ORANGE AND ROCKLAND UTILITIES, INC.

INCOME TAX PANEL
UPDATE/REBUTTAL TESTIMONY – ELECTRIC & GAS

Q. Please state your names.

A. Charles Lenns, Jeffrey Kalata and Matthew Kahn.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. We previously submitted direct testimony on behalf of Orange and Rockland Utilities, Inc. ("Orange and Rockland," "O&R" or "Company") as the Income Tax Panel ("Panel").

Q. What is the purpose of the Panel's update and rebuttal testimony?

A. First, we are updating our direct testimony to reflect changes to the estimated amounts of excess deferred federal income taxes ("EDFIT") being refunded to electric and gas customers, and the estimated impact on the Company's revenue requirement as a result of the Federal Tax Cuts and Jobs Act ("2017 Tax Act") signed into law in December 2017. These updates do not reflect final excess deferred income tax balances, rather, they represent a refinement of the original estimates provided in the Panel's direct testimony. It should be noted that the Company will continue to refine these estimates, as the Company finalizes its 2017 federal income tax return in September of 2018. Second, we are responding to the testimony of Staff Witness Jerry Shang. The Panel will address Mr. Shang’s proposals related to:

- The impact of the 2017 Tax Act;
- The amortization of 2018 deferred liability associated with the 2017 Tax Act; and
- Reference to the income tax accounting for Cost of Removal (“COR”).

UPDATE

Q. Please describe the changes to the estimated impacts of the 2017 Tax Act.

A. In its direct testimony (p. 5), the Panel estimated the reduction in the Company’s income tax expense in the Rate Year (*i.e.*, calendar year 2019) as a result of the 14 % reduction in the corporate federal income tax rate (reduction from 35% to 21%).

Q. What were the Panel’s original estimated reductions in income tax expense for electric and gas services, respectively?

A. The Panel’s original estimates were a $12 million reduction for electric service and a $6 million reduction for gas service.

Q. What are the Panel’s updated estimates for these services?

A. The Panel now estimates reductions in its income tax expense in the Rate Year, as a result of the reduced federal income tax rate, of $14 million for electric service and $8 million for gas service.

Q. What is the basis for these proposed changes?

A. The estimates have been updated to reflect additional reversals of excess deferred income taxes in 2019.

Q. Is the Panel proposing to update the amount of EDFIT that it estimated as of December 31, 2017?

A. No. The Panel proposes no changes to its’ estimates of $64 million of EDFIT for electric service and $52 million of EDFIT for gas service (which are inclusive of both plant-related and non-plant-related temporary differences).

Q. Does the Panel propose any updates to the estimated reversal of EDFIT in the Rate Year?

A. Yes. The Panel proposes to reduce slightly its' original estimates of $3.3 million for electric service and $1.5 million for gas service. The Panel's updated estimates are $3.2 million for electric service and $1.3 million for gas service.

Q. What is the basis for these proposed changes?

A. The amount reversing is subject to Average Rate Assumption Method ("ARAM") rates. These amounts will be updated every time that the Company calculates its deferred taxes associated with its investment in plant. Generally, the Company updates these amounts quarterly in calculating the provision for federal income tax expense.

Q. Is the Panel proposing any other updates to its direct testimony?

A. The Panel is proposing no further updates. That said, the Staff Proposal to Address the Accounting and Ratemaking of the Tax Cuts and Jobs Act of 2017, issued in Case 17-M-0815, *Proceeding on Motion of the Commission on Changes in Law that May Affect Rates*, is currently pending. Comments are due on June 27. O&R

is not filing Company specific comments in that proceeding because the Staff Proposal states that a utility in a pending rate case does not need to make a proposal outside of its rate case. Nevertheless, a Commission order in that proceeding may have an impact on the Company’s proposals in these rate proceedings.

REBUTTAL

Q. What is the Company’s rebuttal concerning Mr. Shang’s testimony in regard to the five-year amortization of excess deferred federal income taxes resulting from the linking period (*i.e.*, 12 months ending December, 31 2018)?

A. The Company agrees with Mr. Shang’s proposal for a five-year amortization period for the excess deferred federal income taxes that have been deferred for the period January 1, 2018 through December 31, 2018.

Q. Does the Company agree with Mr. Shang’s calculations of the impact on the revenue requirement, as well as on rate base?

A. The Company agrees with Mr. Shang’s methodology in computing the impacts, however, the amounts need to be updated to agree with the formal update provided by the Company.

Q. Has the Company updated its computation of revenue requirement, as well as rate base, to reflect the five-year amortization of excess deferred federal income taxes in line with Mr. Shang's proposals?

A. Yes. The updated impact to the revenue requirement is $2.9 million for electric service, and $1.6 million for gas service. The impact on rate base is $.370 million for the electric service and $.214 for the gas service.

Q. Does the Company have any concerns regarding Mr. Shang's testimony in regard to the income tax accounting that is currently under audit in Case 18-M-0013?

A. Yes. Mr. Shang expresses concern regarding the amount of the historical error in the Company's income tax accounting for removal costs that is reflected in the revenue requirement.

Q. What is the amount included in the revenue requirement associated with the historical error in the Company's income tax accounting for removal costs?

A. There is no amount included in the revenue requirement for any historical income tax accounting for removal costs. The correction, which was approved in the Company's previous rate case, is entirely prospective, and only allows the accrual of the component of book depreciation on future removal costs in the Rate Year, and the actual incurred removal costs in the Rate Year, to flow through in the calculation of income tax expense in the Rate Year. The accrual of book depreciation on future removal costs, as well as the incurred removal costs, are not associated with any previously accounted for transactions, and therefore do not reflect any amount of historical error in accounting for removal costs in the computation of federal income tax as a component of the revenue requirement.

Q. Does this conclude your rebuttal and update testimony?

A. Yes, it does.