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November 11, 2019
VIA E-FILING

Adam Teitzman, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Docket No. 20180013-PU; Petition to establish generic docket to investigate and adjust rates for 2018 tax savings, by Office of Public Counsel
Our Matter No. 070519

Dear Mr. Teitzman:

Pursuant to PSC Order No. PSC-2019-0397-PCO-PU, enclosed is the Prefiled Direct Testimony and Exhibits of Jared Deason filed on behalf of Utilities, Inc. of Florida.

Very truly yours,

/s/ Martin S. Friedman
MARTIN S. FRIEDMAN
For the Firm

MSF/
Enclosure

cc: Suzanne Brownless, Esquire (via email)
Charles Rehwinkel, Esquire (via email)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to establish generic docket to
investigate and adjust rates for 2018 tax
savings, by Office of Public Counsel

DOCKET NO. 20180031-PU

DIRECT TESTIMONY

OF

JARED DEASON

on behalf of

Utilities, Inc. of Florida

1 **Q. Please state your, name, profession and business address.**

2 A. My name is Jared Deason. I am the Regulatory Manager for Utilities, Inc. of Florida (UIF).
3 My business address is 200 Weathersfield Ave., Altamonte Springs, FL 32714.

4 **Q. State briefly your educational background and professional experience.**

5 A. I have a Bachelors Degree in Applied Economics from Florida State University. I have
6 approximately 10 years of experience in the utility industry, the last four years of which
7 have been with Utilities, Inc. I joined UIF in June 2015 as a Financial Analyst assigned
8 to the Florida region. I am currently employed by UIF as the Regulatory Manager. I was
9 previously employed by the Florida Public Service Commission in the years 2007 to 2011
10 as a Regulatory Analyst IV assigned to the water and wastewater section of the former
11 Division of Economic Regulation.

12 **Q. Have you ever testified before the FPSC?**

13 A. Yes, on several occasions. Most recently in UIF's recently concluded rate case.

14 **Q. On whose behalf are you presenting this testimony?**

15 A. I am presenting this testimony and appearing on behalf of UIF.

16 **Q. What is the purpose of your direct testimony?**

17 A. The purpose of my direct testimony is to explain how the tax impacts associated with the
18 Federal Tax Cuts and Jobs Act of 2017 ("TCJA") were calculated and to support UIF's
19 proposal for disposition of tax benefits related to the TCJA. In its current state, UIF is earning
20 below the bottom of its authorized rate of return range and it will be for the foreseeable future.
21 Therefore, UIF should be allowed to retain the annual tax benefit for purposes of addressing
22 ongoing, incremental costs that have been incurred since UIF's last rate proceeding. This will
23 enable UIF to continue investing in needed infrastructure improvements while earning closer
24 to its allowed return. Retaining the tax benefit will also reduce the impact associated with
25 rate increases in future rate proceedings.

1 **Q. Are you sponsoring any exhibits?**

2 A. Yes, I am sponsoring two exhibits. Exhibit JD-1 is the computation of tax savings. Exhibit
3 JD-2 is UIF's calculations of the regulatory liabilities resulting from the implementation of
4 the reduction in the federal tax rate from 35% to 21% pursuant to the TCJA.

5 **Q. Were these Exhibits prepared by you and your staff under your supervision and
6 control?**

7 A. Yes, they were.

8 **Q. In general, what provisions of the TCJA had an impact on UIF's overall revenue
9 requirement?**

10 A. The TCJA had provisions that both positively and negatively affected UIF's revenue
11 requirement. The reduction in the federal tax rate from 35% to 21% impacted both the income
12 tax expense and the accumulated deferred income tax balances. Offsetting that benefit was
13 the phase out of bonus depreciation on capital investments. Those changes roll directly
14 through to the income tax expense but also indirectly to the capital structure and thus the
15 overall rate of return that would need to be adjusted in order to determine the appropriate
16 revenue requirement.

17 **Q. What is the tax expense for the tax year 2018 at a 21 percent federal corporate tax
18 rate?**

19 A. The tax expense for the tax year 2018 at 21 percent federal corporate tax rate is \$1,890,269.

20 **Q. What is the tax expense for the tax year 2018 at a 35 percent federal corporate tax
21 rate?**

22 A. The tax expense for the tax year 2018 at 35 percent federal corporate tax rate is \$2,828,127.

23 **Q. What is the NOI for the tax year 2018 at a 21 percent federal corporate tax rate?**

24 A. The NOI for the tax year 2018 at 21 percent federal corporate tax rate is \$6,555,469.

25 **Q. What is the NOI for the tax year 2018 at a 35 percent federal corporate tax rate?**

- 1 A. The NOI for the tax year 2018 at 35 percent federal corporate tax rate is \$5,617,611.
- 2 **Q. What is the capital structure for the tax year 2018 at a 21 percent federal corporate**
3 **tax rate?**
- 4 A. The Capital Structure for the tax year 2018 at 21 percent federal corporate tax rate includes
5 Common Equity of \$52,036,843, Long Term Debt of \$52,632,403, Short Term Debt of
6 \$2,410,644, Customer Deposits of \$250,225, and Deferred Income Taxes of \$7,242,120.
- 7 **Q. What is the capital structure for the tax year 2018 at a 35 percent federal corporate**
8 **tax rate?**
- 9 A. The Capital Structure for the tax year 2018 at 35 percent federal corporate tax rate includes
10 Common Equity of \$49,291,896, Long Term Debt of \$49,856,039, Short Term Debt of
11 \$2,283,483, Customer Deposits of \$250,225, and Deferred Income Taxes of \$12,890,592.
- 12 **Q. What is the jurisdictional adjusted base revenue requirement for the tax year 2018**
13 **using a 21 percent federal corporate tax rate?**
- 14 A. The annual jurisdictional adjusted base revenue requirement for the tax year 2018 at 21
15 percent federal corporate tax rate is \$37,444,235.
- 16 **Q. What is the jurisdictional adjusted base revenue requirement for the tax year 2018**
17 **using a 35 percent federal corporate tax rate?**
- 18 A. The annual jurisdictional adjusted base revenue requirement for the tax year 2018 at 35
19 percent federal corporate tax rate is \$38,421,699.
- 20 **Q. What is the annual jurisdictional adjusted base revenue requirement increase/ decrease**
21 **due to the enactment of the Tax Cuts and Jobs Act of 2017 for the tax year 2018**
- 22 A. The annual jurisdictional adjusted base revenue requirement decrease due to the enactment
23 of the Tax Cuts and Jobs Act of 2017 for the tax year 2018 is \$977,464.
- 24 **Q. How does UIF propose this amount be addressed?**
- 25 A. UIF's authorized rate of return approved in Order No. PSC-2017-0361-FOF-WS is 7.09%

1 with a range of 6.67% to 7.51%. Additionally, it should be noted that the TCJA impacts the
2 weightings in UIF's capital structure. As previously stated above, bonus depreciation on
3 capital investments was phased out, which materially affected the accumulated deferred
4 income taxes in UIF's capital structure. Therefore, UIF's rate of return should be adjusted
5 when determining the overall TCJA impact. In 2018, UIF did not earn its authorized rate of
6 return from its last rate proceeding even at the 21% income tax rate. Further, UIF expects to
7 earn outside of the range of its authorized rate of return in the foreseeable future.

8 **Q. What is UIF's Unprotected Deferred Tax balance and the proposed treatment of that**
9 **amount?**

10 A. UIF has a regulatory liability and asset recorded on its Balance Sheet for the Unprotected
11 Deferred Tax Balance of \$360,285. UIF proposes that this Deferred Tax Asset be amortized
12 over 10 years at \$36,029 per year. Since UIF is not earning outside of the range of its
13 authorized rate of return, nor does it expect to do so in the foreseeable future UIF requests
14 that this amount be retained by UIF.

15 **Q. What is UIF's Protected Deferred Tax balance and the proposed treatment of that**
16 **amount?**

17 A. UIF has a regulatory liability recorded on its balance sheet in the amount of \$5,288,187. The
18 deferred balance will be amortized using the Internal Revenue Service prescribed
19 methodology and will flow back over 20.5 years at \$257,960 per year. Since UIF is not
20 earning outside of the range of its authorized rate of return, nor does it expect to do so in the
21 foreseeable future, UIF requests that this amount be retained by UIF. This amount will
22 provide UIF with an opportunity to earn closer to its authorized rate of return, while also
23 enabling UIF to extend service at its present rates for a longer period, invest capital, and
24 will lessen the effect of rate increases in future rate proceedings.

25 **Q. Is UIF's proposed retention of the benefits of the TCJA consistent with Commission**

1 **precedence.**

2 A. Yes, in Order No. PSC-2019-0076-OFO-GU issued February 25, 2019, the Commission
3 determined that it was fair and reasonable for it to consider the earning position of the utility
4 in addressing the results of the TCJA income tax rate reduction. Since the benefits of the
5 TCJA income tax rate reduction do not result in UIF exceeding the range of its authorized
6 rate of return UIF should retain those benefits consistent with that precedence. This amount
7 will provide UIF with an opportunity to earn closer to its authorized rate of return, while also
8 enabling UIF to extend service at its present rates for a longer period, invest capital, and will
9 lessen the effect of rate increases in future rate proceedings.

10 **Q. Even though not required in this proceeding, UIF having completed a 2015 calendar**
11 **year test year rate case, have you done any analysis of why UIF is not earning its rate of**
12 **return?**

13 A. The three-year period since the 2015 calendar year test year has seen several components of
14 UIF's Rate Base, Operating Expenses, and Revenues that have changed resulting in UIF
15 earning below its authorized rate of return. As stated above annual jurisdictional adjusted
16 base revenue requirement increase due to the enactment of the Tax Cuts and Jobs Act of 2017
17 for the tax year 2018 is \$977,464. This amount is more than offset by the changes in Rate
18 Base, Operating Expenses and Revenues. These changes include but are not limited to:

- 19 1. Increases Rate Base since 12.31.2015,
- 20 2. Increases in Depreciation Expense,
- 21 3. Increases in O&M,
- 22 4. The approximately \$6,000,000 in bonus depreciation included in UIF's last rate
23 proceeding was changed by the TCJA,
- 24 5. Actual post rate case repression of 16.3 percent, not the 12 percent as assumed by PSC
25 Order.

1 After accounting for all changes to UIF's Rate Base, Operating Expenses, and Revenues since
2 its last rate proceeding, UIF's achieved rate of return was 5.72% or approximately 137 basis
3 points or \$1,766,000 below the mid-point range of its authorized rate of return established in
4 UIF's last rate proceeding, and approximately \$2,235,000 below the upper end of the range.

5 **Q. Does that conclude your direct testimony?**

6 A. Yes

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Utilities, Inc. of Florida

DOCKET NO. 20180013-PU
Calculations of Tax Savings
Exhibit No. JD-1, Page 1 of 1

2018 Test Year

Revenue Requirement at 21% Federal Tax Rate	\$37,444,235
<u>Revenue Requirement at 35% Federal Tax Rate</u>	<u>\$38,421,699</u>
Change in Revenue Requirement	(\$977,464)
Change in Tax Rate	(\$1,380,310)
Change in RAFs	(\$43,986)
<u>Change in Capital Structure</u>	<u>\$446,832</u>
Change in Revenue Requirement	(\$977,464)

<u>Regulatory Tax Liability</u>	<u>Amount</u>	<u>Rate</u>	<u>Annual Amortization</u>
Protected Excess ADIT in Reg. Liab.	\$3,951,390	20.6	\$191,815
<u>Gross-Up Tax on Protected</u>	<u>\$1,336,797</u>	20.6	<u>\$64,893</u>
Unprotected Excess ADIT in Reg. Liab.	\$268,971	10	\$26,897
<u>Gross-Up Tax on Unprotected</u>	<u>\$91,314</u>	10	<u>\$9,131</u>
Total	\$5,648,472		\$292,737

Summary of 2018 Entries:

	<u>Provision</u>	<u>Return</u>	<u>Protected</u>	<u>Unprotected</u>	<u>Net Entry</u>
Protected Excess ADIT in Reg Liab			(7,724.00)		
Gross-Up Tax on Protected					
Unprotected Excess ADIT in Reg Liab					
Gross-Up Tax on Unprotected					
Co 102	<u>0.00</u>	<u>0.00</u>	<u>(7,724.00)</u>	<u>0.00</u>	<u>(7,724.00)</u>
Protected Excess ADIT in Reg Liab	(52,539.50)	(53,124.87)	(2,790.99)		
Gross-Up Tax on Protected	(17,836.90)	(18,035.63)	(947.53)		
Unprotected Excess ADIT in Reg Liab	(1,617.41)	(1,520.52)		96.89	
Gross-Up Tax on Unprotected	(549.10)	(516.21)		32.89	
Co 241 - Tierra Verde	<u>(72,542.91)</u>	<u>(73,197.23)</u>	<u>(3,738.52)</u>	<u>129.78</u>	<u>(3,608.74)</u>
Protected Excess ADIT in Reg Liab	(2,283.99)	(3,449.79)	1,853.62		
Gross-Up Tax on Protected	(775.40)	(1,171.19)	629.29		
Unprotected Excess ADIT in Reg Liab	(2,730.22)	(2,717.24)		12.98	
Gross-Up Tax on Unprotected	(926.90)	(922.49)		4.41	
Co 242 - Lake Placid	<u>(6,716.51)</u>	<u>(8,260.71)</u>	<u>2,482.91</u>	<u>17.39</u>	<u>2,500.30</u>
Protected Excess ADIT in Reg Liab	(236,479.17)	(234,342.96)	(34,580.57)		
Gross-Up Tax on Protected	(80,283.50)	(79,558.26)	(11,739.92)		
Unprotected Excess ADIT in Reg Liab	(9,150.17)	(9,073.61)		76.56	
Gross-Up Tax on Unprotected	(3,106.44)	(3,080.45)		25.99	
Co 246 - Longwood	<u>(329,019.28)</u>	<u>(326,055.28)</u>	<u>(46,320.49)</u>	<u>102.55</u>	<u>(46,217.94)</u>
Protected Excess ADIT in Reg Liab	(55,896.15)	(53,192.46)	(20,841.74)		
Gross-Up Tax on Protected	(18,976.46)	(18,058.58)	(7,075.68)		
Unprotected Excess ADIT in Reg Liab	(11,022.28)	(10,900.25)		122.03	
Gross-Up Tax on Unprotected	(3,742.01)	(3,700.58)		41.43	
Co 248 - Cypress Lakes	<u>(89,636.90)</u>	<u>(85,851.87)</u>	<u>(27,917.42)</u>	<u>163.46</u>	<u>(27,753.96)</u>
Protected Excess ADIT in Reg Liab	(202,073.06)	(204,444.18)	(21,238.01)		
Gross-Up Tax on Protected	(68,602.79)	(69,407.78)	(7,210.21)		
Unprotected Excess ADIT in Reg Liab	(39,862.79)	(39,745.63)		117.16	
Gross-Up Tax on Unprotected	(13,533.22)	(13,493.44)		39.78	
Co 249 - Eagle Ridge	<u>(324,071.86)</u>	<u>(327,091.03)</u>	<u>(28,448.22)</u>	<u>156.94</u>	<u>(28,291.28)</u>
Protected Excess ADIT in Reg Liab	(154,975.57)	(164,864.05)	48,324.20		
Gross-Up Tax on Protected	(52,613.43)	(55,970.52)	16,405.82		
Unprotected Excess ADIT in Reg Liab	(10,169.05)	(10,013.66)		155.39	
Gross-Up Tax on Unprotected	(3,452.34)	(3,399.59)		52.75	
Co 250 - Mid County	<u>(221,210.39)</u>	<u>(234,247.82)</u>	<u>64,730.02</u>	<u>208.14</u>	<u>64,938.16</u>
Protected Excess ADIT in Reg Liab	(1,441,571.38)	(1,473,605.13)	(257,475.05)		
Gross-Up Tax on Protected	(489,406.29)	(500,281.59)	(87,411.50)		
Unprotected Excess ADIT in Reg Liab	(29,348.14)	(16,230.56)		13,117.58	
Gross-Up Tax on Unprotected	(9,963.55)	(5,510.19)		4,453.36	
Co 251 - LUSI	<u>(1,970,289.36)</u>	<u>(1,995,627.47)</u>	<u>(344,886.55)</u>	<u>17,570.94</u>	<u>(327,315.61)</u>

Docket No. 20180013-PU
Calculations of Regulatory Liabilities
Exhibit No. JD-2, Page 2 of 3

Protected Excess ADIT in Reg Liab	(442,223.45)	(585,826.64)	144,757.16		
Gross-Up Tax on Protected	(150,132.66)	(198,885.22)	49,144.34		
Unprotected Excess ADIT in Reg Liab	(73,369.13)	(69,123.49)		4,245.64	
Gross-Up Tax on Unprotected	(24,908.45)	(23,467.08)		1,441.37	
Co 252 (includes 855) UIF	(690,633.69)	(877,302.43)	193,901.50	5,687.01	199,588.51
Protected Excess ADIT in Reg Liab	(1,117,921.51)	(1,132,451.04)	(265,454.78)		
Gross-Up Tax on Protected	(379,528.77)	(384,461.48)	(90,120.58)		
Unprotected Excess ADIT in Reg Liab	(52,362.62)	(48,207.79)		4,154.83	
Gross-Up Tax on Unprotected	(17,776.85)	(16,366.30)		1,410.55	
Co 255 Sanlando	(1,567,589.75)	(1,581,486.61)	(355,575.36)	5,565.38	(350,009.98)
Protected Excess ADIT in Reg Liab	251,006.79	226,672.76	21,184.90		
Gross-Up Tax on Protected	85,215.56	76,954.27	7,192.16		
Unprotected Excess ADIT in Reg Liab	(26,285.74)	(26,255.24)		30.50	
Gross-Up Tax on Unprotected	(8,923.88)	(8,913.52)		10.36	
Co 256 Sandalhaven	301,012.73	268,458.27	28,377.06	40.86	28,417.92
Protected Excess ADIT in Reg Liab	(11,854.77)	(12,676.99)	(12,956.65)		
Gross-Up Tax on Protected	(4,024.63)	(4,303.78)	(4,398.73)		
Unprotected Excess ADIT in Reg Liab	(13,262.48)	(12,956.34)		306.14	
Gross-Up Tax on Unprotected	(4,502.55)	(4,398.61)		103.94	
Co 259 Labrador	(33,644.43)	(34,335.72)	(17,355.38)	410.08	(16,945.30)
Protected Excess ADIT in Reg Liab	(57,076.26)	(53,904.10)	(14,498.01)		
Gross-Up Tax on Protected	(19,377.11)	(18,300.18)	(4,922.00)		
Unprotected Excess ADIT in Reg Liab	(22,354.00)	(22,226.73)		127.27	
Gross-Up Tax on Unprotected	(7,589.07)	(7,545.86)		43.21	
Co 260 Pennbrooke	(106,396.44)	(101,976.87)	(19,420.01)	170.48	(19,249.53)
Protected Excess ADIT in Reg Liab			(421,439.92)		
Gross-Up Tax on Protected			(140,454.54)		
Unprotected Excess ADIT in Reg Liab				22,562.97	
Gross-Up Tax on Unprotected				7,660.04	
UIF			(561,894.46)	30,223.01	(531,671.45)
			Protected	Unprotected	
2017 Balances					
Protected Excess ADIT in Reg Liab			(3,529,950.02)		
Gross-Up Tax on Protected			(1,196,342.38)		
Unprotected Excess ADIT in Reg Liab				(291,534.03)	
Gross-Up Tax on Unprotected				(98,974.36)	
			(4,726,292.40)	(390,508.39)	(5,116,800.79)
			Protected	Unprotected	
2018 Balance after Tru Up					
Protected Excess ADIT in Reg Liab			(3,951,389.94)		
Gross-Up Tax on Protected			(1,336,796.92)		
Unprotected Excess ADIT in Reg Liab				(268,971.06)	
Gross-Up Tax on Unprotected				(91,314.32)	
			(5,288,186.86)	(360,285.38)	(5,648,472.24)
			Protected	Unprotected	

