL		5.50%		Fed	35.00%	21.00%					21.00%				
				Blended	38.58%	25.35%					25.35%	Allocation from Parent	3/31/18		
Seg 3	FERC		Code	Name	Beginning Balance See Note A	Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	12/31/2017 Balance	UnProtected NonPlant	NetAdjust to LT Bonus	Q1 Entries	03/31/2018 Balance
2500	282	UNNP	2500	ADIT Property LT	$ 2,791	$ (957)			$ (957)		$ 1,834			$ -	$ 1,834
25BN	283	UNNP	25BN.01	Short Term Bonus	$ 646,396	$ (221,693)			$ (221,693)	$ 43	$ 424,746			$ 14,462	$ 439,208
25BN	283	UNNP	25BN.02	Long Term Bonus	$ 12,907	$ (4,427)			$ (4,427)		$ 8,480			$ -	$ 8,480
25DP	282	P	25DP.01	Depreciation	$ (888,432)	$ 304,565	$ 304,565		$ -		$ (583,867)			$ (43,664)	$ (627,531)
25DP	282	P	25DP.04	Asset Gain/Loss	$ (17,530)	$ 6,012	$ 6,012		$ -		$ (11,518)			$ (2,334)	$ (13,852)
25DP	282	P	25DP.05	Adjustment for Repairs Depreciation	$ -	$ -	$ -		$ -		$ -			$ -	$ -
25EN	283	UNNP	25EN	Environmental	$ -	$ -			$ -		$ -	$ -		$ -	$ -
25ID	283	UNNP	25ID	Reserve for Insurance Deductibles	$ (1,421)	$ 487			$ 487	$ (1)	$ (935)			$ (1)	$ (936)
25PN	283	UNNP	25PN	Pension	$ 1,281,408	$ (439,482)			$ (439,482)	$ 15	$ 841,941			$ (5,222)	$ 836,719
25PR	283	UNNP	25PR	Post Retirement Benefits	$ (3,007)	$ 1,031			$ 1,031	$ (3,550)	$ (5,526)			$ -	$ (5,526)
25PR	283	UNNP	25PR.02	Post Retirement Benefits (Non-Current)	$ (7,376)	$ 2,530			$ 2,530		$ (4,846)			$ -	$ (4,846)
25RC	283	UNNP	25RC	Rate Case	$ -	$ -			$ -		$ -			$ -	$ -
25RD	283	UNNP	25RD	Loss on Reacquired Debt	$ (397,679)	$ 136,391			$ 136,391	$ 33,873	$ (227,415)			$ 7,208	$ (220,207)
25RE	282	UNPP	25RE	Repairs Deduction	$ 6,003	$ (1,920)		$ (1,920)	$ -	$ 5	$ 4,088			$ (420)	$ 3,668
25RT	283	UNNP	25RT	Rabbi Trust					$ -		$ -				$ -
25SD	283	UNNP	25SD	ADIT State Decoupling					$ -		$ -			$ -	$ -
25SD	283	UNNP	25SD	ADIT State Decoupling	$ -	$ -			$ -		$ -			$ -	$ -
25SI	283	UNNP	25SI.01	Self Insurance (Current)	$ -	$ -			$ -		$ -			$ -	$ -
25SI	283	UNNP	25SI.02	Self Insurance (Non-Current)	$ -	$ -			$ -		$ -			$ -	$ -
25SL	283	UNNP	25SL	ADIT State NOL	$ -	$ -			$ -		$ -			$ -	$ -
25VA	283	UNNP	25VA	Vacation	$ 144,792	$ (49,659)			$ (49,659)	$ 12	$ 95,145			$ (1,613)	$ 93,532
NOL_	283	UNNP	NOL_SYS	NOL_SYS	$ -	$ -			$ -		$ -			$ -	$ -
25SL	283	UNNP	S_NOL_SYS	S_NOL_SYS	$ (253,510)	$ (54,602)			$ (54,602)	$ (3,104)	$ (311,216)			$ -	$ (311,216)
25SL	283	UNNP	S_NOL_SYS - 20	S_NOL_SYS - 2014 - FL	$ 256,614	$ 55,271			$ 55,271		$ 311,885			$ -	$ 311,885
			Total		$ 781,956	$ (266,453)	$ 310,577	$ (1,920)	$ (575,110)	$ 27,293	$ 542,796	$ -	$ -	$ (31,584)	$ 511,212
					$ -	$ -									
				Protected Gross-up			$ 105,439				$ 105,439				$ 105,439
				UnProtected Plant Gross-up				$ (652)			$ (652)				$ (652)
				UnProtected NonPlant Gross-up					$ (195,247)		$ (195,247)	$ -			$ (195,247)
				Unrecorded adjustment to correct grossup calulation at year end					$ 2,735		$ 2,735				$ 2,735
25TX			25TX	Tax Reform 2017 Reg Asset Gross Up			$ 105,439	$ (652)	$ (192,512)		$ (87,724)	$ -	$ -		$ (87,724)
			Total with Gross-up				$ 416,016	$ (2,572)	$ (767,622)		$ 455,072	$ -	$ -	$ (31,584)	$ 423,488
							a	b	c						

FLORIDA PUBLIC UTILITIES COMPANY
Computation of Regulatory Liability Common Division (FC)

Docket No.: 20180052-EI
Exhibit No.: FIMD-2 revised

				BEFORE						AFTER					
FL	5.50%		Fed	35.00%	21.00%					21.00%					
			Blended	38.58%	25.35%					25.35%	Allocation from Parent	3/31/18			
Seg 3 FERC		Code	Name	Beginning Balance See Note A	Rate Change	Protected	UnProtected Plant	UnProtected NonPlant	OTP Adj	12/31/2017 Balance	UnProtected NonPlant	NetAdjust to LT Bonus	Q1 Entries	03/31/2018 Balance
		Excess Deferred Tax Liability before gross up												
			Excess Deferred Tax Liability - Protected			$ (310,577)								$ (310,577)
			Excess Deferred Tax Liability - Unprotected Plant			$ 1,920								$ 1,920
			Excess Deferred Tax Liability - Unprotected Non Plant			$ 575,110					$ -	$ -		$ 575,110
			Excess Deferred Tax Liability - Total			$ 266,453								$ 266,453
								FN ADIT	G/L	$ 455,012				$ 423,428
								Adjust G/L 25TX		$ 59				$ 59
		25TX	Tax Reform 2017 Reg Asset Gross Up							$ (87,724)				$ (87,724)
		25TX	G/L							$ (87,725)				$ (87,725)
								Adjust G/L 25TX		$ 1				$ 1
										d				
		280R-254P	Reg Liability - Protected						a	$ (416,016)				$ (416,016)
		280R-254N	Reg Liability -UnProtected						d-b-c	$ 770,194				$ 770,194
										$ 354,178				$ 354,178
			Reg Liability -UnProtected Plant							$ 2,572				$ 2,572
			Reg Liability -UnProtected Non Plant							$ 767,622	$ -	$ -		$ 767,622
										$ 770,194				$ 770,194

Note A: Highlighted numbers were revised for adjustments discussed in the revised testimony and will be booked in 4th quarter 2018.

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.

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing revised Direct Testimony and exhibit of Michael Cassel, the revised Direct Testimony and exhibits of Matthew Dewey and the Supplemental Direct Testimony of Michael Cassel, on behalf of FPUC-Indiantown Division the referenced docket have been served by Electronic Mail this 27th day of August, 2018, upon the following:

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