ORANGE AND ROCKLAND UTILITIES, INC.

ACCOUNTING PANEL – UPDATE AND REBUTTAL TESTIMONY

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I. PURPOSE OF TESTIMONY

Q. Please state your names.

A. John de la Bastide, Edlyn Misquita, Wenqi Wang, and Kyle Ryan.

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 Accounting Panel.

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

A. Our testimony addresses the following areas:

First, our testimony discusses the Company's formal updates to the revenue requirement for the twelve-months ending December 31, 2019 ("Rate Year" or "RY1"). Our testimony discusses the change in the proposed revenue requirement for the Rate Year from the Company's initial January 2018 filing ("January 2018 filing") to this June 2018 Update ("Update"). In

April 2018, the Company filed a Preliminary Update ("April Preliminary Update"). This Update testimony focuses on adjustments made since the January 2018 filing, including explaining the changes set forth in the April Preliminary Update.

Second, we respond to certain adjustments proposed by the Staff Revenue Requirement Panel and other interveners. Please note that other Company witnesses/witness panels also address certain adjustments and proposals made by the Staff Revenue Requirement Panel.

Third, we address deferral accounting and reconciliation mechanisms.

Fourth, we present updated information for RY2 and RY3 (the twelve-month periods ending December 31, 2020 and December 31, 2021, respectively) to facilitate the development of a multi-year rate plan via settlement discussions.

Lastly, in an effort to reduce the number of disputed issues in this case, this Update adopts certain adjustments proposed by the Staff Revenue Requirement Panel.

Q. Are you sponsoring any exhibits as part of the Update?

A. Yes, the Accounting Panel sponsors updates to Exhibits AP-2, AP-3, and AP-4 and submits new Exhibits AP-3 Schedule 23 to present Staff's proposed adjustments to the revenue requirement, AP-5 to include responses from Staff to Company interrogatories addressed in testimony, AP-6 to include Company responses to Staff interrogatories addressed in testimony, and AP-7 to provide the white paper for the Willow Brook Dam Enhancement project. All of these exhibits are marked "Update" or "Update and Rebuttal" and were prepared under our supervision and direction, but rely on input from other Company witnesses.

II. REVENUE REQUIREMENT UPDATE

Q. Did the April Preliminary Update indicate a change to the Rate Year revenue requirement?

A. Yes. For electric, the Company's April Preliminary Update indicated a $2.2 million increase to the

Company's requested rate relief for the Rate Year, for a total of $22.5 million. For gas, the Company's April Preliminary Update indicated a $1.7 million decrease to the Company's requested rate relief for the Rate Year, for a total of $2.7 million.

Q. Does the revenue requirement further change with this Update?

A. Yes. Comparing this Update to the April Preliminary Update, the electric revenue requirement increases by approximately $7.9 million, to a total revenue requirement increase of $30.4 million. The gas revenue requirement decreases by approximately $3.2 million, to a total revenue requirement decrease of ($0.5) million. These changes are explained in detail below.

SUMMARY OF UPDATES TO THE REVENUE REQUIREMENT

Q. Are you sponsoring an exhibit summarizing the changes to the revenue requirement from the January 2018 filing to this Update filing?

A. Yes. Exhibit AP-E3 shows the updated electric revenue requirement increase to be $30.4 million, and Exhibit

AP-G3 shows the updated gas revenue requirement decrease to be ($0.5) million.

Q. What are the major updates from the January 2018 filing?

A. The major items accounting for the increase in the electric revenue requirement from the January 2018 filing to this Update are storm charges ($8 million), environmental charges ($2 million) and lower electric sales ($4 million). Offsetting these increases are the quicker refund of excess federal income taxes ($2 million), rate base items related to net plant, non-interest bearing CWIP and deferred income taxes ($3 million), and lower property taxes ($1 million).

The major items accounting for the decrease in the gas revenue requirement from the January 2018 filing to this Update are the quicker refund of excess federal income taxes ($2 million), refunds related to R&D charges ($1 million), lower pension and OPEB costs ($1 million) and a rate base item related to deferred income taxes ($1 million). Offsetting these decreases are environmental charges ($1 million).

COMPANY UPDATES TO RATE BASE AND REVENUE REQUIREMENT

Q. Have you prepared an update of the AP-2 and AP-3 exhibits showing the updated Rate Year rate base and revenue requirement?

A. Yes. The purpose of the updated AP-2 and AP-3 exhibits is to show the development of rate base and the revenue requirement since the Company's January 2018 filing. As such, it reflects updates presented in the Company's April Preliminary Update, additional updates identified during the discovery phase of these proceedings, items identified in the January filing to be updated later in the proceeding, Staff adjustments discussed in Part II-C of this testimony and other new developments that may not have been identified during discovery or in response to Staff adjustments. The exhibits consist of the following schedules (note that certain schedule numbers are not used in this filing in order to maintain naming convention consistency with the January 2018 filing):

AP-2 Schedules

- **Page 1** compares rate base in the Company's January 2018 filing to its April Preliminary Update and this Update.
- **Page 2** compares average net plant in the Company's January 2018 filing to its April Preliminary Update and this Update.
- **Page 3** compares working capital in the Company's January 2018 filing to its April Preliminary Update and this Update.
- **Page 4** compares regulatory deferrals net of FIT in the Company's January 2018 filing to its April Preliminary Update and this Update.
- **Page 5** compares accumulated deferred tax in the Company's January 2018 filing to its April Preliminary Update and this Update.

AP-3 Schedules

- **Schedule 2, Page 1** compares the Company's January 2018 filing, its April Preliminary Update, and this Update.
- **Schedule 2, Page 2** Summarizes the Company's revised revenue requirement calculations.

- **Schedule 3** updates sales revenues.
- **Schedule 4** updates regulatory deferrals and amortizations.
- **Schedule 5** updates other operating revenues.
- **Schedule 6** updates operation and maintenance ("O&M") expenses.
- **Schedule 13** updates depreciation expenses.
- **Schedule 14** updates taxes other than income taxes.
- **Schedules 15 and 16** updates state and federal income taxes, respectively.
- **Schedule 17** updates the interest deduction.
- **Schedule 19** updates the interest coverage ratios.
- **Schedule 20** updates general inflation factors.
- **Schedule 21** provides a description of all changes made within the exhibit.
- **Schedule 22 (Electric)** provides an updated listing of labor related program changes. There were no labor related program change updates for gas since the initial filing.

- **Schedule 23** provides the listing of Staff's proposed adjustments from the Staff Revenue Requirement Panel.

Q. What results are shown on the updated AP-3 Schedule 2 exhibits?

A. In the Company's January 2018 filing, the rate of return on average rate base during the Rate Year was projected to be 5.72 percent for electric and 6.70 percent for gas before any rate relief. With the revisions made to the data, as reflected in page 2, the Company's projected rate of return is 4.84 percent for electric and 7.43 percent for gas before any rate relief.

Rate Base Adjustments and Updates (AP-E2/G2)

Q. Please describe the adjustments to Rate Base as shown within the updated AP-2 Exhibits and incorporated into the AP-3 Schedule 2 Exhibits.

A. The Company's RY1 electric rate base decreased by approximately $3.2 million from the initial filing to the April Preliminary Update and decreased an additional $0.4 million from the Preliminary Update to this Update. The Company's RY1 gas rate base decreased by approximately $3.5 million from the initial filing to the April Preliminary Update and decreased an additional $12.9 million from the Preliminary Update to this Update. Components of those changes include the following:

Line 2 – Electric/Gas Plant in Service: The Electric/Gas Plant in Service forecast was updated in the April Preliminary Update to reflect actual capital expenditures closing to plant between the end of the historic test year (*i.e.*, September 30, 2017) and December 31, 2017, as well as updates to the Company's plant projections. Also within the April Preliminary Update, there was a pension/OPEB adjustment made to the electric/gas plant in service to reflect the modified labor fringe rate as result of a new accounting standard. As described in the Company's Gas Infrastructure and Operations Panel update and rebuttal testimony, the Company now plans to construct a Prometric test center and upgrade its current Goshen Training Center, rather than lease a new training center as proposed in the January 2018 filing. These projects were incorporated into the plant model for this Update and the lease costs for the training center were removed from the Company's O&M forecasts. The Company also reflected a number of Staff Adjustments that were accepted by the Company as well as other updates to the forecast, such as AMI, Port Jervis Kolmar Temporary Transformer, and Lovett Remote Terminal Relay, which were not reflected in the April Preliminary Update. Please see the update and rebuttal testimony of the Company's Electric Infrastructure and Operations Panel and Gas Infrastructure and Operations Panel for further details of these changes.

Line 4 – Common Utility Plant (Electric/Gas Allocation): The Common Utility Plant forecast was updated in the April Preliminary Update to reflect actual capital expenditures closing to plant between the end of the historic test year (*i.e.*, September 30, 2017) and December 31, 2017, as well as updates to the Company's common plant projections. Additionally, in the January 2018 filing, with respect to common plant, only plant additions occurring January 2018 or after were allocated using the proposed common allocation split. In the April Preliminary Update and this Update, existing common plant is allocated using the proposed allocation split. Also, as discussed more fully in the 'Oracle Partnership Agreement' portion of this testimony, the Company is incorporating the net intangible asset balance related to the Oracle agreement within rate base. The Company accepted Staff's recommendation to remove the Blooming Grove Fuel Station Upgrade, CNG Vehicle Program and Appointment Scheduling System Software projects. The Company also added a new Willow Brook Dam Enhancement project within the plant model for this update. Willow Brook Dam was classified as a High Hazard Class C dam by the New York State Department of Environmental Conservation ("DEC"). The Company subsequently performed an engineering analysis of the dam in accordance with DEC requirements and this analysis identified work that is needed in order to comply with DEC requirements. The white paper for this project is included within this update at AP-7. The Company also updated the AMI forecast in this Update. Please see the update and rebuttal testimony of the Company's Customer Service and Electric Infrastructure and Operations Panels for further capital project change details.

Lines 7 and 8 – Accumulated Reserve for Depreciation: The Accumulated Reserve for Depreciation forecast was updated in the April Preliminary Update to reflect actual capital expenditures closing to plant between the end of the historic test year (*i.e.*, September 30, 2017) and December 31, 2017, as well as updates to the Company's plant projections.

Line 11 – Non-Interest Bearing CWIP: Non-interest bearing CWIP was updated in the April Preliminary Update and this Update to reflect revised CWIP projections.

Line 12 - Working Capital – Materials/Supplies, Prepayment and Cash Working Capital: The working capital calculation has been updated from the January

2018 filing for the latest working capital forecasts, including property tax prepayment forecasts, GDP escalation factor, and latest projected level of O&M expenses.

Line 13 – Unamortized Premium and Discount: Unamortized Debt Premium/Discount was updated to reflect the impact of updated financings.

Line 15 – Net Deferrals / Credits from Reconciliation Mechanisms: As discussed further within part 4 of this section of testimony, regulatory deferrals were updated to reflect actual balances as of December 2017, the Company's latest forecast of net deferrals from reconciliation mechanisms and a number of Staff Adjustments that were accepted by the Company.

Lines 17 and 18 – Accumulated Deferred State and Federal Income Taxes: Deferred taxes were updated to reflect changes in projected deferred plant balances and other deferred taxes including deferred repair allowances. The Company reclassified the Federal Benefit on State Taxes amount from the Accumulated Deferred Federal Income Taxes line item to the

Accumulated Deferred State Income Taxes line item in this Update. In addition, the Company reflected the total Accumulated Deferred State Income Taxes in this Update as the Company inadvertently included only a partial amount in prior filings.

Depreciation Adjustments and Updates (AP-E3/G3 Schedule 13)

Q. Did the Company make any changes to its proposed Depreciation rates?

A. No. As discussed in the Depreciation Panel's update and rebuttal testimony, the Company did not make any changes to the depreciation rates proposed in the January 2018 filing.

Q. Please describe the adjustments to Depreciation as shown within the updated AP-3 Schedule 13 Exhibits.

A. The adjustments are the result of the changes in plant discussed in part 1 of this section of testimony. Also, as discussed more fully in the 'Oracle Partnership Agreement' portion of this testimony, the Company is incorporating amortization and accretion related to the Oracle agreement within its forecasted depreciation.

Sales Revenue Adjustments and Updates (AP-E3/G3 Schedule 3)

Q. Please describe the adjustments to Sales Revenue as shown within the updated AP-3 Schedule 3 Exhibits.

A. In the April Preliminary Update, the increase to electric sales revenues and accompanying tax recovery revenue in RY1 reflects the correction of System Benefits Charge/Renewable Portfolio Standard ("SBC/RPS") revenues, an issue that was identified in the Company's response to Staff Interrogatory DPS-7-300 (included in Company Exhibit___ (AP-6)). A corresponding increase in O&M expense for SBC/RPS is also reflected in AP-E3 Schedule 6. In this Update, the Company updated its electric sales revenues in the Rate Year primarily to reflect the update of historic sales volumes to December 2017. Such change is further discussed in the Electric Forecasting Panel testimony. The Company also adjusted its purchased power and SBC/RPS elements of expense in O&M expense in AP-E3 Schedule 6 to align with the updated revenue projections for these items.

Regulatory Deferrals and Amortizations Adjustments and Updates (AP-E3/G3 Schedule 4)

Q. Please describe the Company's adjustments to Regulatory Deferrals and Amortizations as detailed on Schedule 4 of the updated AP-3 exhibits.

A. In the January 2018 filing, the Company projected its deferred balances and related amortizations starting with actual balances at the end of the historic year (*i.e.,* the twelve months ended September 30, 2017). The amortization of regulatory deferrals in the April Preliminary Update and this Update reflects the impact of updating the actual deferred balances at December 31, 2017 and updates to projected activity over the remainder of the linking period (*i.e.*, through December 31, 2018). For O&M items to be amortized over a multi-year period, it reflects the impact of regulatory deferral updates through RY3. In addition, the Company notes the following updates:

Lines 4 and 39 – Energy Efficiency & Energy Efficiency Unspent Funds (Electric and Gas): Within this Update, the decrease in amortization represents the Company's change in proposed recovery period of rate year Energy Efficiency ("EE") costs from 3 to 10 years, which is discussed further in the update and rebuttal testimony of the Energy Efficiency Panel. Additionally, for Electric the Company reflected the deferred unspent funds as a separate line item (Line 39) to be returned to customers over a 6-year period as recommended by Staff. In accordance with the Commission's Order Authorizing the Conclusion of Energy Efficiency Portfolio Standard, issued November 17, 2017 in Case 07-M-0548 ("November 2017 Order")the unspent funds are to be deferred in an interest bearing account at the utility's Other Customer Provided Capital Rate. Therefore, this liability balance was excluded from the Company's rate base calculation.

Line 6 – Excess FIT (Electric and Gas): The projected deferral balance as of December 2018 was updated in the April Preliminary Update to reflect the adjustments noted in the Company's response to Staff Interrogatory DPS-12-358, as shown in Staff's Exhibit__(HJS-1). An additional adjustment was made in this Update to reflect an update to projected deferral balances and to reflect the acceptance of Staff's proposal to amortize the deferral balance over a five year period.

Lines 11 and 16– MGP and Other Environmental Sites (Electric and Gas): For MGP remediation, the projected cost estimates over the linking period were updated in the April Preliminary Update and this Update as explained by the Environment, Health and Safety Panel. For Superfund sites, the projected cost estimates were updated in the April Preliminary Update, including updates identified in the Company's response to Staff Interrogatory DPS-8-315 (shown in Company Exhibit __(AP-6)). Additionally, in alignment with Staff's recommendation, this Update reflects five year amortization only of the projected deferral balances for MGP and other SIR costs as of the end of the linking period (2018). Accordingly, with respect to projected rate year costs, in this Update, the Company is reflecting the entirety of projected costs in O&M rather than deferring the costs and recovering them over five years, which is the Company's current practice in accordance with its existing rate plans and was the Company's approach in the January filing and April update. Please note that the Company is accepting Staff's recommendation for the Company to recover all of its projected rate year MGP and other SIR costs in the rate year for purposes of this proceeding in order to minimize the number of issues to resolve in this case. The Company's acceptance of Staff's recommendation does not mean that the Company agrees with all of the reasons presented by the Staff SIR Panel in support of Staff's recommendation and the Company reserves all of its rights to argue in support of amortizing these costs in a future proceeding.

Lines 15 and 17 – OPEB and Pension (Electric and Gas): The projected deferral balance as of December 2018 has been updated to reflect the impact of the latest actuarial studies issued in January and March 2018.

Line 35 – Storm Deferral (Electric): In its April Preliminary Update, the Company projected an additional deferral of approximately $24 million resulting from recent winter storms Riley and Quinn, which resulted in a projected deferral at the end of the linking period of approximately $46 million. In this update, the projected deferral is increased to approximately $59 million, primarily reflecting a refinement of the estimated deferrals from winter storms Riley and Quinn, the inclusion of an additional $16.3 million representing estimated costs incurred for Storm #4, which impacted the Company's service territory in May 2018, the application of the 2018 storm allowance against the deferral balance, and adjustments identified in the Company's responses to Staff Interrogatories DPS-43-638, DPS-44-642, 643, and 644, and DPS-51-674, as included in Staff's Exhibit__(KKA-1). Given the magnitude of this deferral, the Company proposes to mitigate the impact on rates by extending the amortization period for deferred storm costs from three to five years. Please note that this revised deferral balance does not include any proposed deferred charges related to recent winter storm Toby, for which pre-staging and mobilization costs were incurred, but ultimately did not meet the definition of a major storm. The Company plans to address this item within a separately filed petition.

Other Operating Revenues Adjustments and Updates (AP-E3/G3 Schedule 5)

Q. Please continue by explaining the adjustments and updates to Other Operating Revenues on Schedule 5 of the updated AP-3 exhibits.

A. Please refer to Schedule 5 of the updated AP-3 exhibits for a reflection of the below changes and Schedule 21 of the updated AP-3 exhibits for a listing of the changes reflected by the Company:

Line 3 – Late Payment Charges (Electric Adjustment C3): Late payment charges are calculated as a percentage of sales revenues and were adjusted in both the April Preliminary Update and this Update to reflect the changes to forecasted electric sales revenues described in item 3 of this section of testimony.

Line 4 – Pike Corning ESA/GSA (Electric Adjustment C4 and Gas Adjustment B1): Other operating revenues were increased for both electric and gas in the Company's April Preliminary Update to reflect collections under the Company's respective supply agreements with Pike County Light & Power Company, which are expected to continue into RY1.

Operation and Maintenance Expense Adjustments and Updates

Q. Please continue by explaining the adjustments and updates to O&M expenses on Schedule 6 of the updated AP-3 exhibits.

A. Please refer to Schedule 6 of the updated AP-3 exhibits for a reflection of the below changes and Schedule 21 of the updated AP-3 exhibits for a listing of the changes reflected by the Company:

General Escalation Rate (Electric Adjustment DE1 and Gas Adjustment CE1): In the Company's April Preliminary Update, which relied on actual data through December 31, 2017 and Blue Chip forecasts through February 2018, the general escalation rate from the Test Year to RY1 increased from 4.45% to 4.74%. Thereafter, the rate decreased from 2.1% to 2.0% for RY2 and RY3.

In this Update, the Company again revises the general escalation rate to reflect the most current available information, which is actual data through March 31, 2018 and the latest Blue Chip forecasts dated May 2018. This resulted in a general escalation rate of 4.79% from the Test Year to RY1. Thereafter, the rate increased to 2.1% for RY2 and RY3. Please refer to AP-E3/G3 Schedule 20 for the updated calculation.

Labor Escalation Rate: The labor escalation rate in RY1 has been increased to 5.37% in electric and 5.33% in gas to reflect the correction of a computational error identified in the Company's response to Staff Interrogatory DPS-14-399 (shown in Company Exhibit __(AP-6)). Labor escalation was modified in this Update to track to labor program changes.

Line 1 Fuel and Purchased Power (Electric Adjustment D1): In this update, fuel and purchased power forecasts were updated in conjunction with the Company’s updated revenue and volume forecasts.

Line 4 Company Labor Combined-Electric and Line 6 Gas Ops and Line 7 Gas Engineering (Electric Adjustment D4 and Gas Adjustment C6 and C7): In response to a classification refinement identified in the Company’s response to Staff Interrogatory DPS-16-429 (shown in Company Exhibit (AP-6)), the Company moved the historic expenses for cost area code 2260, Gas Technical Ops, from Gas Ops to Gas Engineering within its April Preliminary Update. Additionally, in this Update, the Company added O&M program changes for electric to reflect an electric planning engineer specializing in DSP implementation and analysis, an electric planning engineer specializing in NWA planning and analysis, and a Project Specialist position to support the Markets and Regulatory Policy group within the Utility of the Future organization. These positions are all further discussed in the

Electric Infrastructure and Operations Panel's update and rebuttal testimony.

Line 23 – Ops – Customer Operations (Electric Adjustment and Gas Adjustment C23): For the April Preliminary Update, the Company identified an instance in electric where two years' worth of charges for services provided to the Company were inadvertently recorded during the Test Year. The Company decreased RY1 expense levels within its April Preliminary Update to normalize the second year of charges. In this Update, the Company added an O&M program change for both electric and gas to reflect implementation charges for the Company's Customer Service System ("CSS") upgrade project, which is further discussed within the Customer Service Panel's update and rebuttal testimony.

Line 24 – Ops – Electric/Gas Operations and Line 25 – Ops – Engineering (Electric Adjustment D24a, 24b and D25 Gas Adjustment C24 and C25): Consistent with a classification refinement identified in the Company's response to Staff Interrogatory DPS-16-429 (shown in

Company Exhibit __(AP-6)), the Company moved program changes and historic period charges for Service Line Definition Inspections and Residential Methane Detector Program from Ops – Gas Operations to Ops – Engineering within its April Preliminary Update. In this Update, the Company added an O&M program change for electric to reflect consulting services for DSP implementation and NWA/BCA support, which is further discussed in the Electric Infrastructure and Operating Panel’s update and rebuttal testimony. The Company also added an O&M program change related to revised cost estimates for cybersecurity software, which is described within the update and rebuttal testimony of the Other Electric Initiatives Panel.

Line 27– Other Compensation (Electric Adjustment D27 and Gas Adjustment C27): Other compensation related benefits were reduced for both electric and gas within the Company’s April Preliminary Update to align with current forecasts, which are reflective of the Company stock price as of March 31, 2018. There are no changes from the April Preliminary Update in this Update.

Line 28 – Pension and OPEB costs (Electric Adjustment D28 and Gas Adjustment C28): Employee pension and OPEB costs were reduced in the Company's April Preliminary Update for electric and gas to reflect the impact of the latest actuarial studies issued in January and March 2018, which indicate lower pension/OPEB O&M costs. Costs were further reduced in this Update based on the actuarial studies received by the Company in May 2018.

Line 29 – Amortization of Energy Efficiency (Electric Adjustment D29 and Gas Adjustment C29): Decrease recorded in the Company's April Preliminary Update reflects an update of projected unspent funds at the end of the linking period. In this Update, the decrease represents the Company's change in proposed recovery period of rate year EE costs net of deferred unspent funds from 3 to 10 years, which is discussed further in the update and rebuttal testimony of the Energy Efficiency Panel.

Line 30 – Amortization of Monsey (Electric Adjustment D30): Increase recorded in the Company's April Preliminary Update and this Update reflects an update of projected spending on the Monsey project over the linking period and RY1. The update in projected spend is explained in further detail in the update and rebuttal testimony of the Company's Electric Infrastructure and Operations Panel.

Line 31 – MGP/Superfund (Electric Adjustment D31 and Gas Adjustment C31): Decrease recorded in the Company's April Preliminary Update reflects an update of projected environmental site investigation and remediation costs over the linking period and RY1. Additionally, in this Update, the Company made an adjustment to reflect the full rate year allowance within O&M rather than deferring and amortizing rate year costs over five years as was done in the January 2018 filing and April Preliminary Update.

Line 32 – Amortization of REV Demo (Electric Adjustment D32): Increase recorded in the Company's April Preliminary Update reflects an update of projected spending on REV Demo projects over the linking period and RY1.

Line 36 - Regulatory Commission Expenses - General and R&D (Electric Adjustment D36 and Gas Adjustment C36): Regulatory Commission expense increased for electric and gas in the Company's April Preliminary Update to reflect revised projections based on the latest assessment billed by the Commission.

Line 37 and Line 41 – Renewable Portfolio Charges and System Benefit Charge (Electric Adjustment D37a and b and D41a and b): These expenses were increased in the Company's April Preliminary Update to align with the increase in SBC/RPS revenues discussed above and in the Company's response to Staff Interrogatory DPS-7-300 (shown in Company Exhibit __AP-6)). In this update, expenses were further adjusted to align with the Company's revised revenue forecast.

Line 39 – Research and Development (Gas Adjustment C39): The decrease reflected in the Company's April Preliminary Update represents the normalization of Test Year Millennium program charges that are being recovered through a surcharge. There are no changes from the April Preliminary Update in this Update.

Line 40 – Storm Allowance (Electric Adjustment D40):

The Company is proposing to increase its storm allowance in order to build a more adequate reserve in anticipation of future storms, including storms of the magnitude of recent winter storms Riley and Quinn and the May storm that affected the Company's service territory. In its April Preliminary Update, the Company calculated its proposed allowance before inflation adjustment by increasing the current rate allowance of $3.851 million by 50%.

Line 42 - Uncollectible Reserve – Customer (Electric Adjustment D42a-42d and Gas Adjustment D42a and D42b):

Customer uncollectible expense was decreased in the Company's April Preliminary Update to reflect the impact of the Company's write-off experience for the twelve months ended February 2018 (adjustment #42a) and was also updated to reflect changes in the Company's proposed rate adjustment (adjustment #42b). As part of this Update, uncollectible expense is revised to reflect an updated uncollectible factor of $0.42/$100 based on write-off experience over the twelve months ended April 2018 (adjustments #42c&d).

Line 44 – Worker's Comp NYS Assessment (Electric Adjustment D44 and Gas Adjustment C44): The increase included in the Company’s April Preliminary Update reflects the correction of allocation methodology in the Company’s forecasts as identified in the Company’s response to Staff Interrogatory DPS-23-534 (shown in Company Exhibit __(AP-6)). There are no changes from the April Preliminary Update in this Update.

Line 46 – Fringe Benefit Adjustment (Electric Adjustment D46a and b and Gas Adjustment C46): The increase included in the Company’s April Preliminary Update reflects the removal of a manual adjustment to the fringe benefit adjustment calculation that was included in the January 2018 filing. In this Update, the Company made an adjustment to apply the fringe benefit adjustment to the program changes made to company labor.

Taxes Other than Income Taxes Adjustments and Updates

Q. Please describe your adjustments to Taxes Other than Income Taxes.

A. In the Company's April Preliminary Update, forecasted rate year property taxes decreased for both electric and gas on account of revised property tax forecasts reflective of property tax assessments received since the January 2018 filing. Refer to the Company's Property Tax Panel for additional detail regarding these changes.

Payroll taxes have been updated in both the April Preliminary Update and this Update to reflect updated labor expense projections. Additionally, this Update corrects a formula error in the calculation of payroll taxes that was identified in the Company's response to Staff Interrogatory DPS-52-676, as shown in Staff's Exhibit__(MON-1).

Revenue taxes were updated in both the April Preliminary Update and this Update to reflect changes in the Company's electric revenue forecast.

Income Tax Adjustments and Updates

Q. Please describe your adjustments to Income Taxes.

A. The Company made all necessary adjustments to flow-through and normalize items in order to reflect updates to its Federal and State income taxes. Additionally, within this Update, the Company corrected a formula error found in Exhibit AP-E3 Schedule 16 of the April Preliminary Update related to the federal deduction for state income taxes as identified in the Company's response to Staff Interrogatory DPS-44-647, as shown in Staff's Exhibit__(HJS-1).

Rate of Return Adjustments and Updates

Q. Were updates made to the cost of capital schedules used in determining the electric and gas revenue requirements in the April Preliminary Update and this Update?

A. Yes, please refer to the update and rebuttal testimony of the Cost of Capital Panel for an explanation of the equity and cost of capital updates. Exhibit YS-2 was updated to reflect the latest interest rates and amounts for new bond issuances. As a result of the updates, the cost rate for debt decreased to 5.21%, 5.22%, and 5.23% for RY1, RY2, and RY3, respectively. The Company's April 2018 rate filing contained rates of 5.24%, 5.25%, and 5.26% for RY1, RY2, and RY3. The rate of return for RY1, RY2, and RY3 decreased from 7.36%, 7.37%, and 7.38% in the Company's April Preliminary Update to 7.35%, 7.36%, and 7.37% in this Update.

STAFF ADJUSTMENTS ACCEPTED BY COMPANY

Q. Does the Company's calculation of the revenue requirement with this Update include the effects of any adjustments proposed by the Staff Revenue Requirement Panel and other Staff witnesses?

A. Yes, there are a number of proposals, updates, and adjustments that have been identified by Staff that the Company accepts. These items are contained in the Staff Revenue Requirement Panel's Exhibit SRRP-1, Schedule 11 (Electric) and Exhibit SAP-2, Schedule 11 (Gas). Those exhibits each consist of two pages of adjustments. Since it has been Staff's practice to update that schedule at the time of hearings, we are adopting the Staff Revenue Requirement Panel's Exhibit SRRP-1, Schedule 11 (Electric) and Exhibit SRRP-2, Schedule 11 (Gas) as our Exhibits AP-23 in order to avoid any confusion as to the origin of numbers in the record.

Q. To the extent the Company does not specifically contest an adjustment and/or position proposed by Staff or any of the interveners in this proceeding, would it be reasonable to interpret the Company's silence as acceptance of any such adjustment(s) and/or position(s)?

A. No, it would not. The only adjustment(s) and/or position(s) the Company accepts are those explicitly set forth in this update and rebuttal testimony and/or the update and rebuttal testimony of other Company witnesses. The Company either opposes or is further considering all other proposed adjustment(s) and/or position(s).

The Company agrees with Staff that certain tracking adjustments are necessary (*i.e.*, staff adjustment 2a electric for late payment charges, 3j electric for uncollectible expense, 5a electric and 3b gas for depreciation expenses for plant in service, 7 electric and 6 gas for state income taxes, and a number of adjustments within 9 electric and 8 gas related to rate base). In certain instances, however, the Company disagrees with one or more underlying Staff adjustments that the tracking calculations are based on. When the proposed Staff adjustments at issue are resolved, the aforementioned tracking adjustments should be updated as necessary and reflected in the final revenue requirement calculations.

1. Operations and Maintenance Expenses

With regard to O&M Expenses, the Company accepts the following adjustments:

Electric:

- 3d to reflect Staff's adjustment to the Company's Facilities Expense. We accept Staff's adjustment in order to reduce the number of issues to resolve in this proceeding. However, the Company's acceptance of this adjustment should not be interpreted as the Company agreeing with Staff testimony on this issue. Accordingly, the Company reserves all of its rights to propose a Facilities Expense in its next rate filing based, for example, on other than a five-year average.

- 3e to reflect Staff's imputed savings associated with the Oracle partnership. In addition to the O&M savings, the Company is also making adjustments to its rate base and depreciation/amortization levels in this filing reflective of the final terms of the agreement, which are further discussed in sections II.B.1 and II.B.2 of this testimony.
- 3g to reflect partial acceptance of Staff's adjustment associated with amortization of EEPS liability of unspent funds over a 6-year period. Note that the Company does not agree with all the elements of Staff's adjustment which will be addressed in rebuttal testimony of the Energy Efficiency Panel.

- 3i – 2 to reflect Staff's recommendation to increase MGP rate year allowance for full amount of forecasted spending. Note that the Company applied Staff's recommended methodology to the Company's updated spending forecasts, so the amount of the adjustment made by the Company does not agree to the amount on Staff's adjustment schedule.
- 3i – 3 to reflect the reduction in the forecasted MGP rate year spending. Note that the Company further refined its projected spending in the rate year, so the amount of the adjustment made by the Company does not agree to the amount on Staff's adjustment schedule.

Gas:

- 2b to reflect Staff's adjustment to the Company's Facilities Expense. We accept Staff's adjustment in order to reduce the number of issues to resolve in this proceeding. However, the Company's acceptance of this adjustment should not be interpreted as the

Company agreeing with Staff testimony on this issue. Accordingly, the Company reserves all of its rights to propose a Facilities Expense in its next rate filing based, for example, on other than a five-year average.

- 2c to reflect Staff's imputed savings associated with the Oracle partnership. In addition to the O&M savings, the Company is also making adjustments to its rate base and depreciation/amortization levels in this filing reflective of the final terms of the agreement, which are further discussed in sections II.B.1 and II.B.2 of this testimony.

2. Regulatory Amortizations and Deferrals

With regard to Regulatory Amortizations and Deferrals, the Company accepts the following adjustments:

<u>Electric and Gas:</u>

- Electric and gas adjustment 4a to reflect Staff's proposed amortization of 2018 regulatory deferrals related to income tax reform.

Gas only:

- 4b to reflect Staff's adjustment related to R&D Expense amortization.

3. Taxes

With regard to Taxes, the Company accepts the following adjustments:

Electric and Gas:

- Electric adjustment 6b to reflect Staff's identification of a spreadsheet error in its payroll tax calculation. Note that the Company and Staff have also discussed gas adjustment 5b and have determined that this payroll tax adjustment was not necessary; as such, the Company has not addressed it in this Update. Also note that the Company has made further adjustments to its forecasted labor in the Rate Year and has made tracking adjustments to payroll taxes accordingly.
- Electric adjustments 8a-8f and gas adjustments 7a-7f reflecting a change in presentation of flow-through depreciation items. Note that as

a result of other changes made in this Update, the Company has made further adjustments to its forecasted flow-through depreciation items.

- Electric adjustment 8g to reflect Staff's identification of a spreadsheet error in its state tax deduction for federal taxes. Note that as a result of other changes made in this Update, the Company has made further adjustments to its forecasted state income taxes in the Rate Year and has made tracking adjustments to the state deduction for federal taxes accordingly.

III. REBUTTAL TESTIMONY

A. REBUTTAL – SALES REVENUES (electric 1, 3a and gas 1)

Q. Does the Company agree with Staff's forecasted sales revenues and associated purchased power expenses?

A. As discussed in the update and rebuttal testimony of the Company's Electric and Gas Forecasting Panels, the

Company contests Staff's sales and volume forecasts for each service.

B. REBUTTAL – OPERATION AND MAINTENANCE EXPENSE

1. Company Labor (electric 3b)

Q. Does the Company agree with Staff's adjustment to disallow the Company's proposed energy efficiency FTE to manage its Upstream Lighting Program and Energy Efficiency Provider Solicitation Program?

A. As discussed in the update and rebuttal testimony of the Company's Energy Efficiency Panel, the Company contests Staff's proposed disallowance.

Employee Welfare Expense (electric 3c and gas 2a)

Q. Does the Company agree with Staff's adjustment to modify the Company's proposed Employee Welfare Expense by escalating using the GDP deflator rather than a health/life specific escalation factor?

A. As discussed in the update and rebuttal testimony of the Company's Compensation and Benefits Panel, the Company contests Staff's proposed adjustment.

Ops – Corporate and Shared Services (gas 2d)

Q. Does the Company agree with Staff's adjustment to remove training facility lease costs of $300,000?

A. As discussed in the update and rebuttal testimony of the Company's Gas Infrastructure and Operations Panel, the Company partially rejects Staff's proposed adjustment by reducing the adjustment to $275,000.

Ops – Electric and Gas Operations (electric 3f and gas 2e)

Q. Is the Company in agreement with Staff's positions related to the reduction to electric transmission vegetation maintenance, normalization of gas leak repair expenses and the removal of funds for the Residential Methane Detector Rebate program?

A. No. Further discussion of the Company's rejection of Staff's positions are included in the update and rebuttal testimony of the Company's Electric Infrastructure and Operations Panel with respect to vegetation maintenance and the update and rebuttal testimony of the Company's Gas Infrastructure and Operations Panel for the gas leak repair (related to blasting operations for the installation of a new sewer in Sloatsburg) and methane detector rebate program.

Ops - Engineering (gas 2f)

Q. Is the Company rebutting Staff's gas adjustments related to Ops – Engineering?

A. Yes. Refer to the update and rebuttal testimony of the Company's Gas Infrastructure and Operations Panel for the Company's rebuttal of the normalization of system maintenance and monitoring expenses (related to blasting operations for the installation of a new sewer in Sloatsburg). The Gas Infrastructure and Operations Panel is also rebutting Staff's proposed adjustments related to the use of consultants to perform Pipeline Integrity & Risk Consulting and Work Procedure & Standards enhancements.

Energy Efficiency (electric 3g and gas 2g)

Q. Does the Company agree with Staff's adjustment to recover the entirety of EE expenses in the year they are incurred rather than recovering those costs over a period of multiple years?

A. No. Additionally, in the Company's initial filing, the Company proposed base rate recovery over three years. However, after additional consideration prompted by Staff's recommendation, the Company believes that EE expenditures are more appropriately treated as ten year regulatory assets. Further discussion of the Company's proposal for ten year recovery of EE expenditures can be found in the update and rebuttal testimony of the Energy Efficiency Panel.

RCA – Amortization of Monsey (electric 3h)

Q. Is the Company rebutting Staff's proposal to remove costs related to the Monsey Non-Wire Alternative ("NWA") project from base rates?

A. Yes; refer to the update and rebuttal testimony of the Company's Electric Infrastructure and Operations Panel for further discussion.

RCA – Amortization of MGP and Other Environmental Costs (electric 3i and gas 2h)

Q. What is the Company's position with regards to Staff's adjustment to MGP/Superfund deferral amortizations?

A. Staff made three adjustments associated with MGP/Superfund amortizations. The Company opposes the first adjustment pertaining to the reduction of MGP deferral amortization related to the Traveler's insurance claim of $2.035 million for electric and $1.005 million for gas. Please see the update and rebuttal testimony of the Company's Insurance Litigation Panel for a discussion supporting the Company's position.

Regarding the second adjustment, as noted earlier in this testimony, the Company accepts Staff's recommendation to expense rate year MGP/Superfund costs in the year such costs are incurred.

The third adjustment reflects Staff's reduction of forecasted MGP rate year allowance. The Company has refined its projected spending in the rate year, so the amount of the adjustment made by the Company does not agree with the amount on Staff's adjustment schedule.

Productivity Adjustments (electric 3k and gas 2j)

Q. Staff witness O'Neil recommends that the Company apply a 1% productivity adjustment to its pension, other post-employment benefits ("OPEB"), and welfare expenses in addition to labor expenses and payroll taxes. Does the Company agree with this recommendation?

A. No. As noted in the Compensation and Benefits Panel testimony, the Company's forecasted health care expenses already reflect the Company's ongoing cost containment. In addition, the Company's changing plan designs, level of employee contributions toward health care coverage and lower cost providers made available to employees have all helped to mitigate healthcare cost increases.

Q. Do you also take issue with the methodology applied by Mr. O'Neil to calculate the productivity savings?

A. Yes, we do. Notably, the calculation by Mr. O'Neil applies the productivity adjustment to the Company's forecasted pension, OPEB, and welfare costs. However, the manner in which the Company develops its forecasts already implicitly embeds a productivity adjustment. As noted in the Company's Compensation and Benefits Panel testimony in the initial filing, among other factors, the Company relies heavily on historical trends when projecting future growth in its benefits expenses. To the extent that Mr. O'Neil's assertion is correct that there is a direct correlation between labor expenses and pension, OPEB, and welfare expenses, and assuming that the Company has achieved its labor productivity targets during the historical years being reviewed, then productivity is already reflected through lower trend rates, which leads to lower forecasts in the rate year.

Q. Would the same logic apply to labor?

A. No. In the case of labor, the Company escalates costs solely off of the historical test year, in which case the Company must apply a productivity adjustment to reflect projected savings.

Q. What is your recommendation?

A. The Commission should adopt the Company's proposal to only apply a productivity adjustment to the projected costs associated with labor expenses and payroll taxes.

BCO Program

Q. Staff witness Allison Manz recommends that the Company's Rate Year forecast of departmental O&M be reduced to the 2017 level to reflect estimated savings from the Business Cost Optimization (BCO) Program. Does the Company agree with this recommendation?

A. No, we do not.

Q. What is the basis for Ms. Manz's recommendation?

A. Ms. Manz's recommendation is based on material provided by the Company relating to its retention of an outside consultant to assist the Company in identifying cost savings for the short, medium and long-term. These materials indicate the savings that the Company will seek to achieve through programs developed as a result of the work with this consultant. Although the Company clearly identified these estimated savings as aspirational, Ms. Manz recommends that the Commission assume the gross, Company-wide savings target will be achieved and should therefore be reflected in the revenue requirements established for the Rate year.

Q. Why do you say the estimated savings are aspirational in nature?

A. The basis for the estimated savings are programs that once developed would, for example, enable the Company to right size resourcing across key functions and redesign work plan design schedule processes. However, no specific implementation plans have been developed to date.

Q. Why does Ms. Manz recommend that these gross estimated savings be reflected in the revenue requirements?

A. Ms. Manz says (at 5-6) they should be reflected because the Company set these savings as goals and committed to achieve them.

Q. Should a savings goal be the basis for setting revenue requirements for the Rate Year?

A. Not unless the goal is based on a specific program(s) and implementation plans that the Company has evaluated and determined is in customers’ best interest to implement, after taking into consideration, among other factors, the time and resources reasonably required by the department(s) charged with implementing the program(s).

Q. Ms. Manz states that the estimated savings from the BCO initiative should be additive to the 1% productivity adjustment that the Company reflected in its revenue requirements. Do you agree?

A. No, we do not. While the Company understands that Commission-approved rate plans often reflect a 1% productivity adjustment plus projected savings from specific programs that have been identified as realizable, the BCO effort has yet to develop specific implementation plans that demonstrate the feasibility of achieving the BCO goal.

Q. Has O&R reflected in its revenue requirements estimated O&M savings from specific programs for which there are implementations plans during the Rate Year in addition to the 1% productivity adjustment?

A. Yes. The rate filings include a reduction of 12 meter readers effective January 2019 at an aggregate annual salary of $660,000. The Electric allocation is

57% for a total of approximately $375,000 and the Gas allocation is 24.5% for a total of approximately $162,000, with the remaining reduction attributable to Rockland Electric.

Unlike this program, the BCO target of flat O&M is thus far an aspirational target. To impute this additional BCO aspirational target in the Company's Rate Year revenue requirements without any evidence of reasonably achievable savings would be tantamount to applying to O&R a productivity adjustment greater than the 1% generally applied to all other utilities without any evidentiary basis for doing so.

Q. Ms. Manz says that decisions in Central Hudson and Niagara Mohawk rate cases support her recommendation. Do you agree?

A. We do not.

Q. Please explain why.

A. In Central Hudson, the Commission states (Order, p.5) that "the company's calculation of rate year expenses does not specifically identify the savings likely to result from identified changes in work practices" and "there is room for substantial improvement in the efficiency of the company's labor force through reductions in "shop time" accruals or through other means".

In Niagara Mohawk, the Commission increased the 1% to impute savings associated with a number of programs and initiatives that Niagara Mohawk had already implemented.

These cases are not analogous to O&R's BCO initiative. In Central Hudson and Niagara Mohawk, the Commission determined that the utilities failed to reflect the savings associated with specific programs and changes in work practices. O&R has reflected in its revenue requirements in this case estimated savings from a specific program that it has identified and plans to implement in addition to the 1% productivity adjustment. BCO is something different. As explained above, BCO is an aspirational target that has not yet led to the type of specific implementation plans that reasonably can be expected to generate savings.

Q. Do you have any additional comments on this matter?

A. Yes. Capturing prematurely and without an evidentiary basis savings based solely on a utility's good faith efforts to aspire to achieving greater cost reductions for customers would be unreasonable and would also serve to discourage such efforts to the detriment of customers. Accordingly, the Commission should reject Ms. Manz's recommendation.

C. REBUTTAL – DEPRECIATION

Q. What is Company's position with regard to Staff's adjustments on depreciation (staff adjustments 5b for electric and 3a for gas)?

A. As explained in the update and rebuttal testimony of the Company's Depreciation Panel, the Company contests Staff's recommendations.

D. REBUTTAL – TAXES

1. Taxes Other Than Income Taxes – Property Taxes

Q. What is the Company's position with regards to Staff's adjustments on Taxes Other than Income Taxes (staff adjustment 6a for electric and staff adjustment 5a for gas)?

A. As explained in the update and rebuttal testimony of the Company's Property Tax Panel, the Company contests Staff's recommendations.

Federal Income Tax – R&D Tax Credit

Q. Do you agree with Staff witness Adkins proposal to impute a federal income tax credit of $133,000 for electric and $65,000 for gas to reflect the R&D Tax Credits?

A. We agree with the proposal to impute a federal income tax credit to reflect the R&D Tax Credits, however, we disagree with the amounts imputed.

Q. Please explain.

A. Ms. Adkins calculated the imputed amounts based on a six year average including five years of actual data and one year of estimated datum. The Company believes that five years of actual data are sufficient to calculate an estimate for the Rate Year. Ms. Adkins provides no rationale for also using estimated data for 2017 to compute the estimate for the Rate Year. Moreover, the nature of the actual data for 2012-2016 is different from the data for 2017. That is, the

2012-2016 data reflects a settlement with the IRS while the estimated amount that Ms. Adkins is using for 2017 is the tax credit that the Company is seeking. Staff Exhibit__(KKA-1), Page 77 of 93 presents a Company interrogatory response that demonstrates that in a prior year, the Company has had to make concessions in the amount it seeks in order to close IRS tax audits.

Q. What amount does the Company propose to impute as a federal tax credit?

A. Based on a five year average of actual R&D Tax Credits, the Company proposes to impute a federal income tax credit of $94,000 for electric and $47,000 for gas.

E. REBUTTAL – RATE BASE

2. Changes to Net Plant

Q. What is Company's position with regard to Staff's adjustments to Net Plant (staff adjustments 9a and 9b for electric and 8a and 8b for gas)?

A. Please refer to the update and rebuttal testimony of the Electric Infrastructure and Operations Panel, Gas Infrastructure and Operations Panel and Customer Service Panel for discussion of Staff's adjustments to net plant being rebutted by the Company. The Company notes that while Staff's recommended adjustments to Municipal Services, Municipal Meter Bars and Cedar Flats Road Regulator Station projects are being rebutted by the Company in the Gas Infrastructure and Operations Panel testimony, these items were inadvertently removed from the Company's capital model within this Update. The impact on the revenue requirement of adding these projects back into the plant model is estimated to approximate $0.1 million. The Company will reflect adding back these three projects to the plant model within updated revenue requirement calculations during the next stage of this proceeding.

3. Cash Working Capital Adjustment

Q. Do you agree with the Staff Revenue Requirement Panel's calculation of electric and gas cash working capital as shown on Exhibit__(SRRP-1) and Exhibit__(SRRP-2), respectively?

A. No. Staff's reduction of environmental remediation and energy efficiency expenses from the total O&M costs is inconsistent with their proposal to treat these costs as current expenses.

Q. Does Staff agree that their cash working capital calculations are inconsistent with their proposal?

A. Yes, in its response to IR O&R-6, included in Exhibit__(AP-5), Staff agrees that the cash working capital calculation should only deduct the amount of environmental remediation and energy efficiency expenses associated with prior deferral amortization. In this Update, the Company calculated cash working capital consistent with the Company's proposals to amortize energy efficiency costs over ten years and to expense environmental remediation costs.

F. REBUTTAL – OTHER INTERVENERS

1. Pace Witness Rábago – EEI/AGA membership dues

Q. Pace witness Mr. Karl Rábago contends in his testimony that the Company has failed to demonstrate that the costs associated with Edison Electric Institute ("EEI") and American Gas Association ("AGA") membership dues are limited to activities that benefit customers, and the Commission should therefore deny recovery of these expenses. Do you agree with this recommendation?

A. No, we do not.

Q. How does the Company determine the portion of the annual membership fees for EEI and AGA to charge customers versus those to charge to shareholders?

A. EEI and AGA include supplemental information on their membership dues invoices indicating the proportion of membership dues related to influencing legislation (*i.e.*, lobbying). The Company uses the information provided by EEI and AGA to record lobbying costs "below the line" to FERC account 4264 and does not seek recovery from customers for such costs.

Q. Is it Mr. Rábago's contention that the Company is incorrectly allocating costs based on the information made available to the Company by EEI and AGA?

A. No. Mr. Rábago indicates that the information made available to the Company does not represent sufficient and competent evidence to support making an evaluation of the Organizations' activities. The witness instead suggests that in order to recover non-lobbying membership dues, the Company should have taken additional measures to validate EEI and AGA determinations regarding their lobbying activities such as commissioning an audit.

Q. Do you agree with Mr. Rábago's assertion that this is a reasonable request?

A. No, we do not. The Company evaluates myriad invoices in the course of doing business and, unless identifying evidence to the contrary, reasonably relies on vendors to make a good faith effort to appropriately itemize their expenses when submitting them to the Company for payment. The Company has not attempted to influence either AGA's or EEI's proportion of costs being applied to lobbying activities, which is applicable nationally to all member companies. Requiring the Company to commission an audit of EEI or AGA's activities, or undertake an equivalent examination, would be unreasonable and unduly burdensome on the Company. Moreover, the associated costs of undertaking such an effort would be a cost of doing business, thereby chargeable to customers, and likely to exceed any potential benefit to customers.

Q. What about Mr. Rabago's assertions that EEI and AGA work in conflict with the interests of customers?

A. The Commission should reject these arguments.

Q. Please explain why.

A. The Company excluded from its proposed revenue requirement all AGA and EEI lobbying costs. As a result, the Company is excluding AGA and EEI lobbying costs attributable to activities that are clearly in customers' interests. For example, during the process of drafting the Tax Cuts and Jobs Act legislation enacted by Congress in 2017, EEI and AGA were instrumental in advocating for utilities to get an industry-specific exception to maintain a full tax deduction for interest expenses. The savings generated by this provision are passed on directly to customers in the form of lower rates.

If the Commission were to accept Mr. Rabago's proposal to examine which AGA and EEI activities benefit customers, including lobbying activities, the Commission should then permit the Company to recover lobbying expenses associated with issues like the Tax Cuts and Jobs Act that do benefit customers.

Q. Does Mr. Rabago acknowledge that AGA and EEI sponsor activities in the interests of New York ratepayers?

A. Yes, he does. In addition to the activities noted by Mr. Rabago on p. 56 of his testimony, customers benefit when employees of the Company have access to EEI and AGA's network of peer utilities in order to benchmark best practices and work with other companies to develop policies that benefit customers such as clean energy and DER integration, wholesale market mechanisms, and policies on electric vehicles. From the perspective of finance and accounting, EEI and AGA sponsor activities such as training opportunities, materials to keep members abreast of emerging issues facing the industry, and technical specialists who work with members to develop an accurate and consistent approach to financial reporting. Further, given that EEI and AGA often speak on behalf of the utility industry broadly in matters of public policy and legislation, it is important to customers in O&R's service territory that the Company has the opportunity to offer input so that the Organizations' messaging is responsive to the unique concerns of New York residents. Moreover, Mr. Rabago does not consider that the Company is actively engaged with EEI and AGA when comments are developed, and seek to develop comments that work for the industry across the country, recognizing that there are different regulatory structures.

Q. What is your recommendation as it pertains to EEI and AGA membership dues?

A. The Commission should reject Mr. Rábago's recommended adjustments to the revenue requirement. The Commission has implicitly acknowledged the benefit to customers of O&R's membership in AGA and EEI by routinely allowing the Company to recover its EEI and AGA membership dues in previous rate cases and should do so again in this case.

G. REBUTTAL – OTHER ITEMS

Intercompany Shared Services

Q. Staff witness O'Neil testifies in support of the three-factor formula used to allocate common costs among O&R, its parent CEI, and CEI's regulated and unregulated subsidiaries, but recommends that the allocation formula be adjusted when applied to certain CEI subsidiaries because it distorts the amount of costs allocated to those companies. Do you agree with Mr. O'Neil's recommendation?

A. No, we do not.

Q. For which CEI subsidiaries is Mr. O'Neil recommending an adjustment to the formula?

A. Mr. O'Neil recommends an adjustment for equity method investments held by Con Edison Transmission Electric (CET Electric) and Con Edison Transmission – Gas (CET Gas) because the formula has $0 for the revenue and payroll factors of the three-part formula, which he argues results in an under-allocation of costs to these subsidiaries.

Q. Do you agree that the formula does not properly allocate costs to CET Electric and CET Gas and results in O&R and other CEI subsidiaries cross-subsidizing CET Electric and other similarly situated subsidiaries?

A. No, we do not.

Q. Please explain why.

A. First and foremost, the equity method investments in question held by CET Electric and CET Gas are by their nature businesses that CET Electric and CET Gas are not deemed to control. Additionally, these investments do not have operations located in Company facilities, employees of the investments are not paid by the Company nor do they make use of any human resource or payroll processing functions, the Company does not oversee any accounting or financial functions of the investments and the investments are not managed on a day to day basis by Company personnel. As such, there is no reasonable basis for concluding that O&R is cross-subsidizing these affiliates. Moreover, the adjustment proposed by Mr. O'Neil may likely cause CET Electric and CET Gas to cross-subsidize O&R and other CEI subsidiaries.

Q. Please continue.

A. Second, Mr. O'Neil takes issue with the way the Company calculated and implemented this three-factor formula to CET Electric and CET Gas but fails to identify how the Company has deviated from CAS 403, the accounting guideline underlying this allocation.

Q. Please describe CAS 403.

A. Cost Accounting Standard 403 specifies that allocation of common costs be based on an average of operating revenue, segment payroll, and assets. The Standard defines operating revenue as "amounts accrued or charged to customers, clients, and tenants, for the sale of products manufactured or purchased for resale, for services, and for rentals of property held primarily for leasing to others." The Standard continues its definition of operating revenue to note that it "excludes incidental interest, dividends, royalty, and rental income, and proceeds from the sale of assets used in the business." Since the investments made by CET Electric and CET Gas are essentially passive, in that they have no direct or indirect access to, or control over the distribution of, operating revenues achieved by the companies in which they have invested, the company properly excluded the operating revenues to which Mr. O'Neil refers from the calculation of shared service costs to be allocated to CET Electric and CET Gas. The benefit that CET Electric and CET Gas derive from the investments in these operating companies is in the form of a dividend, which CAS 403 specifically excludes from "operating revenues" for purposes of this allocation.

Q. Mr. O'Neil also recommends that a proportional share of payroll dollars of the investee companies be allocated to CET Electric and CET Gas. Does he provide any reasons or examples supporting this recommendation?

A. No, he does not.

Q. What is your recommendation?

A. Since Mr. O'Neil has not demonstrated that the company improperly applied CAS 403, the Commission should reject Mr. O'Neil's recommended adjustments to the formula and adopt the company's allocation of shared services costs.

Property Taxes

Q. Does the Company accept the Staff's proposed adjustment to the forecast of property taxes?

A. No, we do not. Please refer to the rebuttal testimony of the Property Tax Panel.

Major Storm Reserve

Q. The SEIOP agrees with the Company's proposal to charge the Major Storm Reserve for pre-staging and/or mobilization costs exceeding $100,000 per storm incurred for storms that ultimately do not meet the definition of a major storm, but recommends that the Company's right to charge the reserve in such circumstances be capped at a maximum of three events per Rate Year. Do you agree with Staff's proposed cap?

A. No, we do not. Please refer to the update and rebuttal testimony of the Policy Panel for a discussion of the Company's objection to the cap.

Oracle Partnership Agreement

Q. Please provide an update on the status of the Oracle partnership agreement.

A. In May 2018, the Company entered into a strategic partnership agreement with Oracle America, Inc. ("Oracle"), granting Consolidated Edison, Inc. and its subsidiaries, including O&R, access to Oracle's on-premise software and cloud applications at discounted prices. Among the licenses the Company is granted access to under the agreement is a license for a new CSS system, the implementation plan for which is discussed in greater detail within the update and rebuttal testimony of the Customer Service Panel. The agreement is structured in a manner granting the Company 10 years of access to Oracle's on-premise applications with the Company making the payments for licenses in installments over the first six years of the agreement. Payment for associated technical support will be made annually over the 10 years, and payment for cloud services will be made over seven years.

Q. Is there any accounting guidance applicable to this agreement that would have implications in this proceeding?

A. Yes. Pursuant to Generally Accepted Accounting Principles ("GAAP"), the portion of Oracle agreement attributed to licenses is being accounted for as an intangible asset at fair value. There are two primary implications of this accounting treatment. First, at the time the Company enters into the agreement, it must record an intangible asset and a corresponding liability at the present value of the contracted future cash flows. Second, the Company is required to amortize the intangible asset on a straight line basis and record accretion expense on the liability at the interest rate used to derive the initial present value beginning from the time the Company enters into the agreement. The liability is reduced as the Company makes cash payments to Oracle under the terms of the agreement.

Q. How is the Company proposing to recover these costs in light of the applicable accounting guidance?

A. Within this Update, the Company is incorporating the agreement into the revenue requirement in a manner reflective of the balance sheet and income statement treatment under GAAP accounting. Given the applicable accounting guidance, the Company is including in the revenue requirement calculation the amortization of this intangible asset and accretion of the liability. Over the term of the agreement, the effect of collecting the amortization and accretion will be to fully recover the cash outlays made to Oracle. Total amortization and accretion is projected at $0.4 million in RY1 and $0.3 million in RY2 and RY3 for electric and $0.1 million in RY1, RY2, and RY3 for gas.

For purposes of incorporating this agreement into rate base, the Company is including the projected net balance of the intangible asset and liability. (Note that the Company’s current expectation is that the book and tax life of the intangible asset are equal and as such are not making a deferred tax adjustment to rate base for this asset). Including the projected net balance is equivalent to including cash outflows net of funds recovered from customers through amortization and accretion. Under this approach, the average rate base applicable to the agreement is $0.1 million in RY1, $0.6 million in RY2, and $1.3 million in RY3 for electric and $0.02 million in RY1, $0.2 million in RY2, and $0.4 million in RY3 for gas.

As it relates to O&M (representing technical support and cloud services), there are no changes to the estimates provided by the Company to Staff in IR-641 and, as such, the Company's Update filing reflects savings of $134,000 in RY1 and cost increases of $67,000 in RY2 and $268,000 in RY3 for electric and savings of $66,000 in RY1 and cost increases of $33,000 in RY2 and $132,000 in RY3 for gas relative to the Company's initial filing.

Electric Vehicle Supply Equipment ("EVSE") Reconciliation

Q. Are there any accounting implications related to the Company's plans to encourage electric vehicle adoption?

A. Yes.

Q. Please explain.

A. As discussed by the Electric Infrastructure and Operations Panel, the Company proposes that the funding for the Company's planned EVSE investments should be preserved in this rate proceeding and "earmarked" to support Governor's Charge NY 2.0

program. The Company would establish a separate capital budget item for EVSE investments, subject to full reconciliation. This approach would provide the Company with appropriate funding to be responsive to the Statewide EV Charging Proceeding.

IV. MULTI-YEAR RATE PLAN

Q. Does the Company have any updates to its forecasted financial information for RY2 and RY3?

A. Yes. As in the Company's January 2018 filing, the Company's Update includes, for illustrative purposes only, financial information for the Rate Year, as well as RY2 and RY3, to reflect developments in those periods as addressed by various Company witnesses in their update and rebuttal testimony. Updated Exhibits AP-E2 and E3 and AP-G2 and G3 reflect the impact of those changes.

Q. Does this conclude your update and rebuttal testimony?

A. Yes, it does.