

**Schumaker & Company**



**Proposal  
for the  
New York State Public Service Commission  
Together with the New York State Department of Public Service**

**To Provide Consulting Services  
To Investigate the Income Tax Accounting of  
Certain New York State Utilities, including**

**Consolidated Edison Company of New York, Inc. (CECONY)  
and Orange and Rockland Utilities, Inc. (O&R),  
and  
New York State Electric & Gas Corporation (NYSEG) and  
Rochester Gas and Electric Corporation (RG&E)**

**Case Number: 18-M-0013**

**REVISED**

**March 29, 2018**

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<http://www.schuco.com/Appendices/AppendixBFirmQualifications-TaxAccounting.pdf>

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## I. Introduction & Firm Experience

The New York State Public Service Commission (NYSPSC) has directed that an independent third-party consultant be retained to perform consulting services to investigate the income tax accounting of certain New York State Utilities, including Consolidated Edison Company of New York, Inc. (CECONY) and Orange and Rockland Utilities, Inc. (O&R), and New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E) for the New York State Department of Public Service (NYSDPS). This audit will be performed in accordance with *Public Service Law, Article 4, §Section 66(19)*. The operations audits and the work of the consultants will be managed by the *Engagement Director* and *Project Manager*, as authorized by the New York State Department of Public Service (NYSDPS). As required by the *Public Service Law*, the audits will be comprehensive and will include an investigation of the accounting for current and deferred federal income taxes of the four utility companies.

Specifically, as per the request for proposal (RFP), the audits will focus on the following elements for the four utility companies:

1. The existence of the claimed errors in the income tax accounting and whether ratepayers received the benefit of lower income tax expenses in rates as a result of the claimed errors.
2. Whether the Utilities' calculations of the correcting adjustments are accurate, reasonable, and consistent with and required by both accounting and tax rules (including IRS normalization requirements) and Commission policies. Also, the consultant should verify that the Utilities are using consistent methods, conventions, and assumptions in calculating current and prior tax expenses.
3. For NYSEG and RG&E, whether the companies' calculations of the values related to full normalization and Unfunded Income Taxes under ASC-740, which represent all federal book and tax timing differences on their books and records as of May 1, 2016, are correct, reasonable and consistent with both accounting and tax rules (including IRS requirements) and Commission policies.
4. To the extent the Utilities' calculations result in erroneous or inappropriate adjustments, the consultant should:
  - a. Summarize areas that resulted in the erroneous or inappropriate adjustment(s);
  - b. Quantify what modifications should be made to the Utilities' proposed adjustments to correct for any calculation or policy interpretation errors;
  - c. Provide recommendations regarding what Commission action should be taken to ensure, on a going forward basis, that any adjustment recommendations are reasonable and consistent with accounting and tax policies.
5. Evaluate the procedures and internal controls in place at the Utilities at the time the alleged errors occurred and how these compare to those of similarly-situated (e.g., capital-intensive)

companies. In addition, the consultant should determine whether there were best practices or other actions or internal controls the Utilities could have implemented at the time that would have detected or prevented the alleged errors.

The RFP suggests that the scope of this audit be based on the framework of a series of elements or functions that are generally sequential in nature that can be viewed as a flow diagram or feedback loop. Each scope area may require feedback from one or more of the latter scope areas to allow for revisions, adjustments, and/or other changes over both the short- and long-term. This feedback process typically facilitates the changes and improvements that result in better performance. In reviewing these scope areas, these type of audits shall focus on improving utilities' performance in these areas. Further information about the scope and objectives of this project are provided in *Chapter II – Scope and Objectives* of our technical proposal response.

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## A. Firm Experience, History, & Expertise Relevant to NY

Schumaker and Company, Inc. (Schumaker & Company) will be the prime contractor for these audits and will be assisted by Larkin & Associates, PLLC (Larkin & Associates) as a subcontractor also providing team members for these audits.

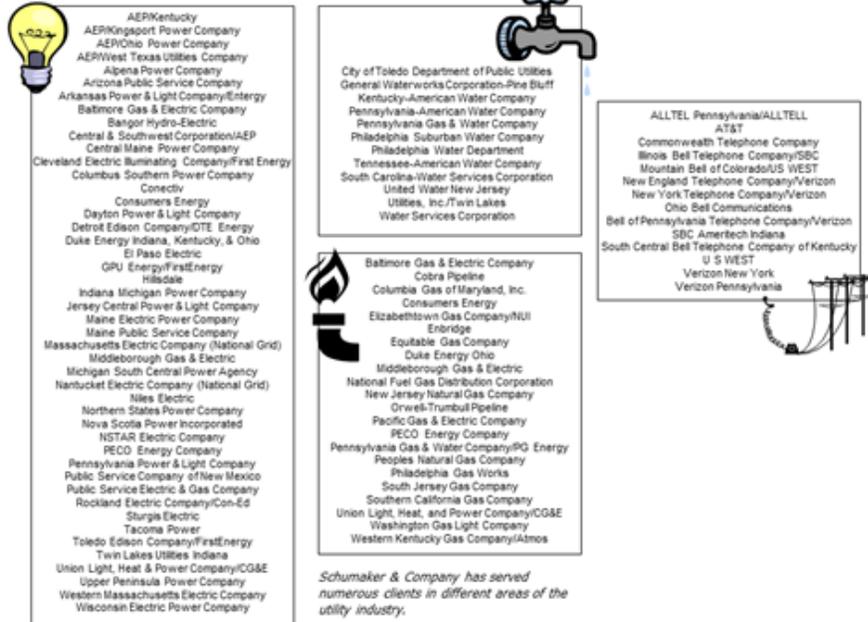
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### Schumaker & Company

Our consultants have conducted comprehensive and focused management and operations assessments of organizations nationwide. Schumaker & Company has performed consulting assignments for clients in 33 U.S. states, including New York, as well as Ontario and Nova Scotia, Canada. Our clients benefit from the competence, knowledge, and attention of a core team that consists of highly skilled professionals who work well together. This structure enables us to offer the recognized expertise, senior-level staffing, and administrative support that are characteristic of larger firms, without the comparable overhead. Additionally, we provide the important benefits of flexibility and attentiveness that only smaller firms can offer.



**We understand the needs of our utility sector clients.** Our team has worked with more than 100



**Electricity (Lightbulb icon):**

- AER/Kentucky
- AER/Kingsport Power Company
- AER/Ohio Power Company
- AEP/West Texas Utilities Company
- Alpena Power Company
- Arizona Public Service Company
- Arkansas Power & Light Company/Entergy
- Baltimore Gas & Electric Company
- Bangor Hydro-Electric
- Central & Southwest Corporation/AEP
- Central Maine Power Company
- Cleveland Electric Illuminating Company/First Energy
- Columbus Southern Power Company
- Connecticut
- Consumers Energy
- Dayton Power & Light Company
- Detroit Edison Company/OTIE Energy
- Duke Energy Indiana, Kentucky, & Ohio
- El Paso Electric
- GPU Energy/First Energy
- Hillside
- Indiana Michigan Power Company
- Jersey Central Power & Light Company
- Maine Electric Power Company
- Maine Public Service Company
- Massachusetts Electric Company (National Grid)
- Middleborough Gas & Electric
- Michigan South Central Power Agency
- Nantucket Electric Company (National Grid)
- Niles Electric
- Northern States Power Company
- Nova Scotia Power Incorporated
- INSTAR Electric Company
- RECO Energy Company
- Pennsylvania Power & Light Company
- Public Service Company of New Mexico
- Public Service Electric & Gas Company
- Rockland Electric Company/Con-Ed
- Sturgis Electric
- Tacoma Power
- Toledo Edison Company/First Energy
- Twin Lakes Utilities Indiana
- Union Light, Heat & Power Company/CG&E
- Upper Peninsula Power Company
- Western Massachusetts Electric Company
- Wisconsin Electric Power Company

**Water (Faucet icon):**

- City of Toledo Department of Public Utilities
- General Waterworks Corporation-Rine Bluff
- Kentucky-American Water Company
- Pennsylvania-American Water Company
- Pennsylvania Gas & Water Company
- Philadelphia Suburban Water Company
- Philadelphia Water Department
- Tennessee-American Water Company
- South Carolina-Water Services Corporation
- United Water New Jersey
- Utilities, Inc./Twin Lakes
- Water Services Corporation

**Gas (Flame icon):**

- Baltimore Gas & Electric Company
- Cobra Pipeline
- Columbia Gas of Maryland, Inc.
- Consumers Energy
- Elizabethtown Gas Company/NUI
- Eneridge
- Equitable Gas Company
- Duke Energy Ohio
- Middleborough Gas & Electric
- National Fuel Gas Distribution Corporation
- New Jersey Natural Gas Company
- Orwell-Tribull Pipeline
- Pacific Gas & Electric Company
- RECO Energy Company
- Pennsylvania Gas & Water Company/PG Energy
- Peoples Natural Gas Company
- Philadelphia Gas Works
- South Jersey Gas Company
- Southern California Gas Company
- Union Light, Heat, and Power Company/CG&E
- Washington Gas Light Company
- Western Kentucky Gas Company/Atmos

**Telecommunications (Telephone icon):**

- ALLTEL Pennsylvania/ALLTELL
- AT&T
- Commonwealth Telephone Company
- Illinois Bell Telephone Company/SBC
- Mountain Bell of Colorado/US WEST
- New England Telephone Company/Verizon
- New York Telephone Company/Verizon
- Ohio Bell Communications
- Bell of Pennsylvania Telephone Company/Verizon
- SBC Ameritech Indiana
- South Central Bell Telephone Company of Kentucky
- U S WEST
- Verizon New York
- Verizon Pennsylvania

*Schumaker & Company has served numerous clients in different areas of the utility industry.*

utility industry clients. Assignments have involved all sectors of the utility industry, including work for utilities, regulators, public advocates, municipalities, and industry and professional associations. We fully appreciate the legal, regulatory, financial, and cultural factors that complicate planning and operations in the utility industry's competitive environment. We have a clear understanding of the purpose and value of the

regulatory process, as well as extensive experience in conducting commission assignments. This breadth of knowledge gives us a keen appreciation for the multifaceted needs of regulators.

Our success has been based on the breadth and depth of experience that we bring to our utility assignments. Our extensive experience with utility clients gives us an edge in understanding and meeting their unique needs. We understand the often complex roles and relationships between key stakeholders and the impact these relationships bear during project execution. We understand the importance of multi-stakeholder input and involvement. We know the cost-effectiveness and level-of-service concerns that both utility and regulatory officials face. We also know the potential public visibility that can follow. We believe that quick response and early results are valuable in such situations. We know how to monitor and review practices and processes without disrupting the conduct of normal business or becoming an intrusive force. The exhibit below, *Exhibit I-1*, provides a sampling of Schumaker & Company's more recent engagements similar to this one and the role each proposed team member held for that project.

**Exhibit I-1**  
**Recent & Similar Schumaker & Company Consulting Engagements**

| Utility                                     | Type/Client  | Year(s)  | Team Member   |  |           |
|---|--|--|---|--|-----------|
|   |  |  | Patricia Schumaker  | Dennis Schumaker   | Jaye Kain |
| Cobra Pipeline and Orwell Trumbull Pipeline | Investigative Audits for Public Utilities Commission of Ohio                                     | 2016-2017                                      | EM/PM & PC/LC: Financial Management and Continuing Property Records   | PC/LC: Operations and Asset Management   | PA        |
| Arizona Public Service Company              | Fuel Clause Audit for the Arizona Corporation Commission   | 2016-2017                                      | PC/LC: Financial Management   | EM/PM & PC/LC: Field Operations, including Workforce, Service Levels, and Best Practices     | PA        |
| Philadelphia Gas Works                      | Stratified Management, Operations, & Technology Audit for Pennsylvania Public Utility Commission | 2014-2015                                      | EM & PC/LC: Financial Management, Support Services, Customer Services, Data & Statistics, & Diversity & EEO   | PM & PC/LC: Governance, Management, Shared Services, Leak Detection, and Operations          | PA        |
| Philadelphia Water Department               | Management Support Study   | 2014, plus Implementation Assistance 2015-2017 | PC: Customer Service, Credit and Collections, Meter Management, and Best Practices                            | EM/PM & PC/LC: Field Operations Workforce, Service Levels, and Best Practices                | PA        |
| National Fuel Gas Distribution Corporation  | Comprehensive Management Audit for New York Department of Public Service                         | 2012-2013                                      | EM & PC/LC: Asset Management, Performance and Results Management, and Affiliate Interests                     | PM & PC/LC: Governance, Performance Results, System Planning, and Load Forecasting           | PA        |
| Jersey Central Power & Light                | Affiliate Transactions & Management Audit  | 2010-2011                                      | EM & PC/LC: Finance, Accounting, Affiliate Transactions, Legal, IT, and Records Management                    | PM & PC/LC: Governance, Management, Shared Services and Affiliate Relationships & Operations | PA        |
| Equitable Gas Company                       | Management & Operations/Affiliate Relations Audit for New Jersey Board of Public Utilities       | 2009-2010                                      | EM & PC/LC: Financial Management, Support Services, Data & Statistics, Affiliate Interests, & Diversity & EEO | PM & PC/LC: Operations, Performance, & Customer Service                                      | PA        |

EM = Engagement Manager, PM = Project Manager, PA = Project Administrator  
PC = Principal Consultant, LC = Lead Consultant, SC = Support Consultant, C=Consultant

Please refer to *Appendix B – Firm Qualifications* for a detailed description, including references, of Schumaker & Company’s and Larkin & Associates’ experience and qualifications, which is available from the <http://www.schuco.com/Appendices/AppendixBFirmQualifications-TaxAccounting.pdf> Internet link.

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## **Larkin & Associates**

Larkin & Associates, PLLC (Larkin & Associates) is a firm of Certified Public Accountants (CPAs) and regulatory consultants, with offices at 15728 Farmington Road, Livonia, Michigan 48154. The firm is organized as a professional limited liability company (PLLC). Larkin & Associates has no branch or affiliate offices. In April 1970, the Certified Public Accounting firm of Larkin, Chapski & Co., was formed by former employees of Peat, Marwick, Mitchell & Co., a big eight accounting and auditing concern. In addition to the auditing, accounting and tax work typical of CPA firms, Larkin, Chapski & Co. specialized in the area of utility regulation. In September 1982 the firm was reorganized into Larkin & Associates, PLLC a Certified Public Accounting and consulting firm with Hugh Larkin, Jr., as senior partner. Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. We perform independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). The Larkin & Associates project team professionals have had extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings including numerous telephone, electric, gas, and water and sewer utilities.

The Larkin & Associates professional staff assigned to this project would bring to this engagement over 150 years cumulative business, public accounting and utility related experience. Our personnel are familiar with issues affecting electric utility regulation, including extensive detailed knowledge of income taxes and related issues. In performing our work for the NYSDPS Staff, we will draw on knowledge gained through comparable studies performed in other utility regulatory projects.

Larkin & Associates currently employs eight professional staff members. Of these, five (Larkin, Smith, Schultz, Dady, and Defever) are CPAs. Larkin & Associates has three senior professionals (Larkin, Schultz, and Smith), all of whom are CPAs with extensive experience in reviewing electric utility costs and revenues. Larkin & Associates has four regulatory analysts (Dady, Miller, Defever, and Cranston) and one research associate (Bisdorf). The firm also employs secretarial/word-processing personnel.

Hugh Larkin Jr. is a Certified Public Accountant, founder and senior partner of Larkin & Associates. He is thoroughly versed in independent auditing, as well as the design and review of accounting systems and the presentation of data for management and financial reporting. Mr. Larkin is licensed in the states of Michigan and Florida. For over 45 years, Mr. Larkin has concentrated in the field of public utility regulation. He has served as project leader for numerous financial and compliance audits and regulatory consulting engagements, and has testified as an expert witness on issues dealing with public utility management and regulation in over 300 proceedings. His testimony has been sponsored by public utility/service commission staffs, state attorneys general, groups of municipalities, a district

attorney, people's counsel, public counsel, and other such entities. Jurisdictions in which Mr. Larkin has presented expert testimony include: Alabama, Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kentucky, Kansas, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Vermont, Utah, Washington, Wisconsin, West Virginia, FERC and Canada. On this project, he is expected only to provide advice to the project team.

Ralph C. Smith's professional credentials include being a licensed Certified Public Accountant and attorney. He is also a Certified Financial Planner™ and a Certified Rate of Return Analyst, and has a Masters degree in Taxation. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving electric, gas, telephone, and water and sewer utilities. Mr. Smith has performed work in the field of utility regulation on behalf of public service commission staffs, state attorneys general, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington D.C. West Virginia, Canada, Federal Energy Regulatory Commission, and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors™ on numerous occasions. Mr. Smith has extensive experience with regulatory projects involving income tax issues. He would be the *Project Manager* for Larkin & Associates on this engagement.

Helmuth W. Schultz, CPA, is a senior regulatory analyst and the firm's audit and tax partner. Mr. Schultz has supervised many projects and presented testimony on numerous occasions. Mr. Schultz is presently a Larkin & Associates partner and, as such, is responsible for all the accounting and much of the auditing work done by the firm. Mr. Schultz has evaluated numerous issues affecting regulated public utilities including fuel and purchased power expenses, rate base, sales, O&M expenses, taxes of all types, and management controls over operations and expenses, and compliance with Commission orders and policies and procedures. Mr. Schultz has performed work in the field of utility regulation on behalf of public service commission staffs, state attorneys general, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Kentucky, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, North Dakota, Ohio, Pennsylvania, Rhode Island, Texas, Utah, and Vermont. On this project, he is expected only to provide assistance to the project team on an as-needed, as-available basis.

Mark Dady, CPA, is a regulatory analyst. As a Certified Public Accountant with Larkin & Associates, duties include the analysis of utility regulatory issues, researching accounting and regulatory developments, preparing computer models and spreadsheets, assisting on financial audits, preparation of

bids and proposals, and writing testimony. Mr. Dady co-sponsored expert testimony presented by Larkin & Associates in California, Connecticut, Ohio and Mississippi. Jurisdictions in which Mr. Dady has participated in the analysis of regulatory filings include: Alaska, Arizona, California, Connecticut, Delaware, Illinois, Indiana, Mississippi, Ohio, Pennsylvania, Vermont, Virginia, and West Virginia. Mr. Dady has extensive experience analyzing regulatory issues, including those related to income taxes, in rate cases involving. He would participate in this engagement by reviewing detailed accounting information related to each utility's income taxes, accumulated deferred income taxes and normalization requirements.

The other members of our professional staff are classified as regulatory analysts/auditors, and a research associate. John Defever, CPA, Christina (Tina) Miller, and Megan Cranston are regulatory analysts/auditors and Dawn Bisdorf is a research associate. They have all been extensively utilized in Larkin & Associates' regulatory engagements in reviewing prior Commission/Board decisions, verifying Company schedules and workpapers, and assisting in the preparation of reports and testimony; they are adequately supervised. On this project, Ms. Bisdorf, who has worked with Mr. Smith on numerous utility company rate cases and regulatory reviews, and Ms. Cranston would participate as key members of the project team. Ms. Miller is a regulatory analyst who will assist in the analysis of the utility's accumulated deferred income taxes (ADIT). They would participate in this engagement by reviewing detailed accounting information related to each utility's income taxes, accumulated deferred income taxes and normalization requirements, under the direction of the senior members of the project team. Mr. Defever is not expected to work on this project, but may provide assistance to the project team on an as-needed, as-available basis.

Resumes detailing education and experience pertinent to the work to be performed under this project for the Larkin & Associates professionals who will be participating in this project are provided in Appendix I, attached to this proposal. Each professional's resume includes descriptions of the individual's experience, the individual's responsibility in previous assignments during their employment with Larkin & Associates, as well as references.

## B. Understanding of CECONY, O&R, NYSEG, and RG&E

### Consolidated Edison

#### Consolidated Edison Company of New York

Consolidated Edison Company of New York (CECONY), a regulated utility provides electric, gas, and steam service to its customers. Headquartered in New York City, CECONY delivers electric service to approximately 3.4 million customers and gas service to approximately 1.1 million customers in the City's five boroughs (Manhattan, Bronx, Queens, Brooklyn and Staten Island with the exception of the Rockaway Peninsula in Queens), and parts of Westchester County. CECONY also provides steam service to approximately 1,700 customers in Manhattan. CECONY's service territory covers approximately 660 square miles and includes a population of more than nine million people. In 2016, its operating revenues totaled \$10.2 billion, assets totaled \$40.8 billion (net utility plant consists of \$30.2 billion of the total), and equity totaled \$11.8 billion. Its books and records are located at its headquarters in New York City.



#### Orange & Rockland

Orange and Rockland Utilities (O&R) can trace its roots back to 1899 when a number of small gas and electric companies merged to form Rockland Light & Power Co. in Nyack, New York. More than 50 years and several mergers later, Rockland Light & Power Co. officially became Orange and Rockland Utilities, Inc. in 1958. Today, O&R, headquartered in Pearl River, New York, is a regulated electric and gas utility. O&R provides electric service to approximately 300,000 customers and gas service to approximately 100,000 customers in southeastern New York and northern New Jersey. The service territory of O&R, including its two utility subsidiaries, Rockland Electric Company (RECO) and Pike County Light & Power Co. (Pike), covers approximately 1,300 square miles and includes a population of 745,000 people. In 2016, O&R's operating revenues totaled \$653 million, assets totaled \$2.6 billion (net utility plant comprises \$1.5 billion of the total) and equity totaled \$600 million. O&R's service territory encompasses a thriving 1,350 square-mile region, principally residential in nature, with a broad base of commercial, industrial, agricultural and recreational facilities. Its book and records are located at its headquarters in Pearl River, New York.

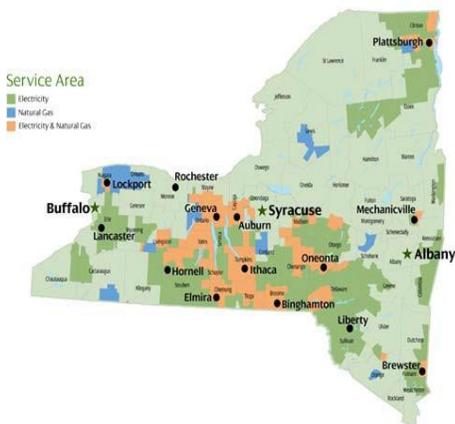


## Avangrid

New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E) are stand-alone utility affiliates owned by Avangrid, Inc., a diversified energy and utility company with operations in 25 states and more than \$30 billion in assets. Avangrid operates regulated utilities and electricity generation through two primary lines of business, Avangrid Networks (which includes NYSEG and RG&E) and Avangrid Renewables. Avangrid Networks includes eight electric and natural gas utilities, serving 3.1 million customers in New York and New England. Avangrid Renewables operates 6.3 gigawatts of electricity capacity, primarily through wind power, in states across the United States. Avangrid, Inc. was formed in 2015 through a merger between Iberdrola USA (which included NYSEG and RG&E) and UIL Holdings Corporation. Iberdrola S.A., which is located in Madrid, Spain, owns 81.5% of Avangrid, Inc. Avangrid's headquarters is located in Orange, Connecticut. Its books, records, and tax department personnel are located in Orange, Connecticut and Portland, Maine.

### New York State Electric & Gas Corporation

NYSEG serves approximately 884,000 electric and 264,000 natural gas customers across more than 40% of upstate New York, approximately 20,000 square miles. The service territory includes areas in the central, eastern, and western parts of the state and has a population of approximately 2.5 million people. The larger cities located within this territory are Binghamton, Elmira, Auburn, Geneva, Ithaca, and Lockport. In 2016, NYSEG's operating revenues totaled \$1.6 billion, assets totaled \$4.6 billion (net utility plant consists of \$3.0 billion of the total), and equity totaled \$1.2 billion. NYSEG's headquarters is located in Binghamton, NY.



## Rochester Gas and Electric Corporation

RG&E serves approximately 374,000 electric and 309,000 natural gas customers in a nine-county region, centered around Rochester, New York, consisting of approximately 2,700 square miles. The service territory consists of a substantial suburban area and a large agricultural area and has a population of approximately one million people. In 2016, RG&E's operating revenues totaled \$1.0 billion, assets totaled \$3.3 billion (net utility plant consists of \$2.4 billion of the total), and equity totaled \$800 million. RG&E's headquarters is located in Rochester, NY.



## II. Scope & Objectives

This chapter presents Schumaker & Company's understanding of the scope and objectives of the forthcoming audits of Consolidated Edison Company of New York, Inc. (CECONY), Orange and Rockland Utilities, Inc. (O&R), New York State Electric & Gas Corporation (NYSEG), and Rochester Gas and Electric Corporation (RG&E) being performed on behalf of the New York State Public Service Commission (NYSPSC) together with the New York State Department of Public Service (NYSDPS).

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### A. Objectives

Specifically, as per the request for proposal (RFP), the audits will focus on the following elements for the four utility companies:

1. The existence of the claimed errors in the income tax accounting and whether ratepayers received the benefit of lower income tax expenses in rates as a result of the claimed errors.
2. Whether the Utilities' calculations of the correcting adjustments are accurate, reasonable, and consistent with and required by both accounting and tax rules (including IRS normalization requirements) and Commission policies. Also, the consultant should verify that the Utilities are using consistent methods, conventions, and assumptions in calculating current and prior tax expenses.
3. For NYSEG and RG&E, whether the companies' calculations of the values related to full normalization and Unfunded Income Taxes under ASC-740, which represent all federal book and tax timing differences on their books and records as of May 1, 2016, are correct, reasonable and consistent with both accounting and tax rules (including IRS requirements) and Commission policies.
4. To the extent the Utilities' calculations result in erroneous or inappropriate adjustments, the consultant should:
  - a. Summarize areas that resulted in the erroneous or inappropriate adjustment(s);
  - b. Quantify what modifications should be made to the Utilities' proposed adjustments to correct for any calculation or policy interpretation errors;
  - c. Provide recommendations regarding what Commission action should be taken to ensure, on a going forward basis, that any adjustment recommendations are reasonable and consistent with accounting and tax policies.
5. Evaluate the procedures and internal controls in place at the Utilities at the time the alleged errors occurred and how these compare to those of similarly-situated (e.g., capital-intensive) companies. In addition, the consultant should determine whether there were best practices or other actions or internal controls the Utilities could have implemented at the time that would have detected or prevented the alleged errors.

The purpose of these two audits of CECONY/O&R and NYSEG/RG&E is to analyze current and historical tax accounting policies, processes, practices, and systems for the purpose of gaining of understanding each of these four utility organizations accounting/tax and ratemaking practices. The audit program is guided by the principle that improvements to accounting processes and practices will lead to improved performance.

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## B. Scope

These audits will assess CECONY's, O&R's, NYSEG's, and RG&E's efficiency and effectiveness in performing its income tax accounting processes and practices, in which the specific scope steps will include what has been specified in the RFP, as follows, by, in summary and detail, performing:

- ◆ *Evaluate Legacy Systems* – We will have each of the utility organizations to walk us through what was done with the legacy systems, including transition to the PowerTax system, including what errors were conducted, plus how and why specific errors were done. Samples of errors must be provided by the utility organizations and shown how they impacted accounting/tax and ratemaking practices.
- ◆ *Evaluate Current PowerTax Systems* – We will also have each of the utility organizations to walk us through what was done with the PowerTax system, including what errors were conducted, plus how and why specific errors were done. Samples of errors must be provided by the utility organizations and shown how they impacted accounting/tax and ratemaking practices.
- ◆ *Verify Income Tax Error* – Based on the errors identified by NYSPSC and utility organizations, we will have the utility organizations provide detailed information for each error, so we can review and assess each error, plus research what actions should have been taken, so as to identify what findings/conclusions and recommendations should be incorporated into the audit report.

Specific detailed tasks are include in *Chapter III – Approach, Methods, and Project Management*.

| Scope                       |   | Applicable Companies |               |
|-----------------------------|---|----------------------|---------------|
| 1 – Evaluate Legacy Systems |   | Con Edison<br>O&R    | NYSEG<br>RG&E |
| 1                           | Determine whether the legacy tax systems were operating properly and producing results that were in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices.   | X                    | X             |
| 2                           | Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.  | X                    | X             |
| 3                           | Determine whether appropriate procedures and internal controls were in place at the Utilities related to the income tax accounting processes and the income tax accounting preservation/destruction of records processes, and if the controls in place were reasonable and comparable to those in place at similar companies at the time the alleged errors occurred. | X                    | X             |
| 4                           | Determine if there is an alternative way to verify the occurrence of the alleged errors and accurately quantify the impact of the errors without access to the legacy system database.  | X                    |               |
| 5                           | Review the processes surrounding the implementation and execution of the new income tax software systems and retirement of the legacy tax systems, and determine whether appropriate procedures and controls were in place and were properly executed.  | X                    | X             |



| 2 – Evaluate Current PowerTax Systems |   | Con Edison<br>O&R | NYSEG<br>RG&E |
|---------------------------------------|---|-------------------|---------------|
| 1                                     | A) Evaluate whether the inputs were accurate and reasonable at the time of the Utilities' conversion to PowerTax.<br>B) Determine whether the ending balances with underlying itemized supporting details in the legacy systems tie to the beginning balances with the same underlying itemized supporting details in the PowerTax system.<br>C) Determine whether the current and prior tax expenses were calculated using consistent methods, conventions, and assumptions. | X                 | X             |
| 2                                     | Evaluate whether the PowerTax systems are operating properly and are producing results that are in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices.  | X                 | X             |
| 3                                     | Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.  | X                 | X             |
| 4                                     | A) Evaluate whether the companies correctly effectuated changes to the PowerTax software operations and calculations in order to reflect the Commission-approved correction of the errors.*<br>B) Determine whether the corrections authorized by the Commission were necessary to comply with IRS tax normalization policies.  | X                 |               |
| 5                                     | Determine if Con Edison's replication of the COR flow-through error on its books between 2013 and 2016, after converting to PowerTax, is an accurate representation of the company's accounting using the Acufile system, and determine whether such replication of the error was a violation of the IRS normalization rules.   | X                 |               |
| 6                                     | Review and provide an opinion on the adequacy of current controls designed to ensure the accuracy of income tax accounting at the Utilities and make recommendations as appropriate.  | X                 | X             |
| 7                                     | Review and provide an opinion on the accuracy of the Utilities' measurements of plant-related excess accumulated deferred income tax balances and related accounting.   | X                 | X             |

\* Specifically, for O&R in Cases 14-E-0493 and 14-G-0494, and for Con Edison in Cases 15-E-0050, 16-E-0060, and 16-G-0061.

| 3 – Verify Income Tax Error |  | Con Edison<br>O&R | NYSEG<br>RG&E |
|-----------------------------|--|-------------------|---------------|
| 1                           | Determine whether the Utilities' legacy systems' recording of deferred income taxes would or would not constitute compliance with IRS tax normalization policies.  | X                 | X             |
| 2                           | Review the Utilities' past rate filings, verify that the calculations of the errors are correct and determine the detailed amount of rate understatement in past rates (i.e., determine the proper FAS 109 Regulatory Asset/Liability balances and Rate Base ADFIT balance for correcting the errors). | X                 | X             |
| 3                           | Determine if the understatement of income tax expense was reflected on the Utilities' past financial statements and in the Utilities' rate filings.  | X                 | X             |
| 4                           | Determine if the Commission is obligated to provide retroactive recovery of the effect of the alleged errors per the IRS policies and PLRs.  | X                 | X             |
| 5                           | Provide an opinion and recommendation on whether, and to what extent, regulatory assets resulting from the historic tax accounting errors should be recovered from ratepayers.   | X                 | X             |
| 6                           | Evaluate and opine on the tax consequences, if any, the Utilities would face should the Commission not provide recovery of the retrospective errors (the amount of the errors that occurred before the Utilities became aware of the errors).  | X                 | X             |
| 7                           | Provide the financial impacts of alternative proposals (e.g., no recovery of regulatory assets).   | X                 | X             |

See *Chapter III – Approach, Methods, and Project Management* for additional information to be reviewed besides the items listed below in the scope areas.

## C. Key Schumaker & Company Advantages

The single most important element a consulting firm brings to an assignment is the qualifications of the individual members of the consultant team. In combination, we respectfully submit that Schumaker & Company offers the New York State Department of Public Service (NYSDPS), plus CECONY, O&R, NYSEG, and RG&E and their ratepayers a team that is unequaled in relevant experience, capability, and dedication to the completion of a highly successful engagement.

***Schumaker & Company is not just any consultant!*** This is probably the only proposal that you will receive where many of the consultants are either Certified Management Consultants (CMC<sup>®</sup>) or



Certified Public Accountants. CMC<sup>®</sup>s are certified by the Institute of Management Consultants USA (IMC USA), an ISO/IEC 17024 certifying body for its CMC<sup>®</sup> certification process. This process confirms a consultant's education, continuing professional



development, and commitment to the highest ethical standards. IMC USA's examiners rigorously assess the consulting engagements and competence of applicants and their ability to apply the knowledge and skills defined in IMC USA's competency framework and certification scheme. This certification mark represents evidence of the highest standards of consulting and



adherence to the ethical canons of the profession. Less than 1% of all consultants have achieved this level of performance. As our officers (Patricia Schumaker and Dennis Schumaker) are CMC<sup>®</sup>s, we ensure that our consultants abide by IMC USA's code of ethics. Patricia Schumaker is also a Certified Public Accountant (CPA) and a Chartered Global Management Accountant (CGMA). In addition to Patricia Schumaker and Dennis Schumaker, we have included five CPAs from Larkin & Associates, PLLC, including Ralph Smith and Mark Dady who will manage the Larkin & Associates team, as well as Hugh Larkin, Jr., Helmuth W. Schultz III, and John Defever, who may assist the team on an as-available, as-needed basis. Additionally, two Larkin & Associates rate analysts, Megan Cranston and Christina Miller, and a Research Associate, Dawn Bisdorf, will review details and assist with the analysis, under the direction of the senior project professionals. The Larkin & Associates professionals assigned to the team have extensive experience with public utility income tax issues and reviewing utility supporting information for deferred income tax balances.

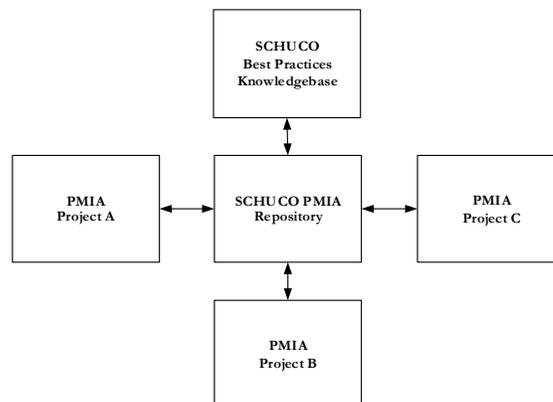
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## SCHUCO Best Practices Knowledgebase

Over the last ten years, Schumaker & Company (SCHUCO) consultants have performed numerous assignments involving the review and assessment of various accounting processes and practices used with all types of businesses, including electric, gas, water, and telecommunications companies, and state and local government entities. All of the information reviewed and interviews conducted have been collected and retained within Schumaker & Company's *Project Management Information Application* (PMIA) website. These information sources are arranged by project and project work plan codes among other categories. In addition, certain information is also tagged with a "Best Practices" designation. If a responsible consultant identifies a business practice or process which he/she believes is an exceptional business practice or process, those particular information source can be identified (flagged) to facilitate easy retrieval sometime later. The SCHUCO *Best Practices Knowledgebase* provides a knowledgebase for readily accessing these best practices that have been identified on prior projects by all consultants have been involved on the project. This website accesses all the information that has been collected and retained on the various projects within the PMIA website.

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**Exhibit II-1**  
**SCHUCO Best Practices Schematic**



Whereas PMIA is typically used on a project-by-project basis such that only the information from the current PMIA project to which the user is logged in can be worked with or seen, the SCHUCO *Best Practices Knowledgebase* spans all and/or selected information contained within PMIA. PMIA is essentially one database that contains all the information from all Schumaker & Company projects. The uploading of information is done on an individual project-by-project basis using PMIA. Then the SCHUCO *Best Practices Knowledgebase* permits the selecting, sorting, and viewing of information from all PMIA projects via a website accessible from within the Schumaker & Company network.

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## Understanding of the New York Management Audit Program

Schumaker & Company has performed over 100 management and operations reviews and assessments in the utility industry since its existence in 1986. In the last ten years, our proposed project team has performed over 25 of these reviews alone, one of which was a comprehensive management audit of National Fuel Gas Distribution Corporation (NFGDC) on behalf of the NYSPSC.

Schumaker & Company has proposed on over 10 different management and operations reviews for the NYSDPS and we have been selected for finalist interviews in most cases. We have watched as the New York program has attempted to transform its program into a viable, ongoing program by placing more emphasis on what is called cost/benefit analyses. Our firm has always incorporated a level of cost/benefit analyses as a part of our project approach and has been able to do such to achieve results for longer than the reactivated New York management audit program has been in existence. Our approach and results are discussed in *Chapter III – Approach, Methods, and Project Management* of this proposal response.



### III. Approach, Methods, and Project Management

This chapter summarizes the approach, review methodology and procedures, and project management tools and techniques that Schumaker & Company, Inc. (Schumaker & Company) will apply to the operations audits of Consolidated Edison Company of New York, Inc. (CECONY) and Orange and Rockland Utilities, Inc. (O&R), plus New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E).

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#### A. Working Relationships

The Schumaker & Company project team's policy of conducting high quality audits within established time frames entails the coordination of several aspects of the project, as summarized below:

- ◆ *Active Participation and Involvement by NYSDPS and CECONY/O&R and NYSEG/RG&E* – The Schumaker & Company project team embraces a close working relationship with NYSDPS and utility management and staff in conducting these audits. We believe that we have demonstrated this in our previous work. This type of relationship supports the NYSDPS' full understanding of the basis for our findings and ensures their satisfaction that all pertinent issues have been addressed. We have operated under these requirements in previous audits and found that this high degree of participation leads to a superior work product. We accomplished this in past audits in Indiana, Kentucky, Massachusetts, Maine, Michigan, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, and Washington, plus Nova Scotia.
- ◆ *Logical, Efficient Methodology* – Our proprietary project management system, *Project Management Information Application* (PMIA), has been developed specifically to support and facilitate our investigations and analysis, based on our past experiences with other audits of utility operations and performance, management audits, and code of conduct reviews. This database system organizes and manages interviews, information requests, and final work papers.
- ◆ *Generally Accepted Auditing Standards* – This audit must be conducted on an independent, objective basis, adequately supported by proper working papers, and reported constructively with due consideration of pertinent comments on findings, conclusions, and recommendations. Our procedures are in accordance with the standards as defined in the request for proposal and set forth in the National Association of Regulatory Utility Commissioners' "Consultant Standards and Ethics for Performance of Management Analysis," dated November 15, 1989, and with the U.S. General Accountability Office's "Standards for Audit of Government Organizations, Programs, Activities, and Functions," (commonly referred to as the "Yellow Book"), as applicable to public utilities and to generally accepted auditing standards (GAAS) related to issues of management economy, efficiency, and effectiveness as applicable to performance audits.

- ◆ *Straightforward, Concise Final Report* – The final report will contain detailed, meaningful findings and well-developed conclusions, plus useful recommendations. It will clearly address the level of compliance desired by the NYSDPS.
- ◆ *On-Site Presence* – Approximately 60% of the staff time will be spent on-site. We believe this degree of involvement is essential to perform a thorough investigation and provide a high degree of interaction with the NYSDPS and CECONY/O&R and NYSEG/RG&E management and staff.
- ◆ *Rationale for Findings* – The Schumaker & Company project team’s findings will be based on facts that are correct and true and, when combined with professional experience, will provide a complete perspective of the services under review. Furthermore, substantiation (audit trail) for each finding will be evident in the project’s working papers. To ensure that an adequate audit trail is established and maintained, we adhere to generally accepted auditing standards, as described previously. These standards provide guidance in the formulation of objective, independent audit findings supported by proper working papers and reported constructively. The final report will be fair and equitable in addressing the results of the evaluations in each area of investigation.
- ◆ *Cost/Benefit of Recommendations* – Every attempt is made to categorize and quantify the cost and benefits of each recommendation. Additionally, each of the functions or issues will be rated based on its operating or performance level relative to its optimum as of the time of the audit.
- ◆ *Project Management and Control* – A project must be well planned and managed to ensure that NYSDPS’ objectives are realized and to prevent disruption of utility operations. In the conduct of this audit, Schumaker & Company’s project management procedures will address both technical and administrative issues. We are committed to ensuring that the project’s scope is identified, agreed upon, and controlled. We are committed to establishing project administrative procedures that will facilitate conduct of the audit without placing undue burdens on any of the involved staff.
- ◆ *Project Automation* – Various analysis and graphics software will be used by our project team consultants to perform many of the analyses for the development of findings and conclusions during the audit. In addition, several computerized project management and administrative techniques provided by Schumaker & Company will be used during the project. Our word processing systems facilitate footnoting of all written products to the appropriate working papers. All working papers will be maintained in PMIA. In addition, graphics and other software will facilitate the communication of our findings, conclusions, and recommendations to the NYSDPS and CECONY/O&R and NYSEG/RG&E in situations where “pictures speak louder than words.” Draft task reports are typically transmitted electronically to the NYSDPS and CECONY/O&R and NYSEG/RG&E management and staff for review.
- ◆ *Independence and Objectivity* – We recognize that, although the Commission has ordered these audits, the four utility companies have a vested interest in the results. Furthermore, they will be able to use the results of these audits for initiating positive change within their organizations,

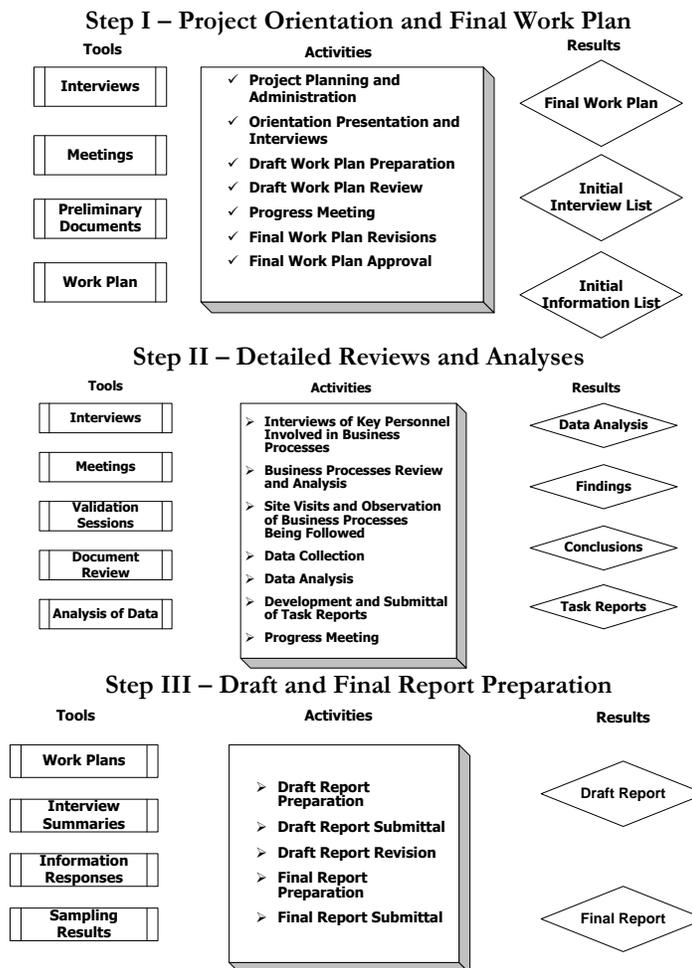
primarily finance and accounting functions. Therefore, we have tailored our audit approach to facilitate the involvement of CECONY’s, O&R’s, NYSEG’s, and RG&E’s management and staff, and their input into the process, while carefully maintaining Schumaker & Company’s independence and objectivity.

The preceding principles will help us to focus our resources in conducting these audits.

## B. Planning the Approach

Schumaker & Company has organized the approach to this project using a business flowchart process as shown in *Exhibit III-1*.

**Exhibit III-1  
Business Flowchart Process**



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## Synopsis of Study

We propose to conduct this audit based on a three-step review process, which has been custom tailored to meet the objectives of the NYSDPS. This process will provide the Schumaker & Company project team with a structured approach that is comprehensive and logical, as well as interactive and participative with NYSDPS and the four utility companies (CECONY, O&R, NYSEG, and RG&E). The process was originally designed to establish and sustain vital, interactive working relationships among NYSDPS and the four utility companies, and the Schumaker & Company project team during the course of a management, operations, and technology audit. We have refined this three-step process over many reviews, audits, and studies conducted with the same team members proposed for this project.

We have assembled a project team with a strong working knowledge of utility company operations, including accounting/tax practices, as well as current industry issues. Each individual has been carefully selected according to his or her experience, technical expertise, and education in those areas for which he or she is proposed. Schumaker & Company consultants are mature and experienced, with advanced degrees and practical business management experience. They consistently meet high standards of professional competence within their disciplines and have the team skills needed to work collaboratively with client organizations. They continue to earn and maintain various professional qualifications and certifications relevant to their managerial and technical expertise as demonstrated in *Chapter V – Proposed Project Team and Assigned Responsibilities*.

Schumaker & Company brings a results-based philosophy to audits such as this one. We also place considerable emphasis on NYSDPS participation, as well as utility company participation, during the audits. These factors will enable NYSDPS and the four utility companies to derive maximum benefit from this review and assessment.

In the course of well over 100 similar audits/reviews, Schumaker & Company and Larkin & Associates team members have developed an approach that has produced consistently sound, constructive results that are generally accepted by all involved parties. Therefore, we have modified our typical approach to ensure that it will be a more business process oriented approach. We are proposing that the project team follow a three-step study process designed to achieve vital, interactive working relationships among the NYSDPS the four utility companies, and our project team. Specifically, the three steps will be as follows:

- ◆ Step I – Project Orientation and Final Work Plan
- ◆ Step II – Detailed Reviews and Analyses
- ◆ Step III – Report Preparation

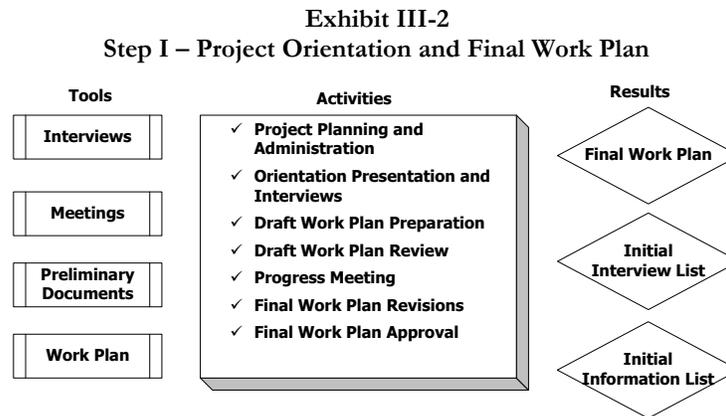
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## C. Project Methodology

The review methodology for each of these steps is provided on the following pages.

## Step I – Project Orientation and Final Work Plan

*Exhibit III-2* illustrates the tools used, activities performed, and results achieved during *Step I*.



The specific activities we will perform during this step are discussed in detail in the following paragraphs.

### Project Planning and Administration

Upon award notification, our *Engagement Manager / Project Manager* will initiate project kick-off with a teleconference meeting to include the NYSDPS and utility companies' (CECONY's, O&R's, NYSEG's, and RG&E's) coordinators. The primary objectives of this project planning meeting are to finalize and schedule our investigations, to review and obtain NYSDPS and utility company concurrence on our project management and administrative procedures, and to set up a timeframe when our consultants can be on-site for a kick-off presentation and to conduct orientation interviews. Specifically, activities to be performed during this step are identified as follows:

- ◆ Establishment of administrative procedures for the project with the NYSDPS *Project Manager* and CECONY's, O&R's, NYSEG's, and RG&E's *Project Coordinator(s)*, including:
  - Interview scheduling procedures
  - Information request procedures
  - Progress reporting procedures
- ◆ Introduction of Schumaker & Company project management administrative procedures and computer capabilities for use on the project (see *Appendix C–SCHUCO Project Management Manual*, which is available from the <http://www.schuco.com/Appendices/AppendixCSCHUCOProjectManagementManual.pdf> Internet link.

- ◆ Familiarization of personnel with the use of Schumaker & Company's interview and information request tracking systems, referred to as our *Project Information Management and Administration* (PMIA) application
- ◆ Identification and scheduling of orientation interviews
- ◆ Submittal and review of initial information requests

### **Orientation Presentation and Interviews**

Based on our experience on prior audits, it has proved to be beneficial for the four utility companies to make kick-off presentations to our project team. This kick-off presentation should at a very high level present the following information:

- ◆ Overall organization charts for CECONY, O&R, NYSEG, and RG&E and their parent company and affiliates
- ◆ Key accounting processes and practices to be investigated regarding the key scope areas identified in RFP and shown in *Chapter II – Scope & Objectives*, including *1 – Evaluate Legacy Systems*, *2 – Evaluate Current PowerTax Systems*, and *3 – Verify Income Tax Errors*.

In addition, the individual consultants will conduct brief follow-up interviews with key management personnel involved in the specific accounting processes and practices to get a better understanding of the processes and systems involved. We will investigate each of the areas in our preliminary work plan, shown in *Section G* of this chapter. Schumaker & Company's *Engagement Manager/Project Manager* and *Lead/Senior Consultants* will conduct these interviews and analyses as a means to more fully understand the issues involved in this project and to determine the extent to which interviews, documentation requests, and sampling of data must be conducted.

### **Preparation of Draft Work Plan**

The primary purposes of the above subtask is to develop a deeper understanding of the specific business processes and systems used by the four utility companies and to provide further technical definition and direction to our project team for preparing a draft work plan for the remainder of the project. We have provided a starting work plan in this proposal; however, we will develop a specific work plan for each of the two sets of utilities during this orientation and planning phase of the project. Each of the key consultants will be involved in the development of the draft work plan. We will use the scope of work identified in the RFP and our preliminary work plan in *Section D* of this chapter, combined with our understanding of the processes and systems within the four utility companies, as learned from the kick-off presentations and orientation interviews and combined with our consultants' knowledge and the integration of the relevant parts of other management audit work plans that we have developed over the last five years, to draft a detailed work plan for the remainder of this project. This work plan will be a process aligned by our interpretation of the business process flows identified in the RFP. Our work plan will include detail as follows for each task area:

- ◆ **Introduction** – An overall description of a process’ functions or activities
- ◆ **Proposed Staffing** – An identification of the consultants assigned to the work area and hours
- ◆ **Work Plan Areas** – The specific steps and activities we will take in assessing each work plan area are further described, as follows:
  - *Key Business Processes and Indicators* – Key business processes to be investigated and KPIs identified.
  - *Work Steps* – Complete a detailed listing of the principle work steps and answer questions.
  - *Interviews* – Key utility company personnel to be interviewed
  - *Information Required* – A preliminary list of the information requests required to evaluate this work plan area.

The draft work plan will be prepared and submitted to the NYSDPS for review and comment.

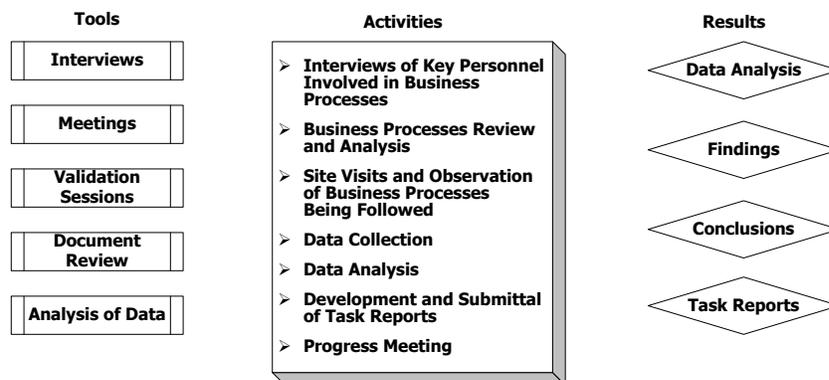
**First Progress Meeting**  
**Final Work Plan Approval**

Our project team will meet with the NYSDPS *Project Manager* and others, as appropriate, to discuss the draft work plan. Also, additional input from attendees on the work plan will be gathered at this time and revisions made, as appropriate. As an outcome of this meeting, the specific areas of focus in the final work plan will be confirmed.

**Step II – Detailed Reviews and Analyses**

*Exhibit III-3* illustrates the tools used, activities performed, and results achieved during *Step II*.

**Exhibit III-3**  
**Step II – Detailed Reviews and Analyses**



## Interviews, Documentation, and Data Collection Reviews and Analyses

The Schumaker & Company project team consultants will visit CECONY's, O&R's, NYSEG's, and RG&E's major facilities where tax personnel work and books and records are kept to conduct interviews with key personnel for CECONY's (New York City, NY), O&R's (Pearl River, NY), NYSEG's (Orange CT and Portland ME), and RG&E's (Orange CT and Portland ME) processes and practices, and gather a variety of information and documents regarding the specific processes and associated systems. The interviews with key management personnel typically consist of reviews of the organization and processes for which each employee is responsible and discussions of any areas of particular interest or concern. The need for detailed research or analysis by CECONY's, O&R's, NYSEG's, and RG&E's employees will be identified at this time.

This step will result in the development of findings and conclusions by the consultants, which will be verbally presented to the NYSDPS and NYSEG's and RG&E's coordinators. In overall terms, this step consists of several principal activities: interviews, information and document reviews, and field observations of representative operations. The following paragraphs describe what each process encompasses.

- ◆ *Interviews* – Interviews are conducted with the personnel responsible for the management and direction of processes and activities in each of the issue areas.
- ◆ *Information and document reviews* – During the course of these interviews, information, and documents relevant to the evaluation of each area are identified and collected for analysis.
- ◆ *Field observations* – We will visit utility company facilities to provide an opportunity for visual inspection of the site, discussions with management and staff personnel, observations of procedures, and other information gathering techniques.
- ◆ *Data summaries* – Interview notes, results of reviews of relevant documents, and any numerical data collected for the purpose of quantitative analysis is organized and summarized by the project team members who have conducted the initial data collection in each area.
- ◆ *Reviewing systems used and sampling of data* – Investigation of specific transactions, including those where errors have been identified will be performed to address the objectives of project.
- ◆ *Development of findings and conclusions* – Based on the results of the data collection and analysis activities, findings and conclusions will be formulated that reflect our summary evaluation of the subject practices.

### Midpoint Briefing

We will have a midpoint briefing meeting with the NYSDPS staff to review of findings and conclusions to that point in time prior to submission of task reports for review.

## Task Reports Development

### Task Reports Review

The input from the task briefing is compiled into the draft task reports, which will be submitted to the NYSDPS for review and comment. After comments are discussed and incorporated, the task reports will be submitted to the four utility companies for similar review, for which their comments should be provided to both the NYSDPS and the Schumaker & Company project team in writing. The Schumaker & Company project team addresses any concerns raised by the NYSDPS *Project Manager* and the four utility company *Project Coordinator(s)*.

### Draft Findings and Recommendations

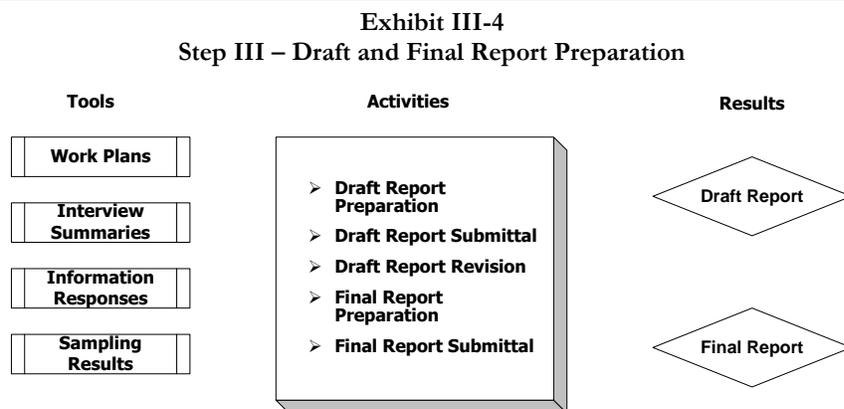
#### Progress Meeting

Prior to completing our draft report, we will prepare a summary presentation of our findings and conclusions for review with NYSDPS and the four utility companies. Our draft findings and conclusions with input from these coordinators will form the basis for our draft report preparation.

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## Step III – Draft and Final Report Preparation

*Exhibit III-4* illustrates the tools used, activities performed, and results achieved during *Step III*.



This step will result in the preparation of the draft and final reports, which serve as the final result of the project, unless testimony is requested.

### Draft Report Preparation

The results of our investigations will be summarized in draft reports that will be submitted to the NYSDPS and CECONY/O&R and NYSEG/RG&E for review and comment. Each of the two draft reports will be indexed to related supporting working papers, and will consist of the following information:

- ◆ Executive summary
- ◆ Brief overview of project
- ◆ Individual chapters for processes investigated, including:
  - Background and perspective
  - Findings and conclusions
  - Recommendations, including costs and benefits associated with each recommendation

Our reports will reflect an objective appraisal of accounting/tax processes, systems, and practices. We will fully document any deficiencies/problems and provide improvement opportunities in the form of practical recommendations, associated quantified costs and benefits, and their implementation priorities. We will identify and recommend areas for adoption of industry best practices. There will be two reports:

- ◆ Consolidated Edison, specifically CECONY and O&R
- ◆ Avangrid, specifically NYSEG and RG&E

### **Draft Report Submittal and Review**

#### **Progress Meeting**

#### **Draft Report Revision**

The draft reports will be submitted to the NYSDPS *Project Manager* (and other staff as desired) for review and comment. After performing their review, the NYSDPS *Project Manager* will discuss resultant comments with the Schumaker & Company consulting team. The Schumaker & Company team will address all concerns raised by the NYSDPS *Project Manager*. Schumaker & Company will then submit a draft report to the appropriate utility company *Coordinator(s)* for review and comment. A third progress meeting will be held with NYSDPS, NYSEG and RG&E, and key Schumaker & Company consultants to verify the material facts in the draft report and obtain written comments. All analyses and hypotheses must be continually assessed within the framework of the focus of the study, the status and structure of NYSEG and RG&E, and the current utility environment. After incorporation of these comments into the report, as appropriate, the final report will be prepared and submitted.

### **Final Report Submittal**

NYSDPS and CECONY/O&R and NYSEG/RG&E must be satisfied that the end product is supported by accurate analyses. For this reason, Schumaker & Company places heavy emphasis on ensuring, to all participants' satisfaction, that project results are based on facts. Verification is done throughout the project to minimize open questions that may occur at its end.

The final reports will consist of the following information:

- ◆ Executive summary
- ◆ Brief overview of project
- ◆ Individual chapters for processes investigated, including:
  - Background and perspective
  - Findings and conclusions
  - Recommendations, including costs and benefits associated with each recommendation
- ◆ Cost benefit analyses (CBA) appendix for recommendations

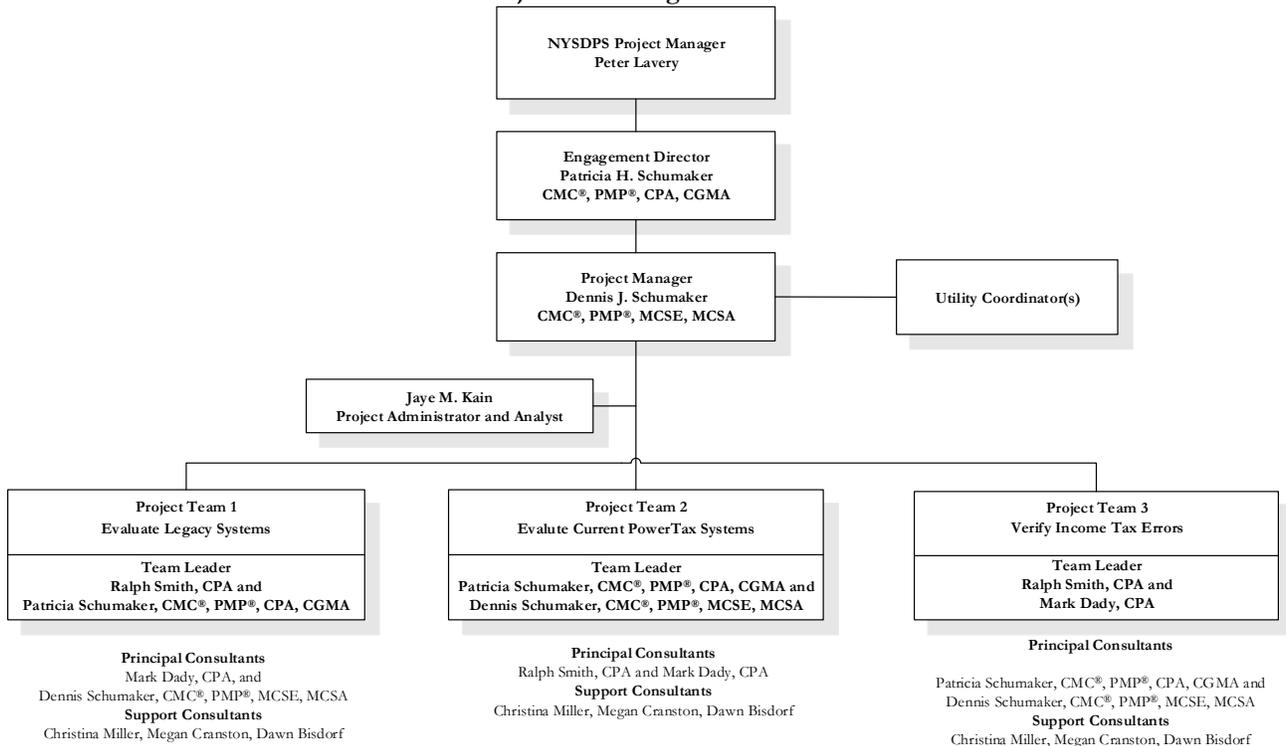
Finally, Schumaker & Company does not consider an engagement to be completed satisfactorily until an utility company has recognized the value of proposed recommendations and agreed to begin implementation.

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## **D. Preliminary Work Plan**

Schumaker & Company has organized our approach to the project using a simplified business flowchart process. Within this simplified approach, we have grouped each of the items mentioned in the RFP into individual work packages that are related in the overall flow process as shown in *Exhibit III-5*. We have divided our project team into individual groups of consultants to address each of the three work plan areas, as identified in *Exhibit III-5*.

### Exhibit III-5 Project Team Organization



Each of our key consultants will be involved in the development of the draft work plan. We will develop a specific work plan for each of the utilities in that some of the specific issues to be addressed will be different between the utilities whereas many of the issues will be the same.

We will use the scope of work identified in the RFP (repeated in this section), combined with our preliminary work plan that is contained in this section, and our understanding of the business processes within learned from the kick-off presentation and orientation interviews, and combined with our consultants' knowledge and the integration of the relevant parts of other management audit work plans that we have developed over the last five years, to draft a detailed work plan for the remainder of this project. Our preliminary work plan (on the following pages) for each of the identified areas includes the following information:

- ◆ Proposed staffing
- ◆ Work steps
- ◆ Evaluative criteria or expectations
- ◆ Potential issues or problems that could be expected:

Further refinement of this preliminary work plan and initial information requests will be performed as part of the project's activities.

Our first task will be to examine the company's response to our initial data requests, which are tied to our evaluative criteria, expectations, and background information we already have on CONED, O&R,

NYSEG's and RG&E's accounting/tax operations. As we progress through this task (as with all tasks), we will begin to outline the task report into the major areas of *Background & Perspective*, *Findings & Conclusions*, and even *Recommendations* segments. At this early point we will already be forming hypothesis on findings that will help guide our further review and analysis. Shortly thereafter, or concurrently in some cases based on schedule and the company's ability to respond to initial data requests, we will perform orientation interviews. In the case of this work plan area, we will talk to management and staff of any accounting/tax support functions. Our interview topics will broadly cover the management systems and practices within their respective scope of responsibilities (once again, broadly following our evaluative criteria and expectations), relevant documentation and reports that define these practices and how they are implemented. We will also address any initial issues that arise from our initial data review.

Our next step will be to update our work plan to add or delete additional criteria, document requests, interviews, analysis, issues, and report outline. This revised work plan will form the basis for additional information requests and interviews. While field work progresses, we will be continually adding to our task report. In fact, it is our practice to update our task report after each interview and document reviewed/analysis completed. We should note that documentary evidence will form the basis for our endnote citations. Interviews are important, but no important piece of information or finding will be based solely on interviews. Also, as field work progresses, document requests will become narrower and more specific; even to the extent of confirming a specific fact that resulted from an interview.

When the field work is completed, the draft task report will be reviewed by project management and a professional editor. Once approved, it will be submitted to NYSDPS staff for comments. The Lead Consultant will respond to comments, make necessary changes, and perform additional field work, if necessary, and resubmit the task report to project management/editor. The task report will then be submitted to the four utility companies for factual comments. In some cases, if allowed by NYSDPS staff, we will sit down with key/senior management and confirm important facts and findings prior to submission of the task report.

## **Tax Department Performance Review**

**Team Leader & Lead Consultant: Ralph Smith Lead and Patricia Schumaker**

**Senior Consultants: Mark Dady and Dennis Schumaker**

The senior personnel on the project, Patricia Schumaker, Ralph Smith, Mark Dady, and Dennis Schumaker will conduct interviews with the Accounting/Tax Departments and review various documents within the Accounting/Tax Department in conducting a performance review of the department. The senior personnel will initially review the Accounting/Tax Department, as illustrated below, as a means to initially start out the three scope areas, plus detailed information about each scope area follows:

- ◆ *Scope Area 1:* Evaluate Legacy Systems
- ◆ *Scope Area 2:* Evaluate Current PowerTax Systems
- ◆ *Scope Area 3:* Verify Income Tax Errors

| Typical Work Steps  | Information Required   | Key Indicators   |
|---|--|--|
| <p>Assess the policies and procedures established for components of the accounting/tax functions, specifically property records, including depreciation and accumulated depreciation, for book and tax purposes.</p> <p>Determine whether the processes incorporate appropriate controls and validation steps and efficiently collect and process data.</p> <p>Evaluate processing, recording, authorization, and accountability of the function between all levels.</p> <p>Review the independence, processing, security, and accountability of the function.</p> <p>Assess the internal controls established within the accounting/tax function (against established standards) to ensure proper segregation of duties for established of asset transactions.</p> | <p>Financial statements (book) and tax filings for past 10 years</p> <p>Auditor history for past 10 years, including expenditures broken down by financial audit service, other audit services, tax services, and other consulting services</p> <p>Accounting/tax policies and procedures manuals</p> <p>Internal operational audit reports (last 10 years), including assessment of internal controls</p> <p>External audit reports (last 10 years), including assessment of internal controls</p> <p>Sample property records showing how book and tax transactions conducted</p> <p>Corporate federal income tax returns for past 10 years, including consolidating schedules and tax elections, including bonus tax depreciation claimed in each year, and all Schedule uncertain tax positions (UTP) details</p> <p>Detailed accounting and tax records for Schedule M items and uncertain tax positions, including how each uncertain tax position was analyzed and quantified</p> <p>Independent financial auditor workpaper review focusing on testing of income tax balances, normalization compliance and related internal controls</p> | <p>Records and systems provide data integrity, timeliness, and GAAP conformity for the purposes of financial statements, management information, and rate analyses.</p> <p>Sufficient internal controls exist.</p> |
| <p>Identify and assess the appropriateness of policies, procedures, and accounts for NYSPSC ratemaking purposes.</p>  | <p>Copies of all policies, procedures, and accounts used for NYSPSC ratemaking purposes.</p>   | <p>Appropriate policies, procedures, and accounts are in place for ratemaking purposes.</p>  |
| <p>Assess the effectiveness of automation used in each of the components of the accounting/tax functions, such as primary processes.</p> <p>Determine whether the systems effectively communicate with other systems within the utility organization.</p>   | <p>Accounting/finance function job descriptions</p> <p>Accounting/tax systems documentation</p> <p>Copies of any consulting studies performed (last 10 years)</p>  | <p>The organization's systems are sufficiently automated to efficiently provide timely data and effective work force management.</p>   |

## Scope Area 1: Evaluate Legacy Systems

### Project Team

**Team Leader & Lead Consultant: Ralph Smith Lead and Patricia Schumaker**

**Senior Consultants: Mark Dady and Dennis Schumaker**

**Support Consultants: Christina Miller, Megan Cranston, Dawn Bisdorf**

We have already read portions of the testimony submitted in the prior rate cases where many of the issues are discussed. However, these issues and the math involved are very complex to understand by only using words to describe the issues but could be better understood by developing an example using numbers. *Exhibit III-6* shows a slimmed down income statements for a utility only showing the relevant accounts that get affected in the creation of regulatory books and tax basis books.

**Exhibit III-6  
Book versus Tax Basis Books**

|                       | Regulatory Books | Tax Books | Difference |
|-----------------------|------------------|-----------|------------|
| Revenue               | \$500,000        | \$500,000 | \$0        |
| Expenses              |                  |           |            |
| Depreciation          | \$25,000         | \$100,000 | -\$75,000  |
| COR                   | \$2,500          |           | \$2,500    |
| Income Before Taxes   | \$472,500        | \$400,000 | \$72,500   |
| Taxes                 | \$132,300        | \$112,000 | \$20,300   |
| Income                | \$340,200        | \$288,000 | \$52,200   |
| Costs For Rate Making | \$159,800        | \$212,000 | -\$52,200  |

The assumptions used in the examples are shown in *Exhibit III-7*. The example shows both regulatory and tax basis income statements. The expenses that appear in the income statement are allowable costs for determining rates. In this case the costs for rate making are lower (primary due to the difference in how depreciation is calculated between regulatory and tax basis books). This has an impact on the taxes that are calculated. In this simple example, the assets involved are \$1 million as shown in *Exhibit III-7*. In this simple example, if a 10% return on rate base then we would be setting rates to result in an income figure of \$100,000 (recognize that there would be other allowable costs would be also included in an actual rate case). As shown in the example, the taxes are lower on a tax basis. The difference between the regulatory and tax basis tax give rise to a Deferred Tax Liability (\$20,300) which gets booked on the regulatory books as a credit to Accumulated Deferred Tax Liability and a debit to Deferred Tax Expense. In addition there are other rules which must be conformed to including normalization and consistency requirements. This simple example was constructed as an annual example whereas in actually these calculations would be performed on a monthly basis throughout the

year and essentially summed over the year. In addition, the calculations would be done on an asset-by-asset basis with the various asset classes have different book and tax depreciation schedules.

**Exhibit III-7**  
**Assumptions Used in Example**

|                            |             |           |             |                          |
|----------------------------|-------------|-----------|-------------|--------------------------|
| <b>Assumptions</b>         |             |           |             |                          |
| Revenue                    |             |           | \$500,000   |                          |
| <b>Assets</b>              |             |           |             |                          |
| Fixed Assets Installed     |             |           | \$1,000,000 |                          |
| 40 year Book Life          | 40          |           | \$25,000    | 40 year straight line    |
| 20 year tax life           | 20          |           | \$100,000   | Double Declining Balance |
| <b>Tax Rate</b>            |             |           |             |                          |
|                            | 28.00%      |           |             |                          |
| <b>Cost of Removal</b>     |             |           |             |                          |
|                            | 10%         | \$100,000 | \$2,500     |                          |
| <b>Rate Base</b>           |             |           |             |                          |
|                            | \$1,000,000 |           |             |                          |
| <b>Return on Rate Base</b> |             |           |             |                          |
|                            | 10%         |           |             |                          |
| <b>Target Income</b>       |             |           |             |                          |
|                            | \$100,000   |           |             |                          |

The Modified Accelerated Cost Recovery System (MACRS) is the current tax depreciation system in the United States. Under this system, the capitalized cost (basis) of tangible property is recovered over a specified life by annual deductions for depreciation. During many of the years being investigated, public utility property being placed into service was also eligible for bonus tax depreciation. Normalization requirements apply for the accelerated tax depreciation taken under MACRS, as well as to the bonus tax depreciation claimed for federal income tax purposes.

### Work Steps

We will have each of the utility organizations to walk us through what was done with the legacy systems, including transition to the PowerTax system, including what errors were conducted, plus how and why specific errors were done. Samples of errors must be provided by the utility organizations and shown how they impacted accounting/tax and ratemaking practices.

Specific work steps for this area include (but are not limited to) the following:

- ◆ Meet with NYSDPS staff and review all work done to date, including information requests, interviews, and hearing testimony regarding the errors.
- ◆ Conference call with utility to setup all-day meetings in which each utility can present their case and we can ask questions and request documents.
- ◆ Attend all-day briefing sessions on the origin of the errors and submit further requests for information.
- ◆ Make a determination of the extent to which the legacy systems can be used to replicate the errors or consider using the PowerTax system to determine the errors. PowerTax integrates

with PowerPlan and we would expect that asset historical information should be readily available to recalculate the proper books.

- ◆ Fine tune work plan for remainder of the project.
- ◆ Compare the books using PowerTax to books presented in the appropriate prior rate cases.
- ◆ Review the entries that have been made to the appropriate general ledger accounts:
  - Assets
  - Accumulated Depreciation
  - Deferred Tax Liability
  - Depreciation Expense
  - Cost of Removal
- ◆ Determine how the cost of removal has been handled on a tax and book basis. Typically, cost of removal is included in the development of the book depreciation rates that are used by public utilities. Sometimes this is referred to as negative net salvage. The utility's depreciation rates thus include portions that (1) depreciate the original cost over the expected useful life of the asset on an account or sub-account basis and (2) recover estimated cost of removal/negative net salvage over the expected useful life of the plant account or sub account. Typically, cost of removal is deductible for federal income tax purposes only when paid.
- ◆ Understand exactly what the normalization requirements are. The provisions in Internal Revenue Code *Sec. 167* and Code *Sec. 168* addressing normalization, along with related Treasury Regulations, and how they have been interpreted in similar situations, including in Private Letter Rulings (PLRs)<sup>1</sup>, will be reviewed. Just because a witness testifying for a utility claims that higher income tax expense should be charged to ratepayers in order to avoid an alleged normalization violation, doesn't necessarily make it so. An objective review of the normalization requirements applicable to each of the four utilities' specific fact situations will be undertaken. Similarly, the proposed "fix" for each alleged normalization violation for each utility will be objectively evaluated.
- ◆ Validate the amount of any errors identified.
- ◆ Address specific questions contained in the RFP, including:
  - Determine whether the legacy tax systems were operating properly and producing results that were in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices.
  - Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.
  - Determine whether appropriate procedures and internal controls were in place at the Utilities related to the income tax accounting processes and the income tax accounting

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<sup>1</sup> PLRs state specifically that they apply only to the taxpayer to whom they are issued but may nevertheless contain discussions of particular issues that are of interest to tax practitioners addressing other taxpayers facing similar issues and fact situations.

preservation/destruction of records processes, and if the controls in place were reasonable and comparable to those in place at similar companies at the time the alleged errors occurred.

- Determine if there is an alternative way to verify the occurrence of the alleged errors and accurately quantify the impact of the errors without access to the legacy system database
- Review the processes surrounding the implementation and execution of the new income tax software systems and retirement of the legacy tax systems, and determine whether appropriate procedures and controls were in place and were properly executed.

### **Evaluative Criteria or Expectations**

We will need to compare what the book entries should have been in the prior rate case to what was determined by using PowerTax. This analysis, including sampling of errors, will identify the existence of any errors. We will also review each utility's analysis and identification of uncertain tax positions. Evaluation of uncertain tax positions is required both for federal income tax purposes, as well as for financial accounting. Taxpayers are required to present uncertain tax positions on Schedule UTP. Financial accounting also requires that companies complying with GAAP analyze their uncertain tax positions, and to accrue reserves against uncertain tax positions pursuant to the qualifying criteria. An examination of each utility's evaluations of uncertain tax positions will thus be included in our investigation.

### **Potential Issues or Problems That Could Be Expected**

As indicated in the RFP, some company's legacy system database and income tax software application used to perform the income tax accounting is no longer available. We anticipated that will create a need to use the current PowerTax software to identify what the amounts should have been in the accumulated depreciation, deferred income tax liability and deferred income tax expense.

## Scope Area 2: Evaluate Current PowerTax Systems

### Project Team

**Team Leader & Lead Consultant: Patricia Schumaker Lead and Dennis Schumaker**

**Senior Consultants: Ralph Smith, Mark Dady**

**Support Consultants: Christina Miller, Megan Cranston, Dawn Bisdorf**

Dennis Schumaker and Patricia Schumaker would be the lead consultants in reviewing the PowerTax implementation and the results generated from PowerTax. Dennis Schumaker and Patricia Schumaker have performed assignments involving rate cases in Michigan and Ohio, including dealing with continuing property records which involves depreciation for both book and tax purposes. We have also been involved in reviewing all the electric rates cases over the last five years in the state of Michigan.

Ralph Smith and Mark Dady have extensive experience reviewing utility deferred income tax calculations and accumulated deferred income tax (ADIT) balances in over a hundred utility rate cases over the past 37 years. Mr. Smith has presented expert testimony on public utility income tax issues in numerous cases. Many of the large utilities use PowerTax to track tax basis and tax depreciation on the assets that are used to provide public utility service. Most recently, Mr. Smith and Mr. Dady reviewed income tax and ADIT balances for Mississippi Power Company's Kemper County Integrated Gasification Combined Cycle (IGCC) (now expected to operate only as a natural gas-fired CC) on behalf of the Mississippi Public Utilities Staff (MPUS). This included an analysis of PowerTax produced data on plant related tax depreciation, book depreciation, income taxes on permanent differences (such as equity AFUDC), and the impacts of the Tax Cuts and Jobs Act. Previous investigations on behalf the MPUS into Kemper IGCC income tax issues included effects of research and experimentation deductions under IRC §174. Mr. Smith also assisted the Georgia Public Service Commission Public Interest Staff in evaluating income tax issues in several Georgia Power rate cases, including recent Plant Vogtle proceedings as a witness on the Independent Monitor panel. He has testified in numerous utility rate cases about ratemaking issues involving income taxes, including repairs deductions, bonus tax depreciation, domestic production activities deductions, uncertain tax positions, NOL carryforwards, CIAC, alleged normalization violations and other issues, including elections made in utility merger transactions to treat a stock acquisition as an asset sale for federal income tax purposes under IRC §338(h)(1). An election under Internal Revenue Code §338(h)(10), which is seen in some utility merger cases, would result in treating the stock purchase as an asset purchase for federal income tax purposes, with the consequence that the utility's accumulated deferred taxes are reset to zero, effective with the date of the transaction. Mr. Smith has addressed such issues in merger cases, as well as in subsequent utility rate cases. The Larkin & Associates team of Mr. Smith, Mr. Dady, Ms. Cranston, Ms. Bisdorf, and Ms. Miller is advising a number of clients, including regulatory commission staffs and consumer interest groups, concerning the impact of the recently passed Tax Cuts and Jobs Act on public utilities. On numerous utility rate cases, Mr. Smith and his team have done.

Both Patricia Schumaker and Dennis Schumaker have experience with PowerPlan in that several of our clients have used PowerPlan as their Fixed Asset system. We are less familiar with PowerTax, although we are well aware that PowerTax uses PowerPlan as the fixed asset system from which it draws its information. However, if awarded this project, at least Dennis Schumaker and Patricia Schumaker

would attend PowerTax training at no cost to the projects. The PowerTax training schedule for this coming year is as shown in *Exhibit III-8*. The first PowerTax training program is scheduled for March, which is before a selection is made on this project. There is something in May but, better yet, we could arrange a training session in Albany, if we can have enough attendees, including NYSDPS attendees. Schumaker & Company would pay for the course at no cost to the projects. The more people that we could get to attend, that more cost effective it would be to put on in Albany.

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**Exhibit III-8  
PowerTax Training**

| PowerPlan Class                                     | Dates                | CPE Credits | Fee     |
|---|----------------------|-------------|---------|
| Fundamentals of PowerTax                            | March 12-13, 2018    | 16          | \$1,800 |
| Deferred Tax for PowerTax Users                     | March 14, 2018       | 8           | \$900   |
| Fundamentals of PowerPlan Fixed Assets and Projects | March 19-22, 2018    | 32          | \$3,600 |
| Fundamentals of PowerPlan Departmental Budgeting    | April 9, 2018        | 8           | \$900   |
| Fundamentals of PowerPlan Capital Budgeting         | April 10-11, 2018    | 16          | \$1,800 |
| Fundamentals of PowerPlan Depreciation Forecasting  | April 12, 2018       | 8           | \$900   |
| Supporting PowerPlan                                | April 16-19, 2018    | 32          | \$3,600 |
| Fundamentals of PowerPlan Tax Provision             | May 14-16, 2018      | 20          | \$2,250 |
| PowerPlan Lease Accounting for Lessees              | July 16, 2018        | 8           | \$900   |
| Fundamentals of PowerPlan ARO                       | September 10, 2018   | 8           | \$900   |
| Fundamentals of PowerPlan Fixed Assets and Projects | October 15-18, 2018  | 32          | \$3,600 |
| Supporting PowerPlan                                | October 22-25, 2018  | 32          | \$3,600 |
| Fundamentals of PowerTax                            | November 12-13, 2018 | 16          | \$1,800 |
| Deferred Tax for PowerTax Users                     | November 14, 2018    | 8           | \$900   |
| Fundamentals of PowerPlan Property Tax              | December 4-5, 2018   | 16          | \$1,800 |

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### Work Steps

We will also have each of the utility organizations to walk us through what was done with the PowerTax system, including what errors were conducted, plus how and why specific errors were done. Samples of errors must be provided by the utility organizations and shown how they impacted accounting/tax and ratemaking practices.

Specific work steps for this area include (but are not limited to) the following:

- ◆ Review and evaluate systems used, including controls used by the utility organization.
- ◆ Review and evaluate how calculations were made for each system used, including book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.
- ◆ Review and evaluate transition from prior systems to PowerTax to see what differences have occurred.
- ◆ Address specific questions contained in the RFP, including:
  - Evaluate whether the inputs were accurate and reasonable at the time of the Utilities' conversion to PowerTax.

- Determine whether the ending balances with underlying itemized supporting details in the legacy systems tie to the beginning balances with the same underlying itemized supporting details in the PowerTax system.
- Determine whether the current and prior tax expenses were calculated using consistent methods, conventions, and assumptions.
- Evaluate whether the PowerTax systems are operating properly and are producing results that are in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices.
- Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.
- Evaluate whether the companies correctly effectuated changes to the PowerTax software operations and calculations in order to reflect the Commission-approved correction of the errors, specifically, for O&R in Cases 14-E-0493 and 14-G-0494, and for Con Edison in Cases 15-E-0050, 16-E-0060, and 16-G-0061.
- Determine whether the corrections authorized by the Commission were necessary to comply with IRS tax normalization policies.
- Determine if Con Edison's replication of the COR flow-through error on its books between 2013 and 2016, after converting to PowerTax, is an accurate representation of the company's accounting using the Acufile system, and determine whether such replication of the error was a violation of the IRS normalization rules.
- Review and provide an opinion on the adequacy of current controls designed to ensure the accuracy of income tax accounting at the Utilities and make recommendations as appropriate.
- Review and provide an opinion on the accuracy of the Utilities' measurements of plant-related excess accumulated deferred income tax balances and related accounting.

#### **Evaluative Criteria or Expectations**

- ◆ We will need to see if proper controls currently exist with use of the PowerTax system, plus perform sampling of specific errors, to determine if errors are currently being done.
- ◆ Review the interaction of PowerPlan tracking of assets and use in computing book depreciation with PowerTax tracking of tax basis for assets and tax depreciation.
- ◆ Determine what safeguards are built into PowerPlan and PowerTax to assure compliance and consistency with normalization requirements.
- ◆ Using a sampling technique, sample various assets from PowerPlan as to how they were handled in PowerTax

- Sample several assets from each asset class
  - Accumulated Depreciation
  - Verify ADIT
  - Correct Normalization
  - Review samples for assets, which included bonus tax depreciation, as well as MACRS.
  - Etc.
- Verify summing of asset classes and totals that should be reported in rate case
- ◆ Use the PowerTax systems to develop numbers that should have been presented in previous rate cases and compared to what was presented.

### **Potential Issues or Problems That Could Be Expected**

We may find that certain utility personnel do not appropriately understand PowerTax usage, so proper controls may not be in place, plus errors may still occur.

### Scope Area 3: Verify Income Tax Errors

#### Project Team

**Team Leader & Lead Consultant: Ralph Smith Lead and Mark Dady**

**Senior Consultants: Patricia Schumaker and Dennis Schumaker**

**Support Consultants: Christina Miller, Megan Cranston, Dawn Bisdorf**

#### Work Steps

Based on the errors identified by NYSPSC and utility organizations, we will have the utility organizations provide detailed information for each error, so we can review and assess each error, plus research what actions should have been taken, so as to identify what findings/conclusions and recommendations should be incorporated into the audit report.

Specific work steps for this area include (but are not limited to) the following:

- ◆ Review and evaluate to what extent accounting/tax transactions comply with ratemaking and IRS policies and procedures
- ◆ Review utility records of their evaluation of uncertain tax positions.
- ◆ Review utility's independent financial auditor workpapers related to their review of income taxes and related internal controls.
- ◆ Perform sampling of errors to verify if what provided by the utility organizations is what has been done.
- ◆ Review and evaluate impact of errors on book statements and tax filings.
- ◆ Address specific questions contained in the RFP, including:
  - Determine whether the Utilities' legacy systems' recording of deferred income taxes would or would not constitute compliance with IRS tax normalization policies.
  - Review the Utilities' past rate filings, verify that the calculations of the errors are correct and determine the detailed amount of rate understatement in past rates (i.e., determine the proper FAS 109 Regulatory Asset/Liability balances and Rate Base ADFIT balance for correcting the errors).
  - Determine if the understatement of income tax expense was reflected on the Utilities' past financial statements and in the Utilities' rate filings.
  - Determine if the Commission is obligated to provide retroactive recovery of the effect of the alleged errors per the IRS policies and PLRs.
  - Provide an opinion and recommendation on whether, and to what extent, regulatory assets resulting from the historic tax accounting errors should be recovered from ratepayers.

- Evaluate and opine on the tax consequences, if any, the Utilities would face should the Commission not provide recovery of the retrospective errors (the amount of the errors that occurred before the Utilities became aware of the errors).
- Provide the financial impacts of alternative proposals (e.g., no recovery of regulatory assets).

### **Evaluative Criteria or Expectations**

We will review errors already identified to see if they have been accurately provided, plus identify if others have occurred.

### **Potential Issues or Problems That Could Be Expected**

Errors supposedly identified by the utility organizations may not be accurate, or other errors may also exist. As identified in the RFP, the discontinued use of the legacy system may present difficulties in obtaining calculations for a portion of the historic period being examined.

### **Additional Clarification of Items to Perform During Audit Task Areas**

In addition to the items already mentioned in our proposal response, Schumaker & Company and Larkin & Associates consultants will also be performing these specific items as clarification of the activities involved:

- ◆ Review of systems/spreadsheets or other manual efforts used in past and currently to understand how used, including how items calculated and what internal controls involved.
- ◆ In-depth dive into the use of PowerTax and PowerPlan, plus prior systems, as available. If prior systems, such as Acufile database or spreadsheets, are not available, we will work with utility organizations to determine how we can calculate transactions for verifying if errors were done as reported by the utility organizations.
- ◆ Review of calculations used in past and currently, in which sampling will also be used to review if transactions were properly (or improperly) done, plus determine if errors reported by utility organizations to the New York State Public Service Commission were properly reported. A large portion of each type of asset will be evaluated as part of the sampling efforts.
- ◆ Review of internal and external audit reports and associated working papers and management letters, plus any SOx documentation reports. See additional discussion of review of independent financial statement auditor workpapers below.
- ◆ Review of filed tax returns. Each utility participates in a consolidated federal income tax return (form 1120) with affiliates. A complete copy of the federal and state income tax returns for each year will be requested and reviewed, including but not limited to consolidating information, Schedule M detail, disclosures of any changes in tax accounting, disclosures of any uncertain tax positions, and supporting details for tax depreciation claimed on the return, including Modified Accelerated Cost Recovery System (MACRS) and bonus tax depreciation.

- ◆ Review of any private letter rulings (PLRs) for comparable fact situations, including PLRs for affiliates. If it is ultimately determined that PLRs relating to each of the New York utilities are ultimately going to be needed, we will assist with the drafting the PLR to assure that it is presented as an objective ruling request (rather than a advocacy piece that urges a finding from the IRS that normalization violations have occurred). Obtaining a taxpayer-specific PLR based upon their specific fact situation is one way to definitively answer whether normalization violations exist with respect to the utility's accounting and regulatory treatment of impacts from the utility's use of accelerated tax depreciation (or investment tax credits).
- ◆ Review of each utility's depreciation rate studies during the period affecting their accumulated deferred income tax (ADIT) balances, including the breakout of depreciation rate components between (1) original cost recovery over estimated public utility asset service lives and (2) components for the cost of removal/negative net salvage. See additional discussion below.
- ◆ Review of each utility's implementation of Statement of Financial Accounting Standards No. 143 (SFAS 143), now codified in the Accounting Standards Codification as ASC 410, Asset Retirement Obligations and Environmental Obligations. The Financial Accounting Standards Board (FASB) is a standards-setting body for the public accounting profession. In June 2001, the FASB promulgated FAS 143, which addresses the appropriate accounting for long-lived assets. It is effective for all fiscal years beginning after June 15, 2002. However, earlier application was encouraged. Pursuant to FAS 143, all companies, both unregulated (e.g., Walmart) and regulated (e.g., ConEd, Avangrid, etc.) must review all of their long-lived assets to determine whether or not they have actual legal obligations to remove retired assets. For some plant and equipment, companies have a legal obligation to remove the asset at the end of the service life. These legal obligations for future removal are called asset retirement obligations (AROs). For other assets, no such obligation exists. If a company has an ARO, the fair value of the future retirement cost, which is determined using net present value techniques, is considered to be part of the original cost of the asset. That ARO is therefore capitalized (included in the original cost) and depreciated over the life of the asset. In essence, if a company is required by law to spend money to remove an asset at the end of its life, cost of meeting that obligation is part of the cost of the asset. In contrast, if a company does not have such legal obligations, the future cost of removal will not be capitalized as part of the asset cost and will not be included in depreciation expense. Only the initial cost of the asset (i.e., without removal costs) will have been depreciated. At the end of the asset's life, for assets without AROs, the accumulated depreciation account will equal the plant balance. In other words, under FAS 143, there is symmetry between assets with and without AROs. In both cases, the accumulated depreciation will equal the original cost of the asset at the end of its life. As a result of implementation of FAS 143, utilities have generally split their depreciation rates into two components: (1) a component for recovering the original cost of the utility plant in service over the anticipated remaining life of the property and (2) a component for the cost of removal/negative net salvage. Prior to implementing FAS 143, utility depreciation rates for these components were generally bundled together. Because book depreciation is used for the normalization of book-tax differences relating to the use of accelerated tax depreciation for federal income tax purposes, the understanding of the utility's book depreciation rates, and

what they represent is anticipated to be an important aspect of the investigation into the issues relating to tax normalization in this project.

- ◆ Review of each utility's accounting for book depreciation including the breakout of book depreciation and accumulated depreciation into the components for (1) recovery of original cost of plant over the estimated useful life and (2) cost of removal/negative net salvage utilizing Generally Accepted Accounting Principles (GAAP) and Federal Energy Regulatory Commission (FERC) guidance for regulatory accounting. FERC addressed FAS 143 in Docket RM02-7-000, which resulted in Order No. 631. FERC Order 631 essentially adopts FAS 143 and integrates it into the Uniform System of Accounts (USOA). Utilities are required to review their long-lived assets to determine if they have any AROs. Where utilities do not have AROs, any charges for such amounts must be separately identified. FERC Order 631 defines cost of removal allowances for which there is no legal asset retirement obligation, as "non-legal retirement obligations." Past and future "non-legal AROs" must be specifically identified and accounted for separately in the depreciation studies, depreciation expense, and the accumulated depreciation account. In Order 631, FERC maintains the transparency resulting from the "separation principle" for non-legal AROs that was established in paragraph B73 of FAS 143. Paragraph 38 of Order 631 explains FERC's new requirements for non-legal AROs: "Instead, we will require jurisdictional entities to maintain separate subsidiary records for cost of removal for non-legal retirement obligations that are included as specific identifiable allowances recorded in accumulated depreciation in order to separately identify such information to facilitate external reporting and for regulatory analysis, and rate setting purposes. Therefore, the Commission is amending the instructions of accounts 108 and 110 in Parts 101, 201 and account 31, Accrued depreciation - Carrier property, in Part 352 to require jurisdictional entities to maintain separate subsidiary records for the purpose of identifying the amount of specific allowances collected in rates for non-legal retirement obligations included in the depreciation accruals." The subsidiary records maintained by each utility of the specific allowances collected in rates for depreciation expense under this guidance will be reviewed.
- ◆ Review of FAS 109 balances. FAS 109, now codified as ASC 740, established financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting. Under FAS 109, the objectives of accounting for income taxes are (1) to recognize the amount of taxes payable or refundable for the current year and (2) to recognize deferred tax liabilities or assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The FAS 109 balances of each utility will be reviewed, along with the supporting detail.
- ◆ Review of independent auditor workpapers relating to ADIT, income tax expense, depreciation, and accumulated depreciation. Each utility under review in this project is a subsidiary of a publicly-traded Securities and Exchange Commission (SEC) regulated company and has financial statements prepared pursuant to GAAP, which are audited by independent auditors. The auditors are charged with auditing and expressing an opinion on the financial statements, specifically for whether they present fairly the financial position and operating results of the

company in accordance with GAAP and with reviewing and reporting on the company's internal control procedures and their effectiveness. Because income taxes, depreciation, accumulated depreciation, and ADIT tend to be material to the results of operations and financial position, these areas are usually tested by the independent auditors in their audits. Testing of uncertain tax positions and compliance with GAAP (including FAS 143 and FAS 109) are also areas that are typically reviewed by the independent auditors in conjunction with their financial statement audits. Sections of the workpapers describing the audit testing, the risks perceived by the auditors, and the results, including whether any adjusting journal entries or internal control deficiencies were determined to exist, are documented in the independent auditing firm's workpapers. Obtaining access to and reviewing the relevant sections of the independent financial statement auditor's workpapers for each of the utilities could therefore provide information that would be useful in the analysis of the tax normalization issues for these utilities.

- ◆ Review the impact and implications of Rev. Proc. 2017-47, which established a Safe Harbor for Inadvertent Normalization Violations. This revenue procedure provides a safe harbor concerning inadvertent or unintentional uses of a practice or procedure that is inconsistent with §§ 50(d)(2) and 168(i)(9) of the Internal Revenue Code of 1986, as amended (Code), which requires the use of the Normalization Rules (as defined in section 4.04 of this revenue procedure). If the safe harbor under section 5 of this revenue procedure applies, the Internal Revenue Service (IRS) will not assert that a taxpayer's inadvertent or unintentional use of a practice or procedure that is inconsistent with §§ 50(d)(2) and 168(i)(9) of the Code constitutes a violation of the Normalization Rules. This revenue procedure does not limit or change the process by which a taxpayer may request a letter ruling or a referral for a technical advice memorandum that the taxpayer's proposed practice or procedure is consistent or inconsistent with the Normalization Rules. Section 168 of the Code provides taxpayers generally with the benefits of the accelerated cost recovery system in the computation of their depreciation deduction for federal income tax purposes. Section 168(f) provides the description of certain property for which the benefits of § 168 do not apply. Section 168(f)(2) provides that § 168 does not apply to any public utility property, as defined in § 168(i)(10), if the taxpayer does not use a normalization method of accounting. In general, § 168(i)(10) defines "public utility property" as property used predominantly in the trade or business of furnishing or selling (A) electrical energy, water, or sewage disposal services, (B) gas or steam through a local distribution system, (C) certain communications services, or (D) the transportation of gas or steam by pipeline, if rates for such furnishing or sale are established or approved by a state (including the District of Columbia) or political subdivision thereof, any agency or instrumentality of the United States, or a public service or public utility commission or other body of any State or political subdivision thereof. Section 168(i)(9) describes what constitutes a "normalization method of accounting." The rules provided in § 168(i)(9) recognize that the rates a regulated public utility is permitted to charge its customers are established or approved by regulators based on the utility's cost of service taking into account the depreciation of assets and federal income tax expense. The Normalization Rules under § 168(i)(9)(A)(i) require the taxpayer to compute the federal income tax expense taken into account in setting its rates using a depreciation method that is the same as, and a depreciation

period that is no shorter than, the method and period used to compute the depreciation expense for purposes of computing rates. Under § 168(i)(9)(A)(ii), a taxpayer must account for any difference between its federal income tax expense taken into account in computing its rates and the actual federal income tax it pays as a reserve for deferred taxes. If the taxpayer uses estimates or projections in determining for rate-making purposes its tax expense, depreciation expense, or reserve for deferred taxes, the Normalization Rules under § 168(i)(9)(B) require the use of consistent estimates or projections with respect to the other two items and rate base. Section 1.167(l)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under § 167 of the Code and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. This revenue procedure applies to a taxpayer that owns Public Utility Property and has inadvertently or unintentionally failed to follow a practice or procedure that is consistent with the Normalization Rules in one or more years. It provides a “Safe Harbor” for the taxpayer to correct the normalization violation and retain supporting documentation in the following manner. Upon recognizing its failure to comply with the Normalization Rules, the taxpayer changes its Inconsistent Practice or Procedure to a Consistent Practice or Procedure at the Next Available Opportunity in a manner that totally reverses the effect of the Inconsistent Practice or Procedure, provided the Taxpayer’s Regulator adopts or approves the change and the taxpayer retains contemporaneous documentation that clearly demonstrates the effects of the Inconsistent Practice or Procedure and the change to a Consistent Practice or Procedure adopted or approved by the Taxpayer’s Regulator. (Each of these terms has a specific definition in the Rev Proc.) Rev Proc 2017-47 is effective for taxable years ending on or after December 31, 2016. However, the IRS has indicated in the Rev Proc that they will not challenge any Inconsistent Practice or Procedure in any earlier taxable year provided that the requirements of the Rev Proc are satisfied by the taxpayer. To the extent that any of the utilities have been or will be relying upon this Safe Harbor, we will review the documentation maintained by each utility pursuant to the guidance stated in Rev Proc 2017-47.

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## E. Estimated Project Hours Summary

Our estimated project hours for each utility grouping is shown in *Exhibit III-9* and *Exhibit III-10*, with detail of hours by staff and project element in *Chapter V – Proposed Project Team and Assigned Responsibilities*.

**Exhibit III-9**  
**Consolidated Edison – CECONY and O&R**  
**Project Hours Summary**

| Staff Member  | Patricia Schumaker | Dennis Schumaker | Ralph Smith | Mark Dady | Christina Miller | Megan Cranston | Dawn Bisdorf | Jaye Kain | Total Hours |
|---|--------------------|------------------|-------------|-----------|------------------|----------------|--------------|-----------|-------------|
| Hourly Rate (Without Expenses)                                | \$265              | \$265            | \$265       | \$195     | \$150            | \$150          | \$125        | \$100     |             |
| <b>Step I - Project Orientation and Final Work Plan</b>       | 32                 | 32               | 32          | 32        | 32               | 32             | 32           | 32        | 256         |
| <b>Step II - Detailed Reviews and Analyses</b>                | 496                | 256              | 376         | 376       | 152              | 152            | 136          | 152       | 2096        |
| <b>Management and Operations Review of the Tax Department</b> | 32                 | 32               |             |           |                  |                |              |           | 64          |
| <b>1. Evaluate Legacy Systems</b>                             | 96                 | 24               | 96          | 96        | 72               | 72             | 56           | 40        | 552         |
| <b>2. Evaluate Current Power Tax Systems</b>                  | 184                | 64               | 144         | 144       | 40               | 40             | 40           | 56        | 712         |
| <b>3. Verify Income Tax Error</b>                             | 184                | 136              | 136         | 136       | 40               | 40             | 40           | 56        | 768         |
| <b>Project Management</b>                                     | 24                 | 32               |             |           |                  |                |              | 120       | 176         |
| <b>Step III - Report Preparation</b>                          | 40                 | 40               | 32          | 32        | 24               | 24             | 24           | 40        | 256         |
| <b>Total Hours</b>  | 592                | 360              | 440         | 440       | 208              | 208            | 192          | 344       | 2,784       |

**Exhibit III-10**  
**Avangrid – NYSE&G and RG&E**  
**Project Hours Summary**

| Staff Member  | Patricia Schumaker | Dennis Schumaker | Ralph Smith | Mark Dady | Christina Miller | Megan Cranston | Dawn Bisdorf | Jaye Kain | Total Hours |
|---|--------------------|------------------|-------------|-----------|------------------|----------------|--------------|-----------|-------------|
| Hourly Rate (Without Expenses)                                | \$265              | \$265            | \$265       | \$195     | \$150            | \$150          | \$125        | \$100     |             |
| <b>Step I - Project Orientation and Final Work Plan</b>       | 32                 | 32               | 32          | 32        | 32               | 32             | 32           | 32        | 256         |
| <b>Step II - Detailed Reviews and Analyses</b>                | 384                | 240              | 320         | 320       | 136              | 136            | 120          | 128       | 1784        |
| <b>Management and Operations Review of the Tax Department</b> | 32                 | 32               |             |           |                  |                |              |           | 64          |
| <b>1. Evaluate Legacy Systems</b>                             | 96                 | 24               | 80          | 80        | 72               | 72             | 56           | 32        | 512         |
| <b>2. Evaluate Current Power Tax Systems</b>                  | 136                | 64               | 112         | 112       | 32               | 32             | 32           | 40        | 560         |
| <b>3. Verify Income Tax Error</b>                             | 120                | 120              | 128         | 128       | 32               | 32             | 32           | 56        | 648         |
| <b>Project Management</b>                                     | 24                 | 32               |             |           |                  |                |              | 120       | 176         |
| <b>Step III - Report Preparation</b>                          | 32                 | 32               | 32          | 32        | 24               | 24             | 24           | 32        | 232         |
| <b>Total Hours</b>  | 472                | 336              | 384         | 384       | 192              | 192            | 176          | 312       | 2,448       |

## F. Project Management Techniques

We use several project management and control techniques to ensure that budget, schedule, and quality specifications are achieved. These control mechanisms include project meetings, project critical path method (CPM) scheduling, and working papers/audit trails policies, procedures, and systems.

Our project teams use microcomputer-based management tools to assist in handling our projects. The Microsoft Project application permits resource loading of schedules and ensures careful tracking of all activities. The application includes considerable graphics options for printing charts that pictorially represent the then-current status of projects and scheduled work. The project schedules and resource estimates contained in this proposal were produced with this software.

In addition, Schumaker & Company has developed a proprietary project manual that describes the processes and procedures that have evolved as a result of our extensive experience. All information collected and work papers generated will be contained in Schumaker & Company proprietary document management systems, which would also be made available for Commissions staff use once passwords have been created. A sample screen showing this system is shown in *Exhibit III-11*.

### Exhibit III-11 Information Window

| Req Num | Status            | WPA   | Description   | Consultant   | Issued Date | Due Date  | Recv'd Date | Edit | View     |
|---------|-------------------|-------|---|--------------|-------------|-----------|-------------|------|----------|
| 1       | Received Complete | ExMgt | Detailed organization charts for each department within PAW and any American Water/RWE departments serving PAW departments; include city location and staffing levels for each box within organization chart                          | Burgess, Lee | 7/6/2007    | 8/10/2007 | 8/23/2007   | Edit | View (3) |
| 2       | Received Complete | ExMgt | Department and division descriptions, including goals and objectives for each department  | Burgess, Lee | 7/6/2007    | 8/10/2007 | 9/13/2007   | Edit | View (1) |
| 3       | Received Complete | ExMgt | Any data and analysis of organizational effectiveness performed by PAW in last five years   | Burgess, Lee | 7/6/2007    | 8/10/2007 | 9/12/2007   | Edit | View (1) |
| 4       | Received Complete | ExMgt | Documentation pertaining to any organizational restructuring occurring during the 2003 to 2007 period   | Burgess, Lee | 7/6/2007    | 8/10/2007 | 8/14/2007   | Edit | View (3) |
| 5       | Received Complete | ExMgt | Listing of all company committees, their roles and responsibilities, frequency of meeting, membership, and sample meeting minutes   | Burgess, Lee | 7/6/2007    | 8/10/2007 | 9/18/2007   | Edit | View (1) |
| 6       | Received Complete | ExMgt | Listing of all mechanisms used by PAW to communicate with their employees   | Burgess, Lee | 7/6/2007    | 8/10/2007 | 7/27/2007   | Edit | View (1) |
| 7       | Received Complete | ExMgt | Listing and samples of regular management reports sent upward in the organization (by PAW to American Water management), including report routing and distribution lists  | Burgess, Lee | 7/6/2007    | 8/10/2007 | 9/17/2007   | Edit | View (1) |
| 8       | Received Complete | ExMgt | Any policy and procedures documentation, including listing of all departmental operational and administrative manuals   | Burgess, Lee | 7/6/2007    | 8/10/2007 | 9/15/2007   | Edit | View (1) |
| 9       | Received Complete | ExMgt | Documentation relating to strategic and corporate planning processes, including including schedules or timelines for development and approval activities, identification of key staff, approvals required, and any process flowcharts | Burgess, Lee | 7/6/2007    | 8/10/2007 | 8/30/2007   | Edit | View (3) |
| 10      | Received Complete | ExMgt | Documentation relating to any other business unit, marketing, financial, construction, and operations planning/budgeting processes  | Burgess, Lee | 7/6/2007    | 8/10/2007 | 8/30/2007   | Edit | View (1) |
| 11      | Received          | ExMat | Documents relating to the formulation and updating of corporate, region, and  | Burgess, Lee | 7/6/2007    | 8/10/2007 | 9/13/2007   | Edit | View     |

This document management system was previously used on the management audit of National Fuel Gas Distribution Corporation conducted for the New York Department of Public Service. The manual also describes important tools that are unique to Schumaker & Company, such as our computerized *Project Management Information Application (PMIA)*, as discussed at length in *Appendix C – SCHUCO Project Management Manual*, which is available at the <http://www.schuco.com/Appendices/AppendixCSCHUCOProjectManagementManual.pdf> Internet link. The PMIA is also the support mechanism for our “working-paper system,” and our project manual contains a variety of standard forms and documents that facilitate procedures. We are confident that the project management techniques and tools used by the Schumaker & Company project team represent a significant advancement in successfully completing management and operations audits with a high degree of client satisfaction. Quite candidly, they set us at the forefront of the industry.

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## Project Costs Tracking

Also included in *Appendix C – SCHUCO Project Management Manual* is a description of our *Time & Expense Information Reporting System* (TEIRS), which is available at the <http://www.schuco.com/Appendices/AppendixCSCHUCOProjectManagementManual.pdf> Internet link. For professional services firms, tracking and billing for time are essential parts of doing business. Thus, Schumaker & Company developed TEIRS to collect information regarding time spent and expenses incurred by staff members and outside consultants on our client projects to provide the following:

- ◆ The system tracks hours, fees, and expenses, which are used by project managers to manage our projects.
- ◆ The system also provide extensive reporting, including project management reports—actual to budget, invoiced to actual, etc.— as a means to provide high-quality project management and control of costs.
- ◆ Professional fees and expenses associated with a project are automatically generated for client billing.

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## Weekly Conference Calls

We will institute a weekly conference call between ourselves and the NYSDPS *Project Manager*, plus any additional NYSDPS staff designated by the NYSDPS *Project Manager*. We have typically used a freeconferencecall.com telephone number to facilitate these calls. This conference call will be used to keep in touch regarding progress of the project, including discussion of all interviews being scheduled, information requests being processed, status of report sections (when applicable) and any other issues requiring discussion. This informal process ensures that everyone is fully aware of the project status. It also focuses attention on important information. These discussions are used to track progress and update both the detailed work plan and the project schedule. We invite and actively encourage frequent participation of the NYSDPS *Project Manager* and staff in these discussions.

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## Project, Progress, and Verification Meetings

The standard approach used by the Schumaker & Company project team in performing these studies is firmly predicated upon the recognized need for direct participation by all parties in the review process. It also recognizes the vital importance of free and continuous bi-directional flow of pertinent information. To facilitate this flow, a standardized structure and schedule of meetings has been developed and is followed on each project.

To promote optimum participation by, and interaction among, NYSDPS representatives and the Schumaker & Company team, we recommend frequent informal progress meetings. It is anticipated that these meetings will be held in relation to specific task areas and will focus on relevant topics. Additionally, Schumaker & Company is prepared to meet with the NYSDPS *Project Manager*, senior

NYSDPS, subject matter experts (SMEs) and Commissioners at various times during the audit to discuss areas of interest and findings.

Prior to submittal of the written draft report to CECONY/O&R and NYSEG/RG&E, our consultants will conduct verification meetings with key personnel in each functional area. These meetings permit the consultants to verify key assumptions and facts before draft report submittal.

Descriptions of these meetings are presented below and further discussed in *Appendix C – SCHUCO Project Management Manual*, which is available at the

<http://www.schuco.com/Appendices/AppendixCSCHUCOProjectManagementManual.pdf> Internet link.

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## G. Audit Deliverables

Schumaker & Company shall provide all written documents, including progress reports, work plans and draft and final reports, including costs and benefits analyses (CBAs) electronically to the NYSDPS. The final report will be provided in a bookmarked, searchable PDF format to be viewed using *Adobe Acrobat Reader* software. The final report will include:

- ◆ *Introduction and Summary* – An overview of the audit, a numbered listing of each recommendation with a brief description of the facts and the rationale upon which each recommendation is based, and a recommendation index for easy reference to its location in the body of the report. It will also summarize the potential remediation costs and/or cost savings associated with a recommendation.
- ◆ *Work Plan Area Chapters* – The final report containing background, findings/conclusions, and recommendations, for each of the three work plan areas.
- ◆ *Costs and Benefits Analyses* – For each recommendation, a CBA will be developed, which highlights the costs and benefits for each. Both non-quantifiable and quantifiable, whenever possible, costs and benefits will be detailed.

This section summarizes project deliverables and benefits resulting from our conduct of the proposed audit, which include those tabulated in the following table:

| Deliverable   | Content  | Format  |
|---|--|---|
| <ul style="list-style-type: none"> <li>◆ Weekly notice of upcoming interviews and site visits</li> <li>◆ Informal meetings</li> </ul> | <p>Each week, we provide written notice of the interviews and site visits for the following two to four weeks, for review and approval from PMIA, our project management database system. We can provide a copy of this software to all parties and update it on a periodic basis, allowing both parties the opportunity to produce reports as often as they wish. In addition, we hold frequent informal meetings meant to facilitate NYSDPS <i>Project Manager</i> input and project team communication.</p>   | <ul style="list-style-type: none"> <li>◆ Written reports</li> <li>◆ Informal meetings</li> </ul>        |
| <ul style="list-style-type: none"> <li>◆ Monthly written status report</li> </ul>   | <p>Monthly written status reports will be submitted to the NYSDPS <i>Project Manager</i> by the 5th business day following the month's end. Part I will provide a brief, general narrative describing the project's progress, its status to date – ahead, on, or behind schedule – and the reasons for any discrepancies between its progress and the task plan schedule. Part II of the monthly written status reports will consist of status sheets indicating actual hours logged, by individual, by task, as well as other costs (i.e., material and supplies). These status sheets will contain both actual dollars and the percentage of costs compared to budget.</p>   | <ul style="list-style-type: none"> <li>◆ Written report</li> </ul>                                      |
| <ul style="list-style-type: none"> <li>◆ Informal weekly conference calls</li> </ul>  | <p>We will institute a weekly conference call between ourselves and the NYSDPS <i>Project Manager</i>, plus any additional NYSDPS staff designated by the NYSDPS <i>Project Manager</i>. We have typically used a conference call number to facilitate these calls. This conference call will be used to keep in touch regarding progress of the project, including discussion of all interviews being scheduled, information requests being processed, status of report sections (when applicable) and any other issues requiring discussion, including emerging issues as they are known.</p>  | <ul style="list-style-type: none"> <li>◆ Conference call</li> </ul>                                     |
| <ul style="list-style-type: none"> <li>◆ Progress meetings</li> </ul>   | <p>To promote optimum participation by and interaction among NYSDPS representatives and consultant team, we recommend frequent informal progress meetings. It is anticipated that these meetings will be held in relation to specific task areas and will focus on relevant topics.</p>  | <ul style="list-style-type: none"> <li>◆ In-person meetings or conference calls</li> </ul>              |
| <ul style="list-style-type: none"> <li>◆ Briefings and staff participation</li> </ul>   | <p>We will provide regular briefings to Staff on the progress of the audit and will identify emerging issues as the audit progresses. The frequency of these briefings will be determined by ourselves and Staff. We expect Staff participation in interviews (in person or via teleconference) as well as regular communication with Staff throughout the course of the audit. Staff, as the client, reserves the right to oversee all aspects of the conduct of the audit. Additionally, we are prepared to meet with the NYSDPS <i>Project Manager</i>, senior NYSDPS, subject matter experts (SMEs) and Commissioners at various times during the audit to discuss areas of interest and findings.</p>   | <ul style="list-style-type: none"> <li>◆ PowerPoint handouts</li> </ul>                                 |
| <ul style="list-style-type: none"> <li>◆ Final detailed work plan</li> </ul>  | <p>At the end of <i>Step I – Project Orientation and Final Work Plan</i>, a revised work plan will be prepared and submitted to the NYSDPS for approval. This revised work plan will encompass changes that should be made based on new information acquired from any utility company during this step. The revised work plan will then be used for both <i>Step II – Detailed Reviews and Analyses</i> and <i>Step III - Report Preparation</i>. We will confer with Staff from various offices of NYSDPS during the creation of our work plan. We will submit an initial and final draft work plan to Staff. These drafts will outline in detail the scope and methods to be employed during the engagement as well as a detailed schedule (including milestones) for the remainder of the review. We will modify the initial draft after giving due consideration to Staff's comments, and must then submit a final draft work plan to Staff for approval. Approval of the work plan by Staff will authorize the consultant to execute the tasks as stated therein.</p> | <ul style="list-style-type: none"> <li>◆ Electronic copies</li> <li>◆ First progress meeting</li> </ul> |

| Deliverable   | Content   | Format                                      |
|---|---|---|
| ◆ Informal written summary of emerging issues and conclusions | Prior to the submission of the initial draft audit report, but not later than the midpoint of the audit, the consultant will prepare an informal written summary of emerging issues for NYSDPS review.  | ◆ Electronic copies                         |
| ◆ Draft task reports  | The results of our investigations in each functional area will first be drafted as task reports for review first by the NYSDPS staff, and after NYSDPS approval, by the four utility companies. A three-party meeting will be held for discussion and to obtain written comments which will be incorporated, as appropriate, into the final report.   | ◆ Electronic copies                         |
| ◆ Comprehensive first draft report                            | The results of our investigations in each functional area will be compiled into a draft report to the NYSDPS <i>Project Manager</i> . After NYSDPS approval, the draft report will be released to NYSEG and RG&E. NYSEG and RG&E will be permitted to review the applicable report and provide written comments, which will be incorporated, as appropriate, into the final report. These draft reports, after consideration of comments from the NYSDPS staff and the four utility companies, will form the basis for the two final reports. The reports will be indexed to related supporting working papers. Such working papers will be submitted to the NYSDPS <i>Project Manager</i> upon request for up to three years following issue of the final report.  | ◆ Electronic files                          |
| ◆ Final report  | Schumaker & Company will prepare the final reports based on the draft reports, comments received from the NYSDPS <i>Project Manager</i> and the four utility companies, and the requirements of the RFP. The final report will be in narrative form, written in terminology meaningful to management and others generally familiar with the subject areas. The reports will be fully footnoted.   | ◆ Electronic copies                         |
| ◆ Working papers  | A working-paper system will be provided that enables the NYSDPS staff to trace a statement of fact in a finding, conclusion, or recommendation to the original source document (such as an interview, document, calculation, or analysis). It includes a computerized, cross-referenced database of all pertinent information collected during the course of the project. These working papers will be available to the NYSDPS during the course of the audit and retained by the Schumaker & Company project team for three years following the release of the final report by the NYSDPS. A CD/DVD of all working papers will be provided to Staff at completion of the project. An example showing the use of Microsoft Word endnotes for identifying source documents is provided in the following section. | ◆ PMIA database records and CD/DVD of files |

## H. Working Paper Endnote Example

The following is an example of the use of endnotes for Schumaker & Company's working papers that allow the reader to trace a statement in a sample final report to the original source document.

In the third quarter of 1993, ALLTEL reorganized its telephone headquarters staff and consolidated its Northeast and Midwest Region operations. Reorganization costs totaled approximately \$17.8 million, approximately \$4.2 million of which was allocated to ALLTEL Pennsylvania.<sup>2</sup> Until recently, the Northeast Region in Hudson, Ohio

<sup>2</sup> / Information Response 168 Pages 1-2

performed the accounting functions for ALLTEL Pennsylvania. In April 1995, the Accounting functions at the three ALLTEL Telephone Operations regions (Northeast, Southwest, and Southern) were combined into one in Little Rock, Arkansas, as shown in Exhibit X-#. <sup>3</sup> The current organization under the Vice President (VP), Accounting (reporting to the VP, Accounting Operations-Telephone) is composed of approximately 125 to 130 people, about 40% of whom were hired during the accounting reorganization in 1995. <sup>4</sup> ATSC management believes that, in spite of the myriad of changes caused by the reorganization, it was completed smoothly, which management attributes to the quality of ATSC employees. The reorganization is seen by management as bringing “new blood, new ideas, and stronger qualifications” to the centralized group as compared to the regional accounting organizations. <sup>5</sup> The reorganization mainly impacted the Accounting functions but also Treasury and State and Regulatory Access Matters departments. The reorganization allowed ALLTEL to reduce Accounting staff by 94 people, Treasury by 10, and State and Regulatory Access Matters by 17 for a total reduction of 121 people (as of a staffing count in June 1996). Reorganizing functions from the states and regions to Little Rock, Arkansas, cost approximately \$5.1 million in severance pay and relocation costs, but it saved roughly \$5.6 million in payroll plus benefits and reduced the outside auditor’s fee on an annual basis. <sup>6</sup>

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<sup>3</sup> / Interview 36 and Information Response 168 Page 3

<sup>4</sup> / Interview 47 and Information Response 169 Page 4

<sup>5</sup> / Interview 47

<sup>6</sup> / Information Response 438 Pages 1-3



## IV. Customer Benefit Analyses

Whenever possible, Schumaker & Company supports our recommendations with cost/customer benefit analyses taking into account, among other things, one-time and ongoing costs, potential benefits and risks, and potential savings or efficiencies. A functional benefit is measured in money, time, duration, or physical measures. It is our intention to develop a report that reflects those areas which hold the opportunity for improvement at CECONY/O&R and NYSEG/RG&E, not those areas where they are already employing best practices. Using targeted benefit-led information we are able to explain best choices and can provide reassurances needed to make a decision. This has been the philosophy that has been followed by Schumaker & Company in our past utility management and operations review reports and we believe that it has proven to be beneficial to all involved stakeholders.

Schumaker & Company consultants will approach this project from an objective standpoint. Having stated that fact, the RFP requested that we:

- ◆ Review the current operating environment of the audited utility and determine where improvements could be made that will either enhance the services or reduce costs to customers.
- ◆ Quantify both the cost(s) and the potential benefit(s).
- ◆ Utilize current costs at the utility, estimated implementation costs, industry data, and market data to assess how their recommendations will improve the utility operations.
- ◆ Provide context regarding the estimated financial consequences of implementing individual recommendations.

In the past 20 years of performing management audits, we continue to be amazed that our initial perceptions of what a company does well or not before the start of the audit is changed once the in-depth investigations begin. We have not only identified various qualitative and quantitative benefits and costs resulting from our recommendations but, more importantly, have obtained both the company and commission agreement on the benefits and cost savings.

A detailed list of recommendations in the report will address immediate changes that management can institute to achieve cost savings, and the detailed list will be prioritized. The final report defines a suggested time table for the proposed implementation of each recommendation, and provides estimates of the costs and benefits of recommendations where such costs and benefits are quantifiable within the scope of the audit. In past audits of this nature, costs have tended to fall into one of three categories:

- ◆ Assigning existing company personnel to implement recommendations, resulting in little or no incremental costs
- ◆ Engaging outside expert resources to implement recommendations, resulting in incremental costs
- ◆ Procuring additional software and equipment, also resulting in incremental costs

Likewise, the benefits associated with recommendations usually fall into one of four categories:

- ◆ Reduction in actual costs of operations within a functional area
- ◆ Increase in a revenue source within a functional area
- ◆ Change in work flow processes to allow for the provision of services to customers on a more cost-effective basis
- ◆ Change in other processes resulting in best business practices being implemented

Schumaker & Company believes that it is extremely important to attempt to develop a cost/benefit analysis for any recommendation that can support such an analysis. Although it would be difficult to develop a cost/benefit analysis for every recommendation that is made during a review/audit, there are usually some recommendations which lend themselves to such an analysis. Furthermore, in many cases involving the better managed utility, the utility may have already performed similar cost/benefit analysis for a comparable recommendation or other process improvement for which they should be given credit. Therefore, it is our practice to work with the utility to develop cost/benefit analyses wherever possible. Costs and benefits will include both qualitative and quantitative figures obtained through data obtained during the course of the audit.

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## A. Sample CBA Template

*Exhibit IV-1* illustrates the CBA templates that Schumaker & Company used on its last NYSDPS audit. A similar format is suggested, but we would be open to changes based on desires that NYSDPS staff to incorporate a slightly different format.

**Exhibit IV-1  
Sample CBA Templates**

| Summary   |  |     |                 |     |               |     |
|---|--|-----|-----------------|-----|---------------|-----|
| <b>RECOMMENDATION STATEMENT:</b>                                    |  |     |                 |     |               |     |
| <b>DESCRIPTION HOW RECOMMENDATION ADDRESSES FINDING/CONCLUSION:</b> |  |     |                 |     |               |     |
|   |  |     |                 |     |               |     |
| <b>COSTS:</b>   |  |     |                 |     |               |     |
| <b>One-time:</b>  | <b>Total:</b>  | \$0 | <b>O&amp;M:</b> | \$0 | <b>CapEx:</b> | \$0 |
| <b>Recurring:</b>   | <b>Total:</b>  | \$0 | <b>O&amp;M:</b> | \$0 | <b>CapEx:</b> | \$0 |
| <b>BENEFITS:</b>  |  |     |                 |     |               |     |
| <b>One-time:</b>  | <b>Total:</b>  | \$0 | <b>O&amp;M:</b> | \$0 | <b>CapEx:</b> | \$0 |
| <b>Recurring:</b>   | <b>Total:</b>  | \$0 | <b>O&amp;M:</b> | \$0 | <b>CapEx:</b> | \$0 |
| <b>Non-quantifiable:</b>  | Detailed description of benefits to be achieved by recommendation, including improvements if implemented, plus any risk if NOT implemented |     |                 |     |               |     |
|   |  |     |                 |     |               |     |
| <b>TIMELINES:</b>   |  |     |                 |     |               |     |
| <b>Implementation Timeline:</b>                                     | 0-6 Months; 6-12 Months, 12-24 Months, 2+ Years  |     |                 |     |               |     |
| <b>Improvement Timeline:</b>  | 0-6 Months; 6-12 Months, 12-24 Months, 2+ Years  |     |                 |     |               |     |
| <b>OTHER COMMENTS:</b>  |  |     |                 |     |               |     |
|   |  |     |                 |     |               |     |

**Detailed Costs**

| One-time* |        |     |        |           |           |        |     |        |             |     |  |       |
|-----------|--------|-----|--------|-----------|-----------|--------|-----|--------|-------------|-----|--|-------|
| O&M       |        |     |        |           |           | CapEx  |     |        |             |     |  | Total |
| Year 1    | Year 2 | --- | Year n | O&M Total | Year 1    | Year 2 | --- | Year n | CapEx Total |     |  |       |
| Labor     |        |     |        | \$0       | Labor     |        |     |        | \$0         | \$0 |  |       |
| Materials |        |     |        | \$0       | Materials |        |     |        | \$0         | \$0 |  |       |
| Other     |        |     |        | \$0       | Other     |        |     |        | \$0         | \$0 |  |       |
|           | \$0    | \$0 | \$0    | \$0       |           | \$0    | \$0 | \$0    | \$0         | \$0 |  |       |

| Recurring* |        |     |        |           |           |        |     |        |             |     |  |       |
|------------|--------|-----|--------|-----------|-----------|--------|-----|--------|-------------|-----|--|-------|
| O&M        |        |     |        |           |           | CapEx  |     |        |             |     |  | Total |
| Year 1     | Year 2 | --- | Year n | O&M Total | Year 1    | Year 2 | --- | Year n | CapEx Total |     |  |       |
| Labor      |        |     |        | \$0       | Labor     |        |     |        | \$0         | \$0 |  |       |
| Materials  |        |     |        | \$0       | Materials |        |     |        | \$0         | \$0 |  |       |
| Other      |        |     |        | \$0       | Other     |        |     |        | \$0         | \$0 |  |       |
|            | \$0    | \$0 | \$0    | \$0       |           | \$0    | \$0 | \$0    | \$0         | \$0 |  |       |

\* Attach Excel spreadsheet of how calculated.

On several recent management audits, we have recommended and obtained agreement, from both the company undergoing the audit and the commission overseeing the audit, to perform a third phase of the project where additional staff hours were expended to further investigate areas offering potential that were identified during the earlier stages of our review. These recent experiences include working for the Pennsylvania Public Utility Commission and demonstrate our ability to establish and sustain vital, interactive working relationships among NYSEG and RG&E involved, the Commission responsible, and the Schumaker & Company project team during the course of a project resulting in an agreement on recommendations for change, where appropriate.

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## B. Work Samples

The following table provides a partial list of our most relevant and recent projects for management, operations, and technology audits of utility companies on behalf of state regulatory commissions. Please note that endnotes have typically been removed for the public version of our final reports, although an endnoted version is provided to both the commission and company being audited for both draft and final reports. Due to their size, our *Audit Report Sample* has been provided electronically via web link, as follows:

### Philadelphia Gas Works (2015)

- ◆ *Final Report:* <http://www.puc.pa.gov//pcdocs/1389279.pdf>.

### National Fuel Gas Distribution Corporation

- ◆ *Final Redacted Report:*  
<http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={D7A88697-29CB-4435-B138-3A53CBF2064A}>

### Equitable Gas Company (EGC)

- ◆ *Final Report:* <http://www.puc.state.pa.us//pcdocs/1095768.pdf>

### Philadelphia Gas Works (PGW 2008):

- ◆ *Final Report:* <http://www.puc.state.pa.us//PCDOCS/1032666.pdf>

### PECO Energy

- ◆ *Volume I:* <http://www.puc.state.pa.us/PCDOCS/681316.pdf>
- ◆ *Volume II:* <http://www.puc.state.pa.us/PCDOCS/681317.pdf>

### Jersey Central Power & Light Company (JCP&L)

- ◆ *Final Report:* <http://www.bpu.state.nj.us/bpu/pdf/announcements/jcplfinal.pdf>

### Pennsylvania-American Water Company

- ◆ *Volume I:* <http://www.puc.state.pa.us/PCDOCS/1026732.pdf>
- ◆ *Volume II:* <http://www.puc.state.pa.us//PCDOCS/1026733.pdf>
- ◆ *Volume III:* <http://www.puc.state.pa.us//PCDOCS/1026755.pdf>

## V. Proposed Project Team and Assigned Responsibilities

This chapter presents the team that Schumaker & Company will assign to the operations audits of CECONY/O&R and NYSEG/RG&E. In this chapter we identify the Schumaker & Company contact and describe the project team's organization and staffing (with specific task area assignments), qualifications of each project team member for this engagement, project management members for this assignment, estimated project team hours, and a brief resume of each proposed consultant (see *Appendix A-Consultant Resumes* for more detailed resumes of Schumaker & Company consultants, which is available from the <http://www.schuco.com/Appendices/AppendixADetailedConsultantResumes-TaxAccounting.pdf> Internet link).

Our proposed project team brings considerable experience in performing electric and gas utility audits as illustrated in *Exhibit V-1*.

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### Exhibit V-1 Electric and Gas Utility Audit Experience

- |                                       |  |                                     |
|---------------------------------------|--|-------------------------------------|
| ◆ AEP/Kentucky                        | ◆ Empire Electric District Co.         | ◆ Pennsylvania Power & Light Co.    |
| ◆ AEP/Kingsport Power Co.             | ◆ Equitable Gas Company                | ◆ Peoples Natural Gas Company       |
| ◆ AEP/Ohio Power Company              | ◆ Florida Power and Light Co.          | ◆ PEPCO Energy & Gas Services       |
| ◆ AEP/West Texas Utilities Co.        | ◆ Gaslantic Corporation, Inc.          | ◆ Philadelphia Gas Works            |
| ◆ American Natural Resources          | ◆ Georgia Power Company                | ◆ Public Service Company of NM      |
| ◆ Arizona Public Service Company      | ◆ GPU Energy                           | ◆ Public Service Electric & Gas Co. |
| ◆ AR Power & Light/Entergy Corp.      | ◆ IL Electric Co., IL Power Co.        | ◆ Rochester Gas and Electric Corp.  |
| ◆ Atlanta Gas Light Company           | ◆ Iowa-Illinois Gas & Electric Co.     | ◆ Rockland Electric Company         |
| ◆ Baltimore Gas & Electric Co.        | ◆ Jacksonville Electric Authority      | ◆ San Diego Gas & Electric Co.      |
| ◆ Boston Gas Company                  | ◆ Jersey Central Power & Light Co.     | ◆ Sempra Energy                     |
| ◆ Brooklyn Union Gas Company          | ◆ Louisville Gas and Electric Company  | ◆ Sierra Pacific Power Company      |
| ◆ Central Maine Power Company         | ◆ Madison Gas and Electric Company     | ◆ Southern California Edison Co.    |
| ◆ Cincinnati Gas and Electric Co.     | ◆ Metropolitan Edison Company          | ◆ Southern California Gas Co.       |
| ◆ Cobra Pipeline                      | ◆ MI South Central Power Agency        | ◆ South Jersey Gas Company          |
| ◆ Columbia Gas of Maryland, Inc.      | ◆ Michigan Wisconsin Pipeline          | ◆ Springfield City Utilities        |
| ◆ Columbia Gas Transmission Corp.     | ◆ Missouri Public Service Company      | ◆ Sunflower Electric Coop           |
| ◆ Columbus Southern Power Co.         | ◆ National Fuel Gas Distribution Corp. | ◆ Tacoma Power                      |
| ◆ Conectiv                            | ◆ Nebraska Public Power District       | ◆ Tennessee Valley Authority        |
| ◆ Connecticut Natural Gas Corp.       | ◆ New Jersey Natural Gas Company       | ◆ Toledo Edison Company             |
| ◆ Consolidated Natural Gas Co.        | ◆ New Orleans Public Service Inc.      | ◆ Union Electric Power Co.          |
| ◆ Consumers Power Company             | ◆ NY State Electric and Gas Corp.      | ◆ Union Light Heat & Power          |
| ◆ Cooperative Power Association       | ◆ Niagara Mohawk Corporation           | ◆ United Cities Gas Company         |
| ◆ Dayton Power and Light Co.          | ◆ Nova Scotia Power Incorporated       | ◆ Utilicorp United, Inc.            |
| ◆ Detroit Edison Company              | ◆ Ohio Gas Company                     | ◆ Washington Gas Light Co.          |
| ◆ Duke Energy Ohio                    | ◆ Oklahoma Gas and Electric Co.        | ◆ Western Kentucky Gas Co.          |
| ◆ East Ohio Gas Company               | ◆ Orwell-Trumbull Pipeline             | ◆ Wisconsin Electric Power Co.      |
| ◆ El Paso Electric Company            | ◆ Pacific Gas & Electric Company       |                                     |
| ◆ Electricity Supply Board of Ireland | ◆ PECO Energy Company                  |                                     |
| ◆ Elizabethtown Gas/NUI Corp.         | ◆ Pennsylvania Gas & Water Company     |                                     |
- 
- 



Schumaker & Company's senior consultants have extensive experience in management, operations, and technology consulting in a project environment. They typically hold advanced degrees and average more than 25 years of professional experience. Our proposed project team is expert in the technical aspects of electric, gas, water, and telecommunications operations, as well as relevant regulatory proceedings. This knowledge base makes our firm uniquely qualified for the most complex and demanding of assignments.

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## A. Project Management

The quality of the final product of a consulting project is a direct result of the project team selected to perform the assignment. Astute, experienced consultants working under an appropriate project management system will produce a high-quality product. The quality standards by which we abide are specifically designed to exceed those of our competitors – giving our clients one more good reason for selecting Schumaker & Company.

Our *Engagement Director*, Patricia H. Schumaker, CMC<sup>®</sup>, PMP<sup>®</sup>, CPA, CGMA, will lead our project team and is responsible for ensuring that the consultant team is provided with the appropriate resources for completing its activities on a timely basis. She also performs a quality assurance role, ensuring that the work is progressing within budget and on schedule. The contact information for Ms. Schumaker is as follows:

**Name:** Ms. Patricia H. Schumaker    **Address:** 3101 Walnut Ridge, Ann Arbor, MI 48103  
**Telephone:** (734) 998-5550            **Email:** [pschumaker@schuco.com](mailto:pschumaker@schuco.com)  
**Fax:** (734) 998-5590

Our *Project Manager*, Dennis J. Schumaker, CMC<sup>®</sup>, PMP<sup>®</sup> will be the primary contact with the client regarding day-to-day operations of the project and will be based in our Ann Arbor (Michigan) headquarters office. The contact information for Mr. Schumaker is as follows:

**Name:** Mr. Dennis J. Schumaker    **Address:** 3101 Walnut Ridge, Ann Arbor, MI 48103  
**Telephone:** (734) 998-5550            **Email:** [dschumaker@schuco.com](mailto:dschumaker@schuco.com)  
**Fax:** (734) 998-5590

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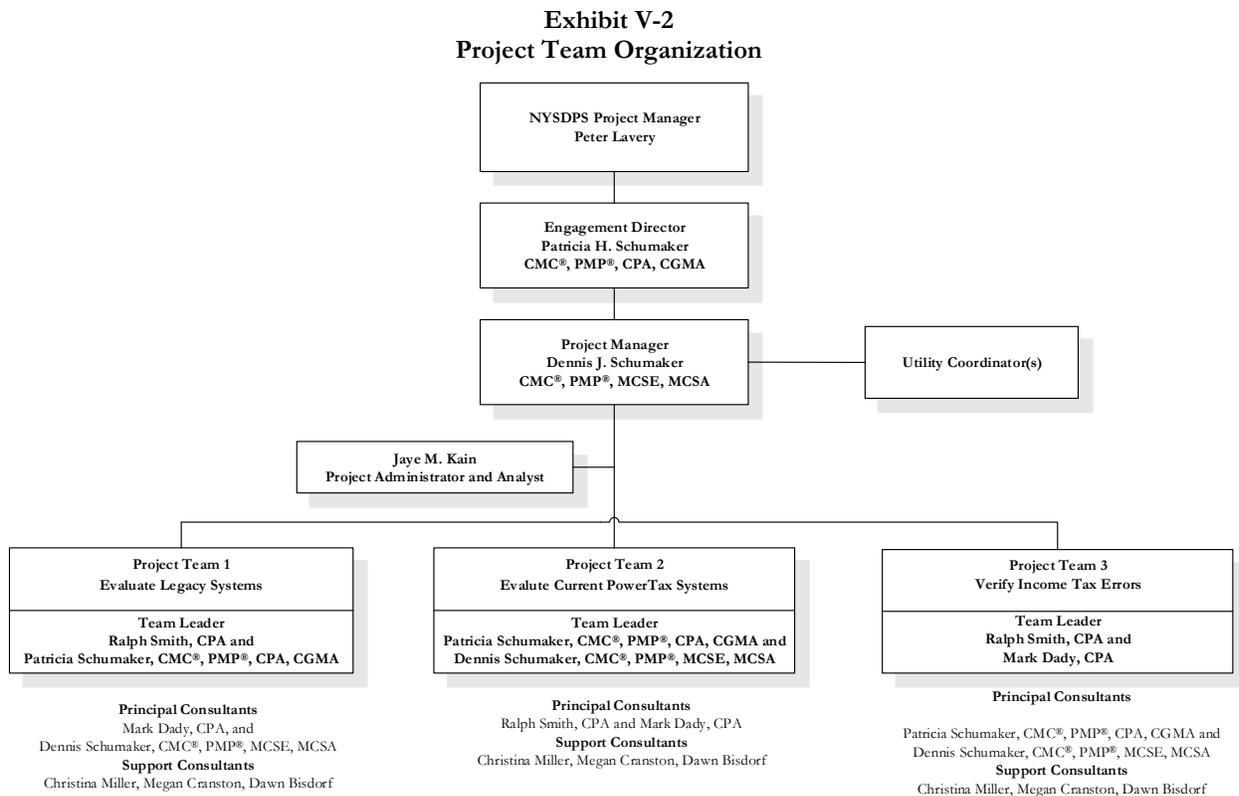
## B. Proposed Staffing

The single most important element a consulting firm brings to an assignment is the qualifications of the individual members of its team. The project team proposed for this assignment is composed of selected individuals, whose talents and expertise complement one another.

Schumaker & Company's team has a strong working knowledge of utility company operations, as well as current industry issues. Each individual has been carefully selected according to his or her experience, technical expertise, and education in those areas for which they are proposed. We will

bring to this review an especially strong team, a team that possesses all of the requisite skills and has worked together successfully in the past.

In combination, we respectfully submit that Schumaker & Company offers a team that is unequaled in relevant experience, capability, and dedication to the completion of a highly successful engagement. The project team proposed for this assignment is illustrated in *Exhibit V-2* organized by subject area.



## C. Proposed Staff Assignments by Scope of Work

The following tables highlight the proposed teams' assigned scope areas as well as their responsibilities. *Principal Consultant(s)* as well as *Support Consultant(s)* involved are specified.

### ***Scope Area 1: Evaluate Legacy Systems***

Ralph Smith, CPA and Patricia Schumaker, CMC®, PMP®, CPA, CGMA will serve as the *Team Leader* for this work plan area.

| <b>Principal Consultants:</b>  | <b>Support Consultants:</b>  |
|--|--|
| Ralph Smith, Esq., CPA, CFP, MST, CRRA<br>Patricia Schumaker, CMC®, PMP®, CPA, CGMA,<br>Mark Dady, CPA<br>Dennis Schumaker, CMC®, PMP®, MCSE, MCSA | Christina Miller, Megan Cranston, Dawn Bisdorf<br>May be used on an as-available, as-needed basis:<br>Helmuth W. Schultz, III, CPA and/or John<br>Defever, CPA |

### ***Scope Area 2: Evaluate Current PowerTax Systems***

Patricia Schumaker, CMC®, PMP®, CPA, CGMA and Dennis Schumaker, CMC®, PMP®, MCSE, MCSA will serve as the *Team Leader* for this work plan area.

| <b>Principal Consultants:</b>  | <b>Support Consultants:</b>  |
|--|--|
| Patricia Schumaker, CMC®, PMP®, CPA, CGMA,<br>Dennis Schumaker, CMC®, PMP®, MCSE, MCSA<br>Ralph Smith, , Esq., CPA, CFP, MST, CRRA<br>Mark Dady, CPA | Christina Miller, Megan Cranston, Dawn Bisdorf<br>May be used on an as-available, as-needed basis:<br>Helmuth W. Schultz, III, CPA and/or John<br>Defever, CPA |

### ***Scope Area 3: Verify Income Tax Errors***

Ralph Smith, CPA and Mark Dady, CPA, will serve as the *Team Leader* for this work plan area.

| <b>Principal Consultants:</b>  | <b>Support Consultants:</b>  |
|--|--|
| Ralph Smith, , Esq., CPA, CFP, MST, CRRA<br>Mark Dady, CPA<br>Patricia Schumaker, CMC®, PMP®, CPA, CGMA,<br>Dennis Schumaker, CMC®, PMP®, MCSE, MCSA | Christina Miller, Megan Cranston, Dawn Bisdorf<br>May be used on an as-available, as-needed basis:<br>Helmuth W. Schultz, III, CPA and/or John<br>Defever, CPA |

## D. Estimated Detailed Project Team Hours

Schumaker & Company's project team estimated hours are shown in *Exhibit V-3 and Exhibit V-4*.

### Exhibit V-3 Consolidated Edison – CECONY and O&R Estimated Hours by Element and Staff

| Staff Member  | Patricia Schumaker | Dennis Schumaker | Ralph Smith | Mark Dady | Christina Miller | Megan Cranston | Dawn Bsdorf | Jaye Kain | Total Hours |
|---|--------------------|------------------|-------------|-----------|------------------|----------------|-------------|-----------|-------------|
| <b>Step I - Project Orientation and Final Work Plan</b>   | 32                 | 32               | 32          | 32        | 32               | 32             | 32          | 32        | 256         |
| <b>Step II - Detailed Reviews and Analyses</b>  | 496                | 256              | 376         | 376       | 152              | 152            | 136         | 152       | 2096        |
| <b>Management and Operations Review of the Tax Department</b>   | 32                 | 32               |             |           |                  |                |             |           | 64          |
| <b>1. Evaluate Legacy Systems</b>   | 96                 | 24               | 96          | 96        | 72               | 72             | 56          | 40        | 552         |
| 1 Determine whether the legacy tax systems were operating properly and producing results that were in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices.   | 32                 | 24               | 32          | 32        | 32               | 32             | 32          | 8         | 224         |
| 2 Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.  | 16                 |                  | 16          | 16        | 40               | 40             | 24          | 8         | 160         |
| 3 Determine whether appropriate procedures and internal controls were in place at the Utilities related to the income tax accounting processes and the income tax accounting preservation/destruction of records processes, and if the controls in place were reasonable and comparable to those in place at similar companies at the time the alleged errors occurred.   | 16                 |                  | 16          | 16        |                  |                |             | 8         | 56          |
| 4 Determine if there is an alternative way to verify the occurrence of the alleged errors and accurately quantify the impact of the errors without access to the legacy system database.  | 16                 |                  | 16          | 16        |                  |                |             | 8         | 56          |
| 5 Review the processes surrounding the implementation and execution of the new income tax software systems and retirement of the legacy tax systems, and determine whether appropriate procedures and controls were in place and were properly executed.  | 16                 |                  | 16          | 16        |                  |                |             | 8         | 56          |
| <b>2. Evaluate Current Power Tax Systems</b>  | 184                | 64               | 144         | 144       | 40               | 40             | 40          | 56        | 712         |
| 1 A) Evaluate whether the inputs were accurate and reasonable at the time of the Utilities' conversion to Power Tax.<br>B) Determine whether the ending balances with underlying itemized supporting details in the legacy systems tie to the beginning balances with the same underlying itemized supporting details in the PowerTax system.<br>C) Determine whether the current and prior tax expenses were calculated using consistent methods, conventions, and assumptions | 32                 | 32               | 32          | 32        | 40               | 40             | 40          | 8         | 256         |
| 2 Evaluate whether the Power Tax systems are operating properly and are producing results that are in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices  | 32                 | 32               | 32          | 32        |                  |                |             | 8         | 136         |
| 3 Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.  | 24                 |                  | 16          | 16        |                  |                |             | 8         | 64          |
| 4 A) Evaluate whether the companies correctly effectuated changes to the PowerTax software operations and calculations in order to reflect the Commission-approved correction of the errors.<br>B) Determine whether the corrections authorized by the Commission were necessary to comply with IRS tax normalization policies.   | 24                 |                  | 16          | 16        |                  |                |             | 8         | 64          |
| 5 Determine if Con Edison's replication of the COR flow-through error on its books between 2013 and 2016, after converting to PowerTax, is an accurate representation of the company's accounting using the Acufie system, and determine whether such replication of the error was a violation of the IRS normalization rules.  | 24                 |                  | 16          | 16        |                  |                |             | 8         | 64          |
| 6 Review and provide an opinion on the adequacy of current controls designed to ensure the accuracy of income tax accounting at the Utilities and make recommendations as appropriate.  | 24                 |                  | 16          | 16        |                  |                |             | 8         | 64          |
| 7 Review and provide an opinion on the accuracy of the Utilities' measurements of plant-related excess accumulated deferred income tax balances and related accounting.   | 24                 |                  | 16          | 16        |                  |                |             | 8         | 64          |
| <b>3. Verify Income Tax Error</b>   | 184                | 136              | 136         | 136       | 40               | 40             | 40          | 56        | 768         |
| 1 Determine whether the Utilities' legacy systems' recording of deferred income taxes would or would not constitute compliance with IRS tax normalization policies  | 40                 | 40               | 40          | 40        | 40               | 40             | 40          | 8         | 288         |
| 2 Review the Utilities' past rate filings, verify that the calculations of the errors are correct and determine the detailed amount of rate understatement in past rates (i.e., determine the proper FAS 109 Regulatory Asset/Liability balances and Rate Base ADIT balance for correcting the errors).   | 24                 | 16               | 16          | 16        |                  |                |             | 8         | 80          |
| 3 Determine if the understatement of income tax expense was reflected on the Utilities' past financial statements and in the Utilities' rate filings.   | 24                 | 16               | 16          | 16        |                  |                |             | 8         | 80          |
| 4 Determine if the Commission is obligated to provide retroactive recovery of the effect of the alleged errors per the IRS policies and PLRs.   | 24                 | 16               | 16          | 16        |                  |                |             | 8         | 80          |
| 5 Provide an opinion and recommendation on whether, and to what extent, regulatory assets resulting from the historical tax accounting errors should be recovered from ratepayers. Evaluate and opine on the tax consequences, if any, the Utilities would face should the Commission not provide recovery on the retrospective errors (the amount of the errors that occurred before the Utilities became aware of the errors).  | 24                 | 16               | 16          | 16        |                  |                |             | 8         | 80          |
| 7 Provide the financial impacts of alternative proposals (e.g. no recovery of regulatory assets).   | 24                 | 16               | 16          | 16        |                  |                |             | 8         | 80          |
| <b>Project Management</b>   | 24                 | 32               |             |           |                  |                |             | 120       | 176         |
| <b>Step III - Report Preparation</b>  | 40                 | 40               | 32          | 32        | 24               | 24             | 24          | 40        | 256         |
| <b>Total Hours</b>  | 592                | 360              | 440         | 440       | 208              | 208            | 192         | 344       | 2,784       |



**Exhibit V-4**  
**Avangrid – NYSEG and RG&E**  
**Estimated Hours by Element and Staff**

| Staff Member  | Patricia Schumaker | Dennis Schumaker | Ralph Smith | Mark Dady | Christina Miller | Megan Cranston | Dawn Bisdorf | Jaye Kain | Total Hours |
|---|--------------------|------------------|-------------|-----------|------------------|----------------|--------------|-----------|-------------|
| <b>Step I - Project Orientation and Final Work Plan</b>   | 32                 | 32               | 32          | 32        | 32               | 32             | 32           | 32        | 256         |
| <b>Step II - Detailed Reviews and Analyses</b>  | 384                | 240              | 320         | 320       | 136              | 136            | 120          | 128       | 1784        |
| <b>Management and Operations Review of the Tax Department</b>   | 32                 | 32               |             |           |                  |                |              |           | 64          |
| <b>1. Evaluate Legacy Systems</b>   | 96                 | 24               | 80          | 80        | 72               | 72             | 56           | 32        | 512         |
| 1 Determine whether the legacy tax systems were operating properly and producing results that were in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices.   | 24                 | 24               | 32          | 32        | 32               | 32             | 32           | 8         | 216         |
| 2 Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.  | 24                 |                  | 16          | 16        | 40               | 40             | 24           | 8         | 168         |
| 3 Determine whether appropriate procedures and internal controls were in place at the Utilities related to the income tax accounting processes and the income tax accounting preservation/destruction of records processes, and if the controls in place were reasonable and comparable to those in place at similar companies at the time the alleged errors occurred.   | 24                 |                  | 16          | 16        |                  |                |              | 8         | 64          |
| 4 Determine if there is an alternative way to verify the occurrence of the alleged errors and accurately quantify the impact of the errors without access to the legacy system database.  |                    |                  |             |           |                  |                |              |           | 0           |
| 5 Review the processes surrounding the implementation and execution of the new income tax software systems and retirement of the legacy tax systems, and determine whether appropriate procedures and controls were in place and were properly executed.  | 24                 |                  | 16          | 16        |                  |                |              | 8         | 64          |
| <b>2. Evaluate Current Power Tax Systems</b>  | 136                | 64               | 112         | 112       | 32               | 32             | 32           | 40        | 560         |
| 1 A) Evaluate whether the inputs were accurate and reasonable at the time of the Utilities' conversion to PowerTax.<br>B) Determine whether the ending balances with underlying itemized supporting details in the legacy systems tie to the beginning balances with the same underlying itemized supporting details in the PowerTax system.<br>C) Determine whether the current and prior tax expenses were calculated using consistent methods, conventions, and assumptions. | 32                 | 32               | 32          | 32        | 32               | 32             | 32           | 8         | 232         |
| 2 Evaluate whether the PowerTax systems are operating properly and are producing results that are in compliance with Generally Accepted Accounting Principles, IRS policies requiring tax normalization, and New York utility accounting and ratemaking practices.  | 32                 | 32               | 32          | 32        |                  |                |              | 8         | 136         |
| 3 Review and analyze the book and tax depreciation calculations and allocations, the deferred tax calculations (originating and reversing), the return to provision reconciliations, and the effective tax rate reconciliations.  | 24                 |                  | 16          | 16        |                  |                |              | 8         | 64          |
| 4 A) Evaluate whether the companies correctly reflected changes to the PowerTax software operations and calculations in order to reflect the Commission-approved correction of the errors.<br>B) Determine whether the corrections authorized by the Commission were necessary to comply with IRS tax normalization policies.   |                    |                  |             |           |                  |                |              |           | 0           |
| 5 Determine if Con Edison's replication of the COD flow-through error on its books between 2013 and 2016, after converting to PowerTax, is an accurate representation of the company's accounting using the Acufile system, and determine whether such replication of the error was a violation of the IRS normalization rules.   |                    |                  |             |           |                  |                |              |           | 0           |
| 6 Review and provide an opinion on the adequacy of current controls designed to ensure the accuracy of income tax accounting at the Utilities and make recommendations as appropriate.  | 24                 |                  | 16          | 16        |                  |                |              | 8         | 64          |
| 7 Review and provide an opinion on the accuracy of the Utilities' measurements of plant-related excess accumulated deferred income tax balances and related accounting.   | 24                 |                  | 16          | 16        |                  |                |              | 8         | 64          |
| <b>3. Verify Income Tax Error</b>   | 120                | 120              | 128         | 128       | 32               | 32             | 32           | 56        | 648         |
| 1 Determine whether the Utilities' legacy systems' recording of deferred income taxes would or would not constitute compliance with IRS tax normalization policies.   | 24                 | 24               | 32          | 32        | 32               | 32             | 32           | 8         | 216         |
| 2 Review the Utilities' past rate filings, verify that the calculations of the errors are correct and determine the detailed amount of rate understatement in past rates (i.e., determine the proper FAS 109 Regulatory Asset/Liability balances and Rate Base ADFIT balance for correcting the errors).  | 16                 | 16               | 16          | 16        |                  |                |              | 8         | 72          |
| 3 Determine if the understatement of income tax expense was reflected on the Utilities' past financial statements and in the Utilities' rate filings.   | 16                 | 16               | 16          | 16        |                  |                |              | 8         | 72          |
| 4 Determine if the Commission is obligated to provide retroactive recovery of the effect of the alleged errors per the IRS policies and PLRs.   | 16                 | 16               | 16          | 16        |                  |                |              | 8         | 72          |
| 5 Provide an opinion and recommendation on whether, and to what extent, regulatory assets resulting from the historical tax accounting errors should be recovered from ratepayers.  | 16                 | 16               | 16          | 16        |                  |                |              | 8         | 72          |
| 6 Evaluate and opine on the tax consequences, if any, the Utilities would face should the Commission not provide recovery on the retrospective errors (the amount of the errors that occurred before the Utilities became aware of the errors).   | 16                 | 16               | 16          | 16        |                  |                |              | 8         | 72          |
| 7 Provide the financial impacts of alternative proposals (e.g. no recovery of regulatory assets).   | 16                 | 16               | 16          | 16        |                  |                |              | 8         | 72          |
| <b>Project Management</b>   | 24                 | 32               |             |           |                  |                |              | 120       | 176         |
| <b>Step III - Report Preparation</b>  | 32                 | 32               | 32          | 32        | 24               | 24             | 24           | 32        | 232         |
| <b>Total Hours</b>  | 472                | 336              | 384         | 384       | 192              | 192            | 176          | 312       | 2,448       |

Based on the nature of the issues that need to be addressed or researched, other Schumaker & Company consultants would be made available for performing specific tasks as needed. We would discuss any need for additional Schumaker & Company resources with the NYSDPS Staff's *Project Manager* before engaging those resources on the project. Over 40 different professional staff are employed or affiliated with Schumaker & Company.

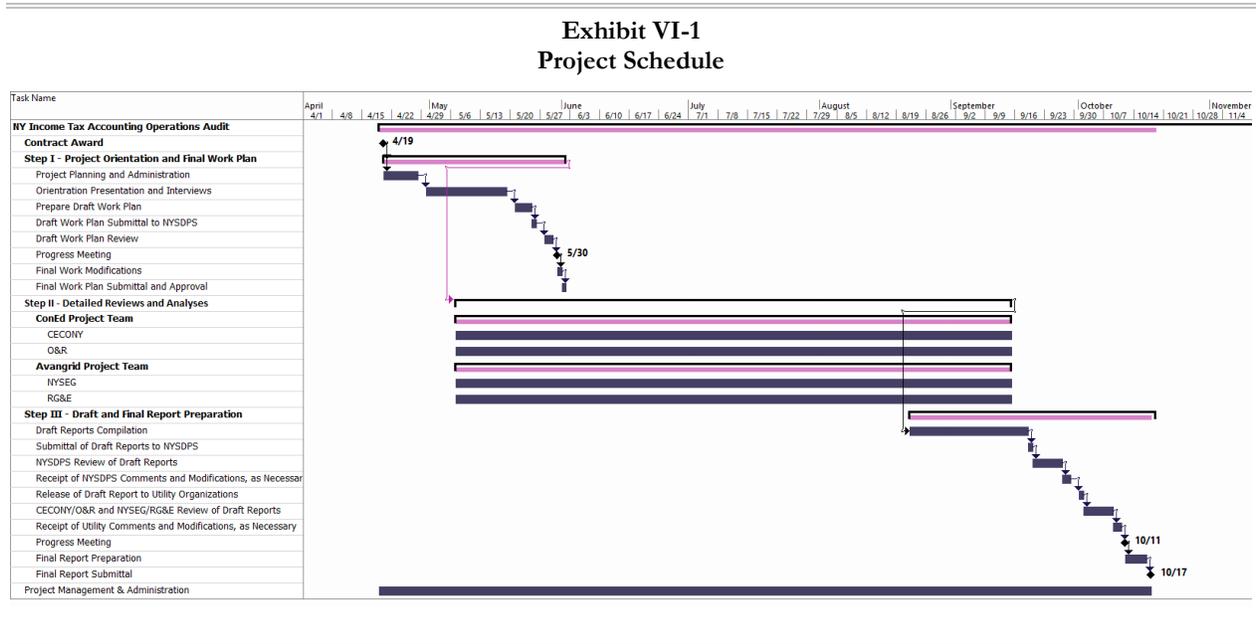


## VI. Work Timeline

This chapter presents the proposed schedule for the Schumaker & Company project team to perform the forthcoming audits of CECONY/O&R and NYSEG/RG&E.

### A. Project Schedule

Our overall proposed schedule is shown in *Exhibit VI-1*.



If NYSDPS Staff would like any changes, we would be willing to modify, as necessary.



## VII. Individual Experience & Qualifications

Schumaker & Company is a management consulting and professional services firm committed to assisting utilities and telecommunications firms, state and local governments, and companies in the manufacturing and service industries. At Schumaker & Company, we work closely, yet unobtrusively, with management to identify specific opportunities for improvement and to develop solutions. We design practical implementation plans to help manage change and achieve the desired improvements.

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### A. Individual Consultants Experience and Qualifications

We have included in this section resume briefs for each proposed team member detailing his/her relevant credentials that focus on experience applicable to this audit. Included are descriptions of previous assignments relevant to the scope and objective of this audit. Please refer to *Appendix A – Consultant Resumes* for more detailed resumes of Schumaker & Company staff, which is available from the <http://www.schuco.com/Appendices/AppendixADetailedConsultantResumes-TaxAccounting.pdf>) Internet link. These resumes provide a detailed description of the academic backgrounds, professional credentials, expertise, and experience for these consultants who will be assigned to the project.

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### Academic and Professional Backgrounds

The educational and professional designations of each consultant are summarized in *Exhibit VII-1* along with their responsibility/role in the project.

**Exhibit VII-1  
Consultant Team Credentials**

| Name                  | Responsibility                             | Years<br>Exp. | Education and<br>Professional Designations  |
|-----------------------|--|---------------|---|
| Patricia H. Schumaker | Engagement Director & Principal Consultant | 35+           | BSBA (Accounting), MBA (Operations Research), continuing education for CPA license and PMP certificate, CMC®, PMP®, CPA, CGMA   |
| Dennis J. Schumaker   | Project Manager & Principal Consultant     | 35+           | BME (Mechanical Engineering), MS (Nuclear Engineering), MBA (Strategic & Corporate Planning), continuing education for PMP certificate, CMC®, PMP®, MCSE                  |
| Ralph C. Smith        | Principal Consultant                       | 35+           | BS (Accounting), MS (Taxation), Juris Doctor, continuing education for CPA license and CFP certificate, CPA, attorney (Michigan), Certified Rate of Return Analyst (CRRA) |
| Mark S. Dady          | Principal Consultant                       | 15+           | BBA (Accounting), MS (Accounting), continuing education for CPA license, CPA  |
| Christina Miller      | Regulatory Analyst                         | 18+           | Bachelor of Business Administration (Accounting)  |
| Megan Cranston        | Regulatory Analyst                         | 2+            | BS (Accounting and Information Systems), MS (Accounting – in progress )   |
| Dawn Bisdorf          | Research Associate                         | 15+           | BA (Social Sciences), MS (Accounting)   |
| Jaye M. Kain          | Project Administrator & Analyst            | 20+           | BS (Environmental Geoscience), BS (Geology), MS (Geology)   |

All proposed project staff have experience with utilities and operations audits and we've included quite a few CPAs that have accounting/tax experience.

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## Resumes

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### **Ms. Patricia H. Schumaker, CMC®, PMP®, CPA, CGMA Engagement Director & Principal Consultant**

Ms. Patricia H. Schumaker will be the *Engagement Director* for this contract and will serve as one of the *Team Leaders* for two of the three scope areas (evaluate legacy systems and evaluation of current PowerTax systems area). As *Engagement Director*, Ms. Schumaker will have direct oversight responsibility for all of the project areas. Additionally, she will be a *Principal Consultant* for the three scope area(s) and participate in the area(s). In summary the areas she will be involved in:

- ◆ *Scope Area 1: Evaluate Legacy Systems*
- ◆ *Scope Area 2: Evaluate Current PowerTax Systems*
- ◆ *Scope Area 3: Verify Income Tax Errors*

Ms. Schumaker, PMP®, CMC®, CPA, CGMA, has over 30 years of experience, is a *Project Management Professional* (PMP®) and has previously served as the *Engagement Manager* or *Project Manager* on projects involving Arizona Public Service Company, Cobra Pipeline and Orwell-Trumbull Pipeline, National Fuel Gas Distribution Corporation, Jersey Central Power & Light, Duke Energy Kentucky, Duke Energy Indiana, Tennessee-American Water Company, Equitable Gas Company, Philadelphia Gas Works, Pennsylvania-American Water Company, PECO Energy, ALLTEL Pennsylvania, Central Maine Power Company, Commonwealth Telephone Company, Entergy, Michigan State Police Communications Division, US WEST, State of Michigan (multiple departments, including Office of Financial and Insurance Regulation), City of Detroit, City of Dearborn, Ann Arbor Housing Commission, Town of Hilton Head Island, and others. She has also been a *Principal Consultant* in *Financial Management* areas on numerous management, operations, and technology audits. She has also performed compliance audits of utility companies verifying adherence to state regulatory rules and identifying and addressing potential audit issues.

#### **Budgeting & Finance/Corporate Governance/Affiliate Relationships**

Patricia Schumaker, CPA, CGMA, has performed as *Lead Consultant* for budget and finance functions and analyzed, documented, and verified, through findings based on identifiable and measurable information and data financial management reviews. She has performed comprehensive reviews of the direct and indirect effects of borrowings and investments; short-term and long-term financial planning and analysis, budgeting, cash management, general accounting, property records, and tax management policies, procedures, and practices. And, thereby assessed the degree to which historical and projected activities have resulted in best practices. Her experience also includes numerous studies for utility, government, manufacturing and distribution, retail, and service clients while an auditor and consultant with Arthur Andersen and Lybrand Ross Bros. & Montgomery.

Corporate governance reviews performed by Patricia Schumaker begin with a clear definition of the authority, duties, and accountability of the board of directors and management. Special emphasis is placed on the accountability (duty to account) of the board of directors to the shareholders, and on its independence from management.

Patricia Schumaker, CPA, CGMA, has examined affiliate relationship and cost allocation issues at various publicly-owned utilities and public power municipalities and agencies. She has worked both for companies in assisting in their compliance with affiliate relationship rules and regulations and with regulatory commissions in determining compliance of companies with affiliate relationship rules and regulations. The scope of her experience includes affiliate legal entity organization structures, management organization structures, management models and incentive compensation programs, cost accounting and allocation, and codes of conduct. Audits have included both a holding company's and a utility's compliance with all conditions imposed by a commission regarding affiliate company transactions, including the propriety of the transfer pricing of goods and services between and/or among the utility and its affiliates.

### Performance & Results Management

Organizational performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. Ms. Schumaker provides review services to leading organizations in government, education, and industry and recommends what they need to become more performance-based, results-oriented and prepared for the future. She works with customers to define and refine their strategic vision, plans and goals, and then helps them investigate the right dynamic management tools to measure and improve their performance including: training; consulting; and practical application. These reviews have included.

Dayton Power & Light Company  
 Duke Energy Ohio  
 Duke Energy Indiana  
 Duke Energy Kentucky  
 El Paso Electric Company  
 Equitable Gas Company  
 Jersey Central Power & Light  
 National Fuel Gas Distribution Corporation

Nova Scotia Power Incorporated  
 PECO Energy Company  
 Philadelphia Gas Works  
 Public Service Company of New Mexico  
 Pennsylvania-American Water Company  
 Tennessee-American Water Company  
 Utilities, Inc./Twin Lakes  
 Water Services Corporation of South Carolina

### Descriptions of Previous Relevant Assignments

| Date(s)                      | Name and Location of Client                   | Description  |
|------------------------------|---|--|
| July 2016 –<br>December 2016 | Arizona Corporation Commission<br>Phoenix, AZ | Assisted in the matter of a fuel and purchased power procurement audit of Arizona Public Service Company (APS), including APS fuel clause filings and its policies, practices, procedures, rules, accounting practices, and cost allocations.. |





| Date(s)   | Name and Location of Client  | Description  |
|---|--|--|
| April 2012 – August 2012  | Utilities, Inc.<br>Northbrook, IL 60062<br><br><b>Task areas:</b>                        | Provided a management and operations audit of Twin Lakes utility organization and its affiliate, Water Service Corporation (WSC), on behalf of the Indiana Utility Regulatory Commission (IURC), including operations, customer service/support units, and financial management areas.<br><br><ul style="list-style-type: none"> <li>◆ Financial management and structure</li> <li>◆ Customer service and key support units</li> </ul>   |
| January 2012 – May 2012<br>January 2012 – May 2011<br>January 2010 – May 2010 | Public Utilities Commission of Ohio<br>Columbus, OH<br><br><b>Task areas:</b>            | Assisted the Public Utilities Commission of Ohio (PUCO) staff in a management/ performance and financial audit of Duke’s fuel and purchased power and system reliability tracker riders of Duke Energy Ohio. Specifically, conducted an audit of the company’s fuel costs (including any renewable energy costs) plus an audit of system reliability costs.<br><br><ul style="list-style-type: none"> <li>◆ Fuel clause computations</li> <li>◆ Fuel clause related policies, procedures, and rules</li> <li>◆ Midwest ISO charges analysis</li> </ul>   |
| May 2011 – February 2012  | Nova Scotia Power Incorporated<br>Halifax, Nova Scotia, Canada<br><br><b>Task areas:</b> | Assisted Nova Scotia Power Incorporated (NSPI) in undertaking an audit to examine the solid fuel inventory management function and provide meaningful recommendations for improvement.<br><br><ul style="list-style-type: none"> <li>◆ Financial accounting/reporting</li> <li>◆ Examination of access control for coal inventory</li> </ul>   |
| October 2010 – October 2011   | New Mexico Public Regulation Commission<br>Santa Fe, NM<br><br><b>Task areas:</b>        | Assisted the New Mexico Public Regulation Commission (NMPRC) staff in a prudence review and audit of the fuel and purchased power cost adjustment clause (fuel clause) and related documentation of the electric business operations of El Paso Electric Company (EPE), specifically to provide professional auditing and prudence review services of EPE’s fuel and purchased power costs, fuel clause filings and related documentation for the period of January 1, 2010 through December 31, 2010.<br><br><ul style="list-style-type: none"> <li>◆ Fuel clause computations</li> <li>◆ Flue clause related policies, procedures, rules, cost allocations, and manuals</li> </ul> |
| June 2010 – June 2011   | New Jersey Board of Public Utilities<br>Trenton, NJ<br><br><b>Task areas:</b>            | Assisted the New Jersey Board of Public Utilities (NJBPUB) in a comprehensive management audit of Jersey Central Power and Light (JCP&L) and an audit of affiliated transactions between and its affiliates.<br><br><ul style="list-style-type: none"> <li>◆ Affiliate relationships and affiliate cost allocation methodologies</li> <li>◆ Finance and cash management/corporate governance</li> <li>◆ Accounting and property records</li> <li>◆ Cash management</li> <li>◆ Customer service</li> <li>◆ Risk management/insurance</li> <li>◆ Records management</li> <li>◆ Information technology</li> <li>◆ Recommendations and review of previous analysis</li> </ul>            |

| Date(s)                   | Name and Location of Client   | Description  |
|---------------------------|---|--|
| June 2010 – August 2010   | Dayton Power & Light Company<br>Dayton, OH<br><br><b>Task areas:</b>      | <p>Provided fuel cost recovery rider audit co-sourcing assistance to Dayton Power and Light Company (DP&amp;L) to prepare DP&amp;L for its annual review and audit to take place in the first quarter of 2011 for calendar year 2010.</p> <ul style="list-style-type: none"> <li>◆ Finance and accounting policies, procedures, and practices</li> <li>◆ Fuel rider calculation methodologies</li> <li>◆ PJM charges analysis</li> <li>◆ Compliance audit/sampling</li> </ul>  |
| February 2010 – July 2010 | Tennessee Regulatory Authority<br>Nashville, TN<br><br><b>Task areas:</b> | <p>Schumaker &amp; Company and its subcontractor Work &amp; Greer, PC, a Certified Public Accounting firm, conducted an affiliate audit of Tennessee-American Water Company (TAWC) at the request of the Tennessee Regulatory Authority (TRA), including an investigation and assessment of the American Water Works Service Company management performance and decisions relating to internal processes and internal controls involving affiliate relationships and transactions, and the resulting recommendations of any management process changes needed for those controls and implementation.</p> <ul style="list-style-type: none"> <li>◆ Oversight for both management &amp; operations team and internal controls review &amp; sampling teams</li> <li>◆ Affiliate relationships and transactions</li> <li>◆ Management effectiveness and cost competitiveness of affiliate functions, including customer service</li> <li>◆ Cost accumulation and assignment</li> <li>◆ Cost allocation methodologies</li> <li>◆ Internal controls evaluation &amp; sampling</li> </ul> |

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## Mr. Dennis J. Schumaker, CMC®, PMP®, MCSE, MCSA Project Manager & Principal Consultant

Mr. Dennis J. Schumaker will be the *Project Manager* for this contract and will serve as one of the *Team Leaders* for the evaluation of current PowerTax systems area. As *Project Manager*, Mr. Schumaker will have direct oversight responsibility for all of the project areas. Additionally, he will be a *Principal Consultant* for the three scope area(s). In summary the areas he will be involved in:

- ◆ *Scope Area 1:* Evaluate Legacy Systems
- ◆ *Scope Area 2:* Evaluate Current PowerTax Systems
- ◆ *Scope Area 3:* Verify Income Tax Errors

Mr. Dennis J. Schumaker has over 30 years of business and industry experience with both private and public sector clients, including extensive experience in the electric, gas, telephone, and water utility industries. Mr. Schumaker's consulting experience encompasses expertise in executive management and staffing, strategic and corporate planning, corporate organization and structure, project management, business process re-engineering, materials management, engineering and construction and operations and maintenance, information technology, cost allocation and affiliated transactions, and quality assurance.

Mr. Schumaker was previously the Project Management and Lead Consultant for Schumaker & Company Management Audit of National Fuel Gas Distribution Corporation which was well received by the NYSDPS. Mr. Schumaker is a *Project Management Professional* (PMP®) and previously served as the *Engagement Manager*, *Project Manager*, or *Lead Consultant* on projects involving more than 100 utility organizations, including, Baltimore Gas & Electric Company, Conectiv, Dayton Power & Light Company, Duke Energy Ohio, El Paso Electric Company, Elizabethtown Gas Company/NUI Corporation, Equitable Gas Company, Jersey Central Power & Light, New Jersey Natural Gas Company/NJ Resources Corporation, Nova Scotia Power Incorporated, PECO Energy Company, Pennsylvania Power & Light Company, Philadelphia Gas Works, Public Service Company of New Mexico, Public Service Electric & Gas Company, Rockland Electric Company, South Jersey Gas Company/SJ Industries Corporation, State of Michigan (multiple departments, including Office of Financial and Insurance Regulation), Western Kentucky Gas Company, various AEP and FirstEnergy Ohio utilities, and others. He has also testified before five regulatory commissions during the last nine years.

### **Project Management & Work Management**

Mr. Schumaker is a *Project Management Professional* (PMP®). He has acted as *Engagement Manager*, *Project Manager*, *Lead Consultant*, or *Technical Consultant* on numerous management reviews at the request of both state and local government entities and directly for companies. These assignments involved the implementation of project management techniques into a business or government entity's internal operations. He is a member of the Project Management Institute (PMI) and has also been a presenter at a national PMI meeting. There, he presented the application of PMI methodologies titled *A Dose of One's Own Medicine*, which involved a large utility client providing services in various

states. He is also a member of the mid-western Microsoft Project Users Group. With over 30 years of consulting experience, Mr. Schumaker has been the *Project Manager* for over 100 different assignments. Over 25 of these assignments involved the review and implementation of project management techniques to a business or government entity's internal operations. These projects included nuclear and fossil power plant projects, electric and gas transmission and distribution projects, water plant and distribution engineering and construction projects, telecommunications installation projects, and research and development projects.

Mr. Schumaker's evaluation of electric and gas operations includes a review of the organization and staffing of the operations group (electric and gas operations and maintenance and electric and gas construction) in relation to its ability to perform its chartered responsibilities in an effective and timely manner. This review investigates work and information flows, staffing levels over time, work order and work assignment procedures, and crew utilization and scheduling techniques.

Evaluating the current practices of a utility, he investigates the use of decision support systems and information technology in the management of the assets (both transmission and distribution) to determine (a) whether the processes used are consistent with currently accepted levels of technology for utility industry in general, (b) whether these processes are properly designed to support the organization in providing superior service to its customers, and (c) whether the utility attempts to tie expenditures to performance levels.

Additionally, he evaluates the engineering design and construction management functions as these are key areas to the efficient and effective operation and construction of the network that is the basis for the provision of reliable service to the customer. The engineering design and planning function must be capable of determining with accuracy the future requirements for service and making the proper provisions for same through the timely conceptualization and design of future facilities.

### **Information Technology & Systems**

Mr. Schumaker has led the development and implementation of information technology plans for companies as large as a multi-billion dollar electric and gas utility, to a small 100-person municipality. These information technology plans have attempted to position an entity to capitalize on the evolving capabilities of modern information technology (hardware and telecommunications), without pursuing a technology that "stalls" the entity – either from a financial or technology perspective.

Mr. Schumaker has been responsible for the overall project management and/or quality assurance of large client/server and web-based systems. He has also directed the technical aspects of both client/server and web technology projects for a variety of clients. This includes the design and development of object-oriented relational database systems for applications as diverse as the Electronic Document Management System for the Michigan Department of Environmental Quality, a physician and provider database for M-Care, a Construction Management System for O'Neal Construction, a CRM/business intelligence system for Holcim, an Auto Wash Billing System for Baltimore Cass Auto Wash, and several internal document tracking systems, time and billing, technology asset management, and project management systems. On the Middleborough project, he developed and implemented an information technology (IT) plan that migrated the municipality to a Windows network with a standard

set of office automation software (Microsoft Office), electronic mail, and GroupWare applications. For O'Neal Construction, he migrated the organization to newer Windows technology environment and recommended and implemented improvements as part of developing a formal IT plan.

He has designed and implemented both Netware and Windows networks for a variety of clients including Schumaker & Company's internal network. He consults on the integration of technologies to solve an entity's business problems, such as the installation and programming of applications for increasing the productivity of an entity's workforce and providing an interface to the Internet for browsing and electronic mail capabilities.

During reviews, Mr. Schumaker interviews information technology managers to identify what controls and design features are in place to limit cross-company access to computer systems and information. He consults on the integration of technologies to solve an entity's business problems, such as the installation and programming of applications for increasing the productivity of an entity's workforce and providing an interface to the Internet for browsing and electronic mail capabilities. He has also directed the technical aspects of both client/server and web technology projects for a variety of clients.

|                              |  |                                     |
|------------------------------|--|-------------------------------------|
| Ann Arbor Housing Commission | Consumers Power Company                      | O'Neal Construction                 |
| Ann Arbor Plastics           | Great Lakes Bay Michigan Works!              | Wayne County Airport Authority      |
| Baltimore Cass Auto Wash     | Kingsport Power Company                      | Water Services Corp. of S. Carolina |
| Bosquette & Company          | M-Care                                       | Thorondor International             |
| City of Sturgis (MI)         | Michigan Department of Environmental Quality | Town of Middleborough (MA)          |
| Commonwealth of Pennsylvania | Middleborough Gas & Electric                 |                                     |

**And:**

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State of Michigan, Department of Treasury, Department of Management & Budget, & Family Independence Agency

## **Performance & Results Management**

Organizational performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. Mr. Schumaker provides review services to leading organizations in government, education, and industry and recommends what they need to become more performance-based, results-oriented and prepared for the future. He works with customers to define and refine their strategic vision, plans and goals, and then helps them investigate the right dynamic management tools to measure and improve their performance including: training; consulting; and practical application. These reviews have included.

|  |  |
|--|--|
| Dayton Power & Light Company               | Nova Scotia Power Incorporated               |
| Duke Energy Ohio                           | PECO Energy Company                          |
| Duke Energy Indiana                        | Philadelphia Gas Works                       |
| Duke Energy Kentucky                       | Public Service Company of New Mexico         |
| El Paso Electric Company                   | Pennsylvania-American Water Company          |
| Equitable Gas Company                      | Tennessee-American Water Company             |
| Jersey Central Power & Light               | Utilities, Inc./Twin Lakes                   |
| National Fuel Gas Distribution Corporation | Water Services Corporation of South Carolina |

## **System Planning (Load Forecasting, Supply Procurement, and Reforming Energy Vision (REV))**

Over the last ten years, the level of sophistication regarding system planning activities within the electric and gas industry has changed significantly. It is now possible to mine the data contained

within a utilities business systems to develop sophisticated business decision making models to aid in the systems planning process. Risk based decision making is now possible and pressure has been applied at the federal level (via the Distribution Integrity Management Programs or DIMP) to speed up the adoption of such decision making processes. Cost/benefit is now being incorporated into a broader decision making criteria which would be more broadly characterized as a risk management process.

Mr. Schumaker has reviewed load forecasting and supply procurement functions of electric and gas utilities. For assignments in the southwestern United States, the natural gas forecasts involved gas fired power plants whereas in the northeast the load forecasting dealt primarily with the needs of a local gas distribution company. In both cases, various types of financial and physical hedges were used based on the forecasts and calculations from various business models to attempt to add a level of certainty to overall gas costs. He has studied gas load forecasting at numerous utilities including both electric and gas as follows:

Examination with regard to New York's Reforming Energy Vision (REV) proposal, Mr. Schumaker will include examining the utility's capability, preparedness, and/or any barriers to be able to implement a new model, the utility's preparedness to change its distribution management systems and communications infrastructure to accommodate distributed energy resources (DER) resources or new energy products and services, and the utility's ability to facilitate DER to participate in the market to meet resource needs.

### Descriptions of Previous Relevant Assignments

| Date(s)                      | Name and Location of Client                              | Description   |
|------------------------------|--|---|
| July 2016 –<br>December 2016 | Arizona Corporation Commission<br>Phoenix, AZ            | Assisted in the matter of a fuel and purchased power procurement audit of Arizona Public Service Company (APS), including APS fuel clause filings and its policies, practices, procedures, rules, accounting practices, and cost allocations..  |
| November 2016 –<br>May 2017  | Public Utilities Commission of<br>Ohio<br>Columbus, Ohio | Assisted the Public Utilities Commission of Ohio (PUCO) in an investigative audit of all pipeline companies owned or controlled by Richard Osborne, specifically Orwell-Trumbull Pipeline Company and Cobra Pipeline Company, and their affiliates that are subject to PUCO's jurisdiction. The focus of this investigative audit focused on examining the Companies' structure, functions, affiliates, and related party transactions, and operating procedures, including financial management. |

| Date(s)                      | Name and Location of Client  | Description   |
|------------------------------|--|---|
| Oct 2014 – August 2015       | Pennsylvania Public Utility Commission<br>Bureau of Audits<br>Philadelphia PA<br><br><b>Task areas:</b>  | Assisted in a stratified management and operations audit of Philadelphia Gas Works (PGW). The primary focus was the business components of PGW subject to regulation by the Pennsylvania Public Utility Commission, specifically functions supporting PGW service production and delivery, whose costs are borne ultimately by Pennsylvania ratepayers. Objectives included the determination of what improvements, if any, can be accomplished in the management and operations of PGW pursuant to Section 522(b) of the Public Utility Code 66 Ps. C.S. §522(b).<br><br><ul style="list-style-type: none"> <li>◆ Project planning and scheduling</li> <li>◆ Executive management and human resources</li> <li>◆ Corporate governance</li> <li>◆ System reliability and related operations</li> <li>◆ Gas operations/supply</li> <li>◆ Leak detection</li> <li>◆ Emergency preparedness</li> <li>◆ Contractor oversight policies and procedures</li> </ul> |
| July 2010 – July 2014        | Michigan Public Service Commission<br>Regulated Energy Division<br>Lansing, MI<br><br><b>Task areas:</b> | Assisted the Regulated Energy Division by verifying that the requirements of Section 11, Public Act No. 286 of 2008 are being satisfied beginning with rate case orders issued after January 1, 2009 for each electric utility in the state, including Detroit Edison, Consumers Energy, Upper Peninsula Power Company, Wisconsin Electric Power Company, Alpena Power Company, Indiana Michigan Power, Northern States Power Company, and Wisconsin Public Service Corporation..<br><br><ul style="list-style-type: none"> <li>◆ Public Act 286 Section 11 verification involving rate cases</li> <li>◆ Multiple electric company reviews</li> </ul>   |
| January 2014 – November 2014 | City of Toledo, Department of Public Utilities<br>Toledo, OH<br><br><b>Task areas:</b>                   | Provided an independent performance audit of the City of Toledo Department of Public Utilities (DPU) for the specific purpose of assessing current operations and proposing improvements in planning and processes to assure that future capital expenditures are made on a timely basis, scheduled maintenance and repairs are done when necessary, appropriate staffing levels are maintained, and best management practices of the industry are incorporated in the DPU's long term plans.<br><br><ul style="list-style-type: none"> <li>◆ Executive &amp; performance management/measurement</li> <li>◆ Water/wastewater operations</li> <li>◆ Strategic planning</li> <li>◆ Customer service, complaints and Inquiries</li> <li>◆ External relations</li> <li>◆ Information technology services</li> </ul>   |
| January 2014 – December 2015 | Philadelphia Water Department<br>Philadelphia, PA<br><br><b>Task areas:</b>                              | Provided a management support study for the Philadelphia Water Department (PWD) customer service and field operations activities to optimize operations, including evaluation of its resource utilization, so as to ensure that it is cost effective, to improve customer service, and to meet its core services and regulatory requirements in a responsible way.<br><br><ul style="list-style-type: none"> <li>◆ Water and wastewater field operations, workforce, and service levels</li> <li>◆ Best practices comparison</li> </ul>   |



| Date(s)   | Name and Location of Client  | Description  |
|---|--|--|
| April 2012 – August 2012  | Utilities, Inc.<br>Northbrook, IL<br><br><b>Task areas:</b>                              | Provided a management and operations audit of Twin Lakes utility organization and its affiliate, Water Service Corporation (WSC), on behalf of the Indiana Utility Regulatory Commission (IURC), including field operations, customer service/support units, and financial management.<br><br><ul style="list-style-type: none"> <li>◆ Water and wastewater operations</li> <li>◆ Customer service and key support units</li> </ul>  |
| May 2011 – February 2012  | Nova Scotia Power Incorporated<br>Halifax, Nova Scotia, Canada<br><br><b>Task areas:</b> | Assisted Nova Scotia Power Incorporated (NSPI) in undertaking an audit to examine the solid fuel inventory management function and provide meaningful recommendations for improvement.<br><br><ul style="list-style-type: none"> <li>◆ Coal operations</li> <li>◆ Examination of access control for coal inventory</li> </ul>  |
| January 2012 – May 2012<br>January 2011 – May 2011<br>January 2010 – May 2010 | Public Utilities Commission of Ohio<br>Columbus, OH<br><br><b>Task areas:</b>            | Assisted the Public Utilities Commission of Ohio (PUCO) staff in a management/ performance and financial audit of Duke’s fuel and purchased power and system reliability tracker riders of Duke Energy Ohio. Specifically, conducted an audit of the company’s fuel costs (including any renewable energy costs) plus an audit of system reliability costs.<br><br><ul style="list-style-type: none"> <li>◆ Coal costs and plant operations</li> <li>◆ Power interruptions</li> <li>◆ Midwest ISO charges analysis</li> </ul>  |
| October 2010 – October 2011   | New Mexico Public Regulation Commission<br>Santa Fe, NM<br><br><b>Task areas:</b>        | Assisted in a prudence review and audit of the fuel and purchased power cost adjustment clause (fuel clause) and related documentation of the electric business operations of El Paso Electric Company (EPE), specifically to provide professional auditing and prudence review services of EPE’s fuel and purchased power costs, fuel clause filings, and related documentation for the period of January 1, 2010 through December 31, 2010.<br><br><ul style="list-style-type: none"> <li>◆ Coal costs and plant operations</li> <li>◆ Nuclear fuel expenses</li> <li>◆ Line losses</li> <li>◆ Purchased power expense and sales for resale</li> </ul> |
| June 2010 – June 2011   | New Jersey Board of Public Utilities<br>Trenton, NJ<br><br><b>Task areas:</b>            | Assisted the New Jersey Board of Public Utilities (NJBPUB) in a comprehensive management audit of Jersey Central Power and Light (JCP&L) and an audit of the affiliated transactions between JCP&L and its affiliates.<br><br><ul style="list-style-type: none"> <li>◆ Fuel procurement and purchasing</li> <li>◆ Market conditions and clean energy</li> <li>◆ Recommendations and review of previous analysis</li> <li>◆ Remediation costs</li> <li>◆ Distribution and operations maintenance</li> <li>◆ Extensions and upgrades to provide regulated services</li> <li>◆ Contractor performance</li> </ul>  |

| Date(s)                   | Name and Location of Client   | Description  |
|---------------------------|---|--|
| June 2010 – August 2010   | Dayton Power & Light Company<br>Dayton, OH<br><br><b>Task areas:</b>  | <p>Provided fuel cost recovery rider audit co-sourcing assistance to Dayton Power and Light Company (DP&amp;L) to prepare DP&amp;L for its annual review and audit to take place in the first quarter of 2011 for calendar year 2010.</p> <ul style="list-style-type: none"> <li>◆ Fuel procurement procedures and practices</li> <li>◆ Operations and maintenance practices</li> <li>◆ Management performance</li> </ul>  |
| January 2010 – June 2010  | Maine Public Advocate<br>Augusta, ME<br><br><b>Task areas:</b>  | <p>Provided regulatory and litigation support to the Maine Public Advocate in its intervention in a petition filed on March 18, 2010 at the Maine Public Utilities Commission by Bangor Hydro-Electric Power Company, Maine Public Service Company, Maine Electric Power Company, and Chester SVC Partnership requesting an approval of reorganization (35-A M.R.S.A. §§ 708 and 1103) financial provisions.</p> <ul style="list-style-type: none"> <li>◆ Regulatory and reliability merger implications</li> </ul>  |
| February 2010 – July 2010 | Tennessee Regulatory Authority<br>Nashville, TN<br><br><b>Task areas:</b>   | <p>Schumaker &amp; Company and its subcontractor Work &amp; Greer, PC (Work &amp; Greer), a Certified Public Accounting firm, conducted an affiliate audit of Tennessee-American Water Company (TAWC) at the request of the Tennessee Regulatory Authority (TRA), including an investigation/assessment of the American Water Works Service Company management performance and decisions relating to internal processes and controls involving affiliate relationships and transactions, and the resulting recommendations of any management process changes needed for those controls and implementation.</p> <ul style="list-style-type: none"> <li>◆ Affiliate relationships</li> <li>◆ Management effectiveness and cost competitiveness</li> <li>◆ Communications and planning</li> </ul> |
| January 2009 – May 2010   | Pennsylvania Public Utility Commission, Bureau of Audits – Western Region<br>Pittsburgh, PA<br><br><b>Task areas:</b> | <p>Assisted the Pennsylvania Public Utility Commission (PaPUC) in a stratified management and operations audit of Equitable Gas Company (EGC), a subsidiary of EQT Corporation, and EGC's relationship with its affiliates; primary focus was the business components of EGC still subject to regulation by the PaPUC.</p> <ul style="list-style-type: none"> <li>◆ Project planning and scheduling</li> <li>◆ Gas supply and operations</li> <li>◆ System reliability performance and related operations</li> <li>◆ Customer service, billing, and collection functions</li> </ul>  |
| July 2009 – February 2010 | New Mexico Public Regulation Commission<br>Santa Fe, NM<br><br><b>Task areas:</b>                                     | <p>Assisted the New Mexico Public Regulation Commission (NMPRC) staff in a prudence review and audit of the fuel and purchased power cost adjustment clause (fuel clause) and related documentation of the electric business operations of Public Service Company of New Mexico (PNM).</p> <ul style="list-style-type: none"> <li>◆ Coal costs and plant operations</li> <li>◆ Nuclear fuel expenses</li> <li>◆ Line losses</li> <li>◆ Purchased power expense and sales for resale</li> </ul>   |

| Date(s)                      | Name and Location of Client                       | Description   |
|------------------------------|---|---|
| June 2009 –<br>February 2010 | Ann Arbor Housing Commission<br>Lansing, MI 48910 | <p>Provided services to assist the Ann Arbor Housing Commission (AAHC) in an operational assessment with an emphasis on financial decisions involving the organization. Specifically, Schumaker &amp; Company performed three key assessments: 1) a high-level analysis of the existing organization structure of services involving major areas of AAHC operations; 2) an evaluation of the present staffing structure for appropriateness, effectiveness, and efficiency of operations; and 3) an assessment of department processes for improved effectiveness and efficiencies with a goal to create an organizational climate of empowerment and accountability.</p> <p><b>Task areas:</b></p> <ul style="list-style-type: none"> <li>◆ Operational practices</li> <li>◆ Technology</li> <li>◆ Capital needs assessment</li> </ul> |

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## Mr. Ralph C. Smith, Esq., CPA, CFP, CRRA, Larkin & Associates Principal Consultant

Mr. Ralph C. Smith will be one of the *Team Leaders* in two of the scope areas, specifically in the evaluation of legacy system and verification of income tax errors. He will be a *Principal Consultant* for the three scope area(s). In summary the areas he will be involved in include:

- ◆ *Scope Area 1:* Evaluate Legacy Systems
- ◆ *Scope Area 2:* Evaluate Current PowerTax Systems
- ◆ *Scope Area 3:* Verify Income Tax Errors

Mr. Ralph Smith's professional credentials include being a certified financial planner™ professional, a licensed Certified Public Accountant and an attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving gas, telephone, electric, and water and sewer utilities. Over the past 39 years, Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, Montana New Jersey, New York, Nevada, North Dakota, Ohio, Pennsylvania, Puerto Rico, South Carolina, South Dakota, Texas, Vermont, Washington, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on numerous occasions.

### Relevant Regulatory Experience

Following are examples of water carrier, electric, gas, telephone and water regulatory cases in which Mr. Smith has participated, specifically electric cases:

- ◆ *Project Manager* in the review of the Joint Petition of a merger between Hawaii Electric Light Company, Hawaiian Electric Company, and NextEra Energy. Issues addressed in testimony included: Whether the Proposed Transaction is in the Public Interest; Whether the Applicants are fit, willing, and able to properly provide safe, adequate, reliable electric service at the lowest reasonable cost in both the short and the long term; Whether the Proposed Transaction, if approved, would diminish, in any way, the commission's current regulatory authority over the HECO Companies, particularly in light of the fact that the ultimate corporate control of the HECO Companies will reside outside of the State; Whether the financial size of the HECO Companies relative to NextEra's other affiliates would result in a diminution of regulatory control by the commission; and Whether any conditions are necessary to ensure that the Proposed Transaction is not detrimental to the

interests of the HECO Companies' ratepayers or the State and to avoid any adverse consequences and, if so, what conditions are necessary.

- ◆ *Project Manager and Independent Monitor Team Member* in the review of Mississippi Power Company's Kemper County Integrated Gasification Combined Cycle (IGCC) plant that was under construction. Issues addressed in testimony included: Cost of Gas-Fired Combined Cycle Generation Included in Certification Estimate; Cost Cap Exceptions for Beneficial Capital, Force Majeure and Change in Law; MPCo Assumption for Securitization Occurring in April 2016; Regulatory Asset Amortization Period; Incentive and Stock-Based Compensation; Treatment of Ad Valorem Taxes on the In-Service Assets; and Return on Equity Used and Concerns About MPCo's Proposed Capital Structure.
- ◆ *Project Manager* in the review of the proposed change of control application submitted by Iberdrola and UIL Holdings in Connecticut. Issues addressed in testimony included: Overview of the Proposed Acquisition and Merger, Standard of Review, Background of Prior Transaction Between UIL and Iberdrola, Section 338(H)(10) Election Issue, Protection From Harm - Ring-Fencing Provisions, Protection From Harm - Accounting and Regulatory Conditions, Goodwill, Accounting Issues Related to Goodwill and Acquisition Premium, Protecting UI, CNG, and SCG Ratepayers from the Risk of "Push Down" Accounting, Risks of a Substantial Goodwill Impairment, Summary of Recommended Conditions to Protect Ratepayers Relating to Goodwill, Transaction Costs, Costs Included in Transaction Costs, Change In Control Plan Payments, Costs for Litigation Related to the Proposed Merger, No Transaction Costs Should be Recorded in the Capital Structure, Balance Sheets and Income Statements of UIL, UI, CEC or CTG or the UIL Utilities, Termination Fee, Tax Indemnification, Tax Elections That, if Made, Could Harm UI, CNG, And SCG's Connecticut Ratepayers, Benefit to UIL Shareholders - Stock Premium, Public Benefit - Customer Fund, Impact of Accelerating Iberdrola's U.S. Net Operating Losses and Other Tax Benefits, Other Safeguards and Reporting Requirements. The change in control transaction was rejected by the PURA's draft decision on June 30, 2015.
- ◆ *Project Manager* in Virginia Electric and Power Company's 2015 biennial review of rates, terms, and conditions for the provision of generation, distribution, and transmission services. Issues addressed in testimony included: 2013 and 2014 Biennial Review Period Earnings; Prospective Revenue Sufficiency; Loss Contingency Related to Coal Ash Ponds; Removal of Major Storm Expense for Prospective Ratemaking; Long Term Incentive Plan Performance Award Costs Recorded During 2014 that Exceeded a Payout Percentage of 100 Percent; Special One-Time Restricted Stock Awards Expense; Conforming Changes to Interest Synchronization; Property Tax Expense Functionalization; Projected Environmental Compliance Costs for Prospective Ratemaking; Fossil Plant O&M Costs for Prospective Ratemaking; and Income Tax Expense.
- ◆ *Project Manager* in the review and analysis of the 2016 General Rate Case of San Diego Gas & Electric Company as it pertained to the Company's electric operations. Issues addressed in testimony included: Escalation Factors; Tree-Trimming Balancing Account; New

Environmental Regulations Balancing Account; Pension Balancing Account; Post-Retirement Benefits Other Than Pensions Balancing Account; Plant in Service; Electric Distribution Capital Expenditures; Working Cash; Electric Distribution O&M Expenses; Electric Regional Operations Expense; Distribution Operation Expense; Construction Service Expense; Vegetation Management (Tree Trimming); Vegetation Management (Pole Brush); Wildfire Insurance Expense; Wildfire Liability Insurance; and Wildfire Property Damage Reinsurance.

- ◆ *Project Manager* in the review of Kentucky Power Company's requested increase in rates. Issues addressed in testimony included: Accumulated Deferred Income Taxes – 2014 bonus tax depreciation; contributions in aid of construction; cash working capital; commercial and industrial revenue; amortization of deferred IGCC costs; amortization of deferred CCS FEED Study costs; amortization of deferred CARRS site costs; amortization of deferred preliminary Big Sandy FGD costs; parent company loss allocation; incentive compensation expense; stock-based compensation expense; Engage to Gain program costs; PJM charges and credits to reflect removal of Big Sandy; miscellaneous expenses; Mitchell plant maintenance expense; interest synchronization; Big Sandy Retirement Rider; Big Sandy Unit 1 Operation Rider (BS1OR); Environmental surcharge related to Mitchell FGD; Kentucky Economic Development Surcharge; Transmission adjustment; Mitchell plant transfer/Ash Pond costs; Off system sales margin sharing; vegetation management; and Rockport plant unit power sales agreement – return on equity of 12.16 percent.
- ◆ *Project Manager* in the review of Pennsylvania FirstEnergy's requested increases in rates for West Penn Power Company, Pennsylvania Electric Company, Pennsylvania Power Company, and Metropolitan Edison Company. Issues addressed in testimony included: Average Rate Base for the Fully Projected Test Year; Deferred Storm Damage; Depreciation Reserve Related to Legacy Meters; Cash Working Capital; Corrections to Remove Transmission Projects from Account 303, Miscellaneous Intangible Plant; Mobile Work Management System Corrections, Account 303, Miscellaneous Intangible Plant; ADIT – Impact of 2013 Change in Tax Accounting Method; ADIT – Error Correction; Consolidated Tax Savings; Miscellaneous Expenses; Amortization of Deferred Storm Damage Expense; Amortization of Merger Storm Damage Deferral; Amortization Expense Related to Legacy Meters; Payroll Expense; Payroll Tax Expense; Employee Benefits; Depreciation Expense – Removal of Transmission Project from Account 303; Depreciation Expense – Mobile Work Management System; Vegetation Management; Rate Case Expense; Interest Synchronization; Pension Expense; Post Retirement Benefits Other Than Pensions; Storm Damage Reserve and Rider; and Federal 2014 Tax Extenders.
- ◆ *Expert Witness* in the review the proposed merger between Exelon and PHI Holdings. Issues addressed in testimony included: Factor 1 – ratepayers, shareholders, the financial health of the utilities standing alone and as merged, and the economy of the district; Impact of the proposed transaction on Pepco's DC ratepayers; the Customer Investment Fund; Accounting Issues Related to Goodwill, Protecting Pepco Ratepayers from the Risk of "Push Down" Accounting, Risks of a Substantial Goodwill Impairment on Exelon's

Balance Sheet, Goodwill in Transmission Formula Rates, the Treatment of Transaction Costs, the Joint Applicants' Estimate of Synergies, Costs to Achieve in Excess of Synergy Savings, Pepco's Rate Case Plans and Concerns about Rate Increases, Tax Indemnification, Tax Elections That, if Made, Could Harm Pepco's DC Ratepayers; Impact of the Proposed Transaction on PHI's Shareholders, Impact of the Proposed Transaction on PHI's Executives, Impact of the Proposed Transaction on Exelon, Impact of the Proposed Transaction on the Economy of the District, the Cost of Electricity to the DCG, the Estimated Impact on the DCG from Pepco Rate Increases, Factors that could cause Pepco rate increases to be higher under Exelon's ownership; Tax Revenue that PHI and Pepco are Providing to the District; Locations of PHI and Pepco Office Facilities in the District, the PHI and Pepco D.C. Headquarters, Risks that Exelon's attempts to achieve post-acquisition merger savings present to PHI and Pepco office locations and employment in the District and to District residents, Other Conditions and Reporting Requirements, Pepco and PHI Service Company's Historical Charitable Contributions.

- ◆ *Expert Witness and Independent Monitor Team Member* for the Georgia Public Service Commission Staff's review of Plant Vogtle, Units 3 and 4, being constructed by Georgia Power Company, Docket No. 29849, VCM 17.
- ◆ *Project Manager* of Georgia Public Service Commission Staff's review of a series of Georgia Power Company rate cases and Annual Surveillance Report reviews. Issues included rate base, operating income, affiliate transactions, and an array of income tax issues.
- ◆ *Expert Witness* in the review of Duke Energy Indiana, Inc. seeking approval of an ongoing review progress report to reflect costs incurred for its Edwardsport IGCC Generating Facility. Mr. Smith's testimony addressed the following issues: "Commercial Operation" of the Edwardsport IGCC did not occur during the combined IGCC-12 and 13 review periods; Need for performance standards and an operating cost cap to protect ratepayers from excessive costs and poor plant performance; Unreasonably high cost of the Edwardsport IGCC during the IGCC-12 and 13 review periods; Concern that DEI is classifying costs in a manner to evade the "hard cost cap" and that is inadequately documented, not transparent and cannot be adequately reviewed; Commission ordered refund and carrying costs on ratepayer monies being held by the Company; and the need for additional proceedings.
- ◆ *Project Manager* in the review of Monongahela Power Company and The Potomac Edison Power Company's requested increase in rates. Issues addressed in testimony included: Three deactivated subcritical generating plants (Albright, Rivesville, and Willow Island); cash working capital; property tax payment lag; terminal treatment: post test year environmental pollution control projects; terminal treatment: 2014 MATS control projects; vegetation management year one capital distribution plant; business and occupation taxes; vegetation management expense; revenue at current base rates that should not be removed; payroll expense; savings plan expense; payroll tax expense; incentive compensation and corporate incentives; meter reading expense; depreciation expense – new depreciation rates;

payroll expense – new hires related to Harrison Asset Transfer settlement; lease expense; amortization expense related to three deactivated plants; consolidated income tax savings; interest synchronization; depreciation expense – Harrison power station; depreciation expense related to environmental control projects; depreciation expense related to MATS pollution control projects; depreciation expense on vegetation management year one capital distribution plant; vegetation management surcharge; and the Harrison plant acquisition adjustment.

- ◆ *Project Manager* of the Mississippi Power Company Kemper Prudence Review and *Member* of the Mississippi Public Utility Staff Independent Monitor team. Since 2011, Larkin & Associates, along with Burns & Roe Enterprises, and its successors, has been conducting a prudence review of construction costs recorded by MPC related to the Kemper County Integrated Gas Combined Cycle (IGCC) plant on behalf of the Mississippi Public Service Staff for costs incurred through March 31, 2013. Larkin & Associates' portion of the prudence review consists of examining invoices and other documentation provided by the Company related to construction costs incurred in conjunction with the construction of the Kemper County IGCC plant. The review conducted included an array of income tax issues, including a deduction for research and experimentation under IRC §174, bonus tax depreciation, eligibility for various investment credits, normalization issues, and the impact of the Tax Cuts and Jobs Act.
- ◆ *Project Manager* in the review of Georgia Power Company's Annual Surveillance Reports (ASRs) for years 2012 through 2016 (and continuing for 2017 and 2018). Working closely with the Georgia Public Service Commission Staff, Larkin & Associates conducted an extensive review of Georgia Power Company's ASR filings in order to: replicate and verify the Company's return on equity calculation to ensure it placed within the Commission's ordered ROE band, ensure that the Company's regulatory adjustments were made in compliance with Commission orders, and identify issues and/or adjustments to the Company's filing as appropriate. Larkin & Associates' review implemented the following procedures, amongst others, to make its determination with respect to the Company's reported Return on Equity: compared rate base and operating income components year over year, identified changes in adopted accounting methodologies, and identified new transactions, identified variances as a foundation for discovery questions, prepared multiple rounds of discovery questions and reviewed responses.
- ◆ *Project Manager* and *Expert Witness* in the review of Georgia Power Company's request for a rate increase. Issues addressed in testimony included: ECCR Tariff revenue deficiency; DSM Tariff revenue deficiency, Alternative rate plan (2014-2016) revenue deficiency; Municipal Franchise Fee Tariff; steam and other production O&M expense; transmission and distribution O&M expense; wholesale capacity sales revenue; proceeds from sales of scrap material; cash working capital; miscellaneous items/executive financial planning; property tax; interest synchronization; depreciation expense and reserve; Plant Hammond Mercury and Air Toxins Standards (MATS) Project; Plant Branch depreciation; Plant McDonough Unit 6 depreciation; prepaids and deferred debits; operating reserves and

deferred credits; Plant Branch Units 1, 3, and 4 net book value; ADIT for deferred nuclear outage cost; ADIT for Purchase Power Agreement (PPA) levelization; pole attachment revenues; revenue for rental of electric property; SERP expense; pension expense; PSC Staff IRP consultant expense; solar implementation and operating expense; income tax expense – state clean energy credit; hydro tax credit; update SCS allocation factors to use 2012 statistics; GPC charges to Southern Power; stock options and stock based compensation; Southern Company Services (SCS) charges to GPC; Southern Nuclear Company charges to GPC; affiliate PPAs/capital leases with Southern Power Company; GPC charges to other affiliates; GPC charges to Southern Power; GPC charges to Southern Company Services for Atlanta Headquarters Building; GPC charges to SouthernLINC; Section 199 Manufacturing Deduction; FIN 48 uncertain tax positions; performance pay plan; step increase approach; costs resulting from the Plant Bowen incident; and earnings test and earnings sharing.

- ◆ *Expert Witness* in the review of Appalachian Power Company’s requested increase in rates. Issues addressed in testimony included: Issues addressed in testimony included: capital structure, 2012 and 2013 biennial review period earnings, IGCC costs, charitable contributions, Putnam coal terminal, coal inventory, 2009 storm costs, jurisdictional amount of ADIT related to the Atmos Unit 3 depreciation reserve deficiency, pension asset, Atmos Unit 3 Acquisition, corporate aviation expense, property tax, incentive compensation, stock based compensation, major storm cost, impact of failure to interrupt demand response customers, production O&M expense, interest synchronization, other issues and deferral of 2014 and 2015 costs for vegetation management pilot program.
- ◆ *Expert Witness* in the review of Appalachian Power Company’s requested increase in rates. Issues addressed in testimony included: prior period accumulated depreciation, acquisition of 50% undivided interest in the Mitchell Plant, materials and supplies, cash working capital, Putnam coal terminal, pension asset, prepaid rent, storm costs, Atmos Unit 3 Depreciation reserve, Apco Coal inventory, Construction Work in Progress-Mitchell Plant, Atmos Unit 3 CWIP, Non ENEC O&M expense, depreciation expense, property tax expense, consolidated income tax savings, revenue from large customer load charges, Felman special contract revenue, Net Lost Revenue related to EE/DR programs, inflation expense, financing cost allowance-pension asset, interest synchronization, vegetation management expense, corporate aviation expense, O&M and payroll tax expense related to additional lineman, incentive compensation, adjustment to O&M expense related to Mitchell Plant, property tax expense functionalization and the Companies’ vegetation management surcharge.
- ◆ *Expert Witness* in the review of Potomac Electric Power Company’s request for an increase in rates. Issues addressed in testimony included: Proposed increase, proposed test year, proposed rate base, proposed operating expenses, and proposed depreciation rates.
- ◆ *Expert Witness* in the review of Virginia Electric Power Company’s request for an increase in rates. Issues addressed in testimony included: Electric plant in service, accumulated depreciation and amortization, update of rate base items, cash working capital, ADIT,

affiliate fuel inventory, CWIP projects in rate base subject to a rate adjustment clause, NUG capacity expense, non-NUG capacity expense, normalize major maintenance during nuclear refueling outage, normalize major fossil and hydro plant maintained expense, emission allowance consumption expense, tree and brush control expense, depreciation expense, property tax expense, payroll expense for salaried employees, overtime payroll expense, service company payroll expense, incentive compensation expense, stock based compensation expense, obsolete inventory, interest synchronization, uncollectibles expense, charitable contributions, customer growth expense, inflation adjustment, executive prerequisites, accelerated depreciation of existing meters, employee benefits and income tax expense.

- ◆ *Expert Witness* in the review of Georgia Power Company's request for a rate increase. Issues in testimony included: Affiliate charges, Section 199 manufacturing deduction, FIN 48 rate base addition for uncertain tax positions, and incentive compensation.
- ◆ *Project Manager* in the review of UNS Electric, Inc.'s request for a rate increase. Issues addressed in Mr. Smith's testimony included: Post Test Year Plant Not in Service; Removal of One-Half of Prepaid D&O Insurance; Depreciation and Property Tax Expense on Post Test Year Plant Not in Service; Post Test Year Pay Increases; Rate Case Expense; Incentive Compensation Expense; Injuries and Damages; Directors and Officers' Liability Insurance; Edison Electric Institute and Industry Association Dues; Allocated Cost of TEP's New Headquarters Building to UNSE; Interest Synchronization; Depreciation Rates – Dismantlement Cost; Base Cost of Fuel and Purchased Power; and Purchased Power and Fuel Adjustment Clause.
- ◆ *Project Manager* in the review of Duke Energy Inc.'s request for approval of an ongoing review progress report to reflect costs incurred for its IGCC Generating Facility. Mr. Smith's testimony addressed the Commission ordered refund and carrying costs on ratepayer monies being held by the Company.
- ◆ *Project Manager* in the review of Georgia Power Company's request for a rate increase. Issues in testimony included: ECCR Tariff revenue deficiency; DSM Tariff revenue deficiency, Alternative rate plan (2014-2016) revenue deficiency; Municipal Franchise Fee Tariff; steam and other production O&M expense; transmission and distribution O&M expense; wholesale capacity sales revenue; proceeds from sales of scrap material; cash working capital; miscellaneous items/executive financial planning; property tax; interest synchronization; depreciation expense and reserve; Plant Hammond Mercury and Air Toxins Standards (MATS) Project; Plant Branch depreciation; Plant McDonough Unit 6 depreciation; prepaids and deferred debits; operating reserves and deferred credits; Plant Branch Units 1, 3, and 4 net book value; ADIT for deferred nuclear outage cost; ADIT for Purchase Power Agreement (PPA) levelization; pole attachment revenues; revenue for rental of electric property; SERP expense; pension expense; PSC Staff IRP consultant expense; solar implementation and operating expense; income tax expense – state clean energy credit; hydro tax credit; update SCS allocation factors to use 2012 statistics; GPC

charges to Southern Power; stock options and stock based compensation; Southern Company Services (SCS) charges to GPC; Southern Nuclear Company charges to GPC; affiliate PPAs/capital leases with Southern Power Company; GPC charges to other affiliates; GPC charges to Southern Power; GPC charges to Southern Company Services for Atlanta Headquarters Building; GPC charges to SouthernLINC; Section 199 Manufacturing Deduction; FIN 48 uncertain tax positions; performance pay plan; step increase approach; costs resulting from the Plant Bowen incident; and earnings test and earnings sharing.

- ◆ *Project Manager* in the proposed acquisition of UNS Energy by Fortis, Inc. Issues addressed in testimony included: omissions from presentation of post-merger corporate organization structure, standard of review, previous attempt to sell Unisource Energy, Fortis' acquisition of other U.S. utilities, good will, transaction costs, change in control costs, retention bonuses, UNS Energy shareholder litigation costs, confirmation that there is no Internal Revenue Code § 338(H)(10) election, bond ratings/changes to cost of debt/post merger capital structure, preserving TEP Springerville Section 45 Synfuel benefits for Arizona Ratepayers, Luxembourg conduit/inter-company debt financing/impact on Fortis' anticipated earnings accretion, Arizona Ratepayer benefits, and Fortis corporate cost increases resulting from the merger.
- ◆ *Project Manager* in Chugach Electric Association, Inc.'s review of its development of the transmission tariff and COSS/Rate Design. Issues in testimony included: Duplication of Revenue Requirement in Chugach's Proposed Rate Schedules T-7 and T-8 with Rate Schedule T-1; "Wheel Through" Transactions; Chugach's Proposed Wheeling Rates; Treatment of Revenue from Off-System Wheeling Transactions; Discounting of Transmission and Ancillary Service Rates; Chugach's Unreliable Test Year Demand Data; Application of Transmission Rates and "Free Rider" Issue; Split Tier; and Changes to the Labor-Based Allocator.
- ◆ *Project Manager* in Potomac Electric Power Company's review of its rate request. Issues in Mr. Smith's testimony included: Increase in base distribution rates; test year ending December 31, 2012, consisting of 12 months of actual results; adjustments to the test year data for known and measurable changes; rate base; cash working capital allowance; lead-lag study; operating expenses; depreciation rates; are Pepco's depreciation rates computed with the appropriate District of Columbia book reserve; is Pepco's accumulated depreciation reserve computed accurately based on D.C.'s jurisdictional amounts; is Pepco correctly recording its gross salvage value in accordance with FERC's uniform system of accounts; net salvage/net removal cost; comparison of Pepco's requested cost of removal for D.C. distribution plant with the amount allowed in Order No. 15710; comparison of Pepco's requested cost of removal with other alternatives; actual cost of removal; evaluation of Pepco's proposed negative net salvage percentages; and rebuttal to Pepco's witness Spanos's June 17, 2013 supplemental testimony.
- ◆ *Project Manager* in the review of Virginia Electric and Power Company's presentation of its prospective revenue requirement. Issues in testimony included: 2011 and 2012 Biennial

Review Period Earnings; Prospective Revenue Sufficiency; Correction of Income Tax Expense for Taxable Income Addition for Lobbying Dues; Capital Investment for Five Capacity Up-Rating Projects; July 2011 Impairment Write-Down for emission Allowances; Normalize Nuclear Refueling Outage O&M Expense; Normalize Major Storm Expense; Warren Count CWIP; Conforming Changes to Interest Synchronization; 2010-2011 Long-Term Incentive Plan Performance Award Costs Recorded During 2011 That Exceeded a Payout of 100 Percent; Amortization of Regulatory Asset for 2011-2012 Combined Under-Earnings; and Income Tax Expense.

- ◆ *Project Manager* in the review of Georgia Power Company's 2013 Integrated Resource Plan. Issues in testimony included: Requests for Cost Recovery Should be Addressed in Other Forums Where the Company's Earnings and Risk are Considered, Rather than in the 2013 IRP Proceeding; Georgia Power's Requested Accounting Reclassifications and Amortizations should be Addressed in a Forum Which Considers Georgia Power's Costs and Earnings.
- ◆ *Project Manager* in the review of Duke Energy Inc.'s request for recovery of related costs and credits through its IGCC generating facility cost recovery. Mr. Smith's testimony addressed: Cost of Delay Related to the Company's Requested Revenue Requirement for CWIP-Related Financing Costs/Return on Investment; Cost of Delay Related to the Company's Requested Accrual of AFUDC; Other Costs of Delay; AFUDC Rate of Return; Commission Ordered Refund and Carrying Costs on Ratepayer Monies Being Held by the Company; Portion of Edwardsport that was Placed "In Service" for Federal Income Tax Purposes in August 2012 and Impact on IGCC-10 Period Deferred Income Taxes.
- ◆ *Project Manager* in Potomac Electric Power Company's review of its rate request. Issues in testimony included: Grid Resiliency Surcharge; Vegetation Management/Tree Trimming; Undergrounding of Existing Distribution Lines; Priority Feeder Program; Pepco's Financial Resources/Financing Cost Component; and Incentives and Penalties.
- ◆ *Project Manager* in Arizona Public Service Company, Docket No. E-01345-11-0224. Issues addressed in testimony filed by Larkin & Associates included: post test year plant additions end of test year construction work in progress, accumulated depreciation, accumulated deferred income taxes, working capital, cash working capital, other rate base updates, revenues, amortization of deferred pension and OPEB costs, SERP, stock compensation, update adjustment to sync up transformers excluded from the FERC formula rate, forensic investigation of grant funded projects, general advertising expense, property tax expense, depreciation expense, interest synchronization, base cost of fuel and purchased power, payroll expense adjustment, amortization of 2010 severance costs, D&O liability insurance, annual incentive compensation, fossil non plant maintenance expense, EEI dues, depreciation rates, special ratemaking treatment for impact of APS' acquisition of SCE's ownership interest in Four Corners units 4 and 5.
- ◆ *Project Manager* in the review of Tucson Electric Power Company's General Rate Application. Issues addressed by Larkin & Associates included: Sahuarita-Nogales

Transmission Line, Working Capital, Cash Working Capital – Lead Lag Study, Prepaid Directors and Officers’ Liability Insurance, Fuel Inventory, UniSource Energy Headquarters Building, Sahuarita-Nogales Transmission Line Amortization Expense, Incentive Compensation (PEP) Program Expense, Overhaul and Outage Expense, Interest Synchronization, Base Cost of Fuel and Purchased Power, Rate Case Expense, Directors and Officers’ Liability Insurance, Edison Electric Institute and Industry Association Dues, Property Tax Expense, Property Tax and Depreciation Expense – New Headquarters Building, Other Operating Revenue: Reimbursed Operating Expenses for Springerville Units 3 and 4, Springerville Unit 1 Levelized Expense, Day Nite Design Branding/Marketing/General Corporate Advertising, Lime Expense, Depreciation Rates, Post-Test Year Plant, ADIT – Impact of Net Operating Loss Carryforward Attributable to Tax Depreciation, and Green Watts.

- ◆ *Project Manager* in the review of Ohio Power Company and Columbus Southern Power Company’s capacity charges. Issues addressed by Larkin & Associates included: Return on Equity and Rate of Return; CWIP; Plant Held for Future Use; Cash Working Capital; Prepayments; ADIT; Operating and Maintenance expense; Payroll and benefits for eliminated positions; AEP 2010 Severance program cost; Income Tax expense; Capacity equalization revenue; Ancillary Services revenue; Energy sales margin and Ancillary Services Receipts; and Proof of service.
- ◆ *Project Manager* in the review of South Carolina Electric & Gas’ rate request. Issues addressed by Larkin & Associates included: Electric Weather Normalization Adjustment (E-WNA), Storm Reserve Fund, Storm Insurance Premiums, and Federal Income Tax Expense – Impact from §199 Deduction for Domestic Production Activities.
- ◆ *Project Manager* in the review of Dominion North Carolina Power’s rate request. Issues addressed by Larkin & Associates included: Impact of Nucor’s recommended rate of return, normalize expense for obsolete inventory write-offs, purchased power demand expenses – adjust for PJM capacity rate, annual incentive plan expense, emission allowance impairment, Bear Garden costs after commercial operation date, costs associated with plant abandonment, Company requested regulatory assets for plant abandonment and emission allowance write-off, voluntary separation program costs, income tax expense – impact of operating expense adjustments, and income tax expense – interest synchronization.
- ◆ *Project Manager* in the review of Commonwealth Edison Company’s reconciliation of its formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: ADIT related to operating reserves – accrued vacation pay, merger costs, plant additions for new business and billing determinants, and carrying costs.
- ◆ *Project Manager* in the review of Ameren Illinois Company’s reconciliation of its formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: deduct accrued vacation from rate base, FIN-48 – rate base treatment of uncertain tax positions, federal investment tax credit, estimated ADIT impact from tax over book depreciation on 2012 plant additions for bonus tax depreciation, corporate “branding” and E-Store expense,

image building advertising – “Focused Energy. For Life”, image building corporate sponsorships in Account 930.1, impact of changes in State Corporate Income Tax Rate on deferred State Income Tax expense, use of average calendar year rate base for annual reconciliations, and carrying cost for under- or over-collected balances.

- ◆ *Project Manager* in the review of Duke Energy Inc.’s request for approval of an ongoing review progress report to reflect costs incurred for its IGCC Generating Facility. Issues addressed in testimony include: Total project cost – estimating, recovery and disallowance; cost recovery and disallowance – the timing issue; cost recovery and disallowance – the AFUDC and CWIP issues; accounting, tax and ratemaking implications of in service criteria and timing; and elimination of deferred tax incentive.
- ◆ *Project Manager* in the review of Delmarva Power & Light Company’s rate increase request. Issues addressed by Larkin & Associates in testimony included remove CWIP from rate base, cash working capital – revenue collection lag, CWC – expense adjustments, reliability closings – 2011 – accumulated depreciation and ADIT, reliability closings – January 2012 – accumulated depreciation and ADIT, reliability closings – February-June 2012 – accumulated depreciation and ADIT, credit facilities costs, rate case expense, remove AFUDC, uncollectible expense, postage expense, directors and officers liability insurance expense, non-executive incentive expense, pension expense, interest synchronization, expense for new customer information system, reliability investment recovery mechanism, and advance metering infrastructure ratemaking.
- ◆ *Project Manager* in the review of Ameren Illinois Company’s formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: deduct accrued vacation from rate base, remove ADIT on deferred compensation, FIN-48 – rate base treatment of uncertain tax positions, federal investment tax credit, estimated ADIT impact from tax over book depreciation on 2011 and 2012 plant additions for bonus tax depreciation, “branding” expense, E-Store expense, athletic events expenditures, corporate sponsorship, Edison Electric Institute dues – lobbying expense, interest synchronization, use of average calendar year rate base for annual reconciliations, and carrying cost for under- or over-collected balances.
- ◆ *Project Manager* in the review of Commonwealth Edison Company’s formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: accrued vacation expense, ADIT, FIN 48 - rate base treatment of uncertain tax positions, federal investment tax credit, estimated ADIT impact from tax over book depreciation on 2011 and 2012 plant additions for bonus tax depreciation, “branding expense”, E-store expense, athletic events expenditures, corporate sponsorship, EEI dues-lobbying expense, interest synchronization, and calculation of annual reconciliations.
- ◆ *Project Manager* in the evaluation of the impact of the proposed acquisition of T.W. Phillips Gas and Oil Co. by LDC Holdings II LLC, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP on ratepayers in the Pennsylvania commonwealth. Issues addressed in Mr. Smith’s testimony included: Benefits Claimed by Applicants; Lack

of Any Cost Savings Quantified by Applicants; Ownership Term, Potential Costs and Risks, T.W. Phillips' ADIT, Merger Savings, Cost Savings, and Synergy-Related Benefits; Ratepayer Protections to which Applicants have Committed; Concerns Identified in the Secretarial Letter Dated January 5, 2011.

- ◆ *Project Manager* in the review of Colorado Public Service Company's rate increase request. Issues addressed by Larkin & Associates in testimony included: recovery of deferred costs related to the expiration of the Black Hills Wholesale Power Sales agreement, plant held for future use and corporate aircraft.
- ◆ *Project Manager* in the review of Appalachian Power Company's rate request. Issues addressed by Larkin & Associates in testimony included: plant in service, construction work in progress, accumulated depreciation and amortization, materials and supplies other than coal inventory, customer deposits, accumulated deferred income taxes, coal inventory, cash working capital, accounts receivable factoring, pension asset net or related ADIT, average rate year, net VA retail jurisdictional distribution CWIP additions, capacity equalization payments, incentive compensation, stock based compensation, supplemental executive retirement plan, payroll tax expense, obsolete inventory, severance cost amortization, charitable contributions, interest synchronization, depreciation expense, property tax expense, central machine shop base salaries net of billings to affiliates, administrative expense for AEPSC Washington DC office, miscellaneous 2010 expense over charges, interest on prepaid pension asset, uncollectibles correction of amounts related to off-system sales margin, estimated future emissions allowance sales gain and income tax expense.
- ◆ *Project Manager* and *Expert Witness* in the review of Hawaiian Electric Company Inc.'s rate filing package. Issues addressed in testimony included: rate base for December 31, 2010 recorded amounts, adjust rate base for revised December 31, 2011 estimated amounts, other rate base components, cash working capital, fully reflect tax savings from major tax accounting change for repairs, vegetation management expense, remove labor expense for positions beyond the test year, generation department vacancies, emission fee, uncollectibles, community service activities expense, income taxes-interest synchronization, depreciation and amortization, depreciation expenses-D&O, customer deposit interest, employee benefits and pensions, average test year employees-vacancy adjustment, O&M associated with capital, A&G capitalization study, electric discount benefit replacement, cost containment measures, AES outside legal and reliability standards working group, bargaining unit wage increase, board of directors fees and expenses, software expense, renewable energy planning, airport distributed generation, environmental management information system, Honolulu Unit 9 overhaul. Kalaeloa and Barbers Point Harbor pipelines, city water, Clean Island Council, etc., and HECO's proposed deferred software cost recovery provision.
- ◆ *Project Manager* in the review of Georgia Power Company's affiliate, income tax, and incentive compensation costs included in its revenue requirement filing. Issues addressed in Mr. Smith's testimony included: affiliate charges to GPC and GPC charges to affiliates,

Section 1999 manufacturing deduction, FIN 48 rate base addition for uncertain tax position and incentive compensations.

- ◆ *Project Manager* in the review of the impact of the proposed acquisition of Allegheny Power Company and Trans-Allegheny Interstate Line Company by FirstEnergy Corp. on West Virginia ratepayers. Issues addressed in Mr. Smith's testimony included: second-step reorganization of Allegheny Energy Company's operating utilities, benefits claimed by petitioners, benefits to shareholders, new regulatory assets on Monongahela Power and Potomac Edison's books, risks to Allegheny Power ratepayers from the proposed transaction, consolidated tax savings adjustment, effect on ADIT, other anticipated costs, FirstEnergy's transaction-triggered compensation expense, capital structure and cost of capital impacts, risk of credit rating downgrade, acquisition adjustment, goodwill, synergy savings, and other concerns about the proposed transaction.
- ◆ *Project Manager* in the review and verification of preconstruction costs recorded by Mississippi Power Company related to the Kemper County Integrated Gas Combined Cycle plant. Larkin & Associates reviewed a stratified sample of MPC's \$50,470,935 recorded preconstruction costs. Larkin & Associates' review revealed that \$4,470,098 of the preconstruction costs were inadequately documented, questionable or inappropriate and recommended removal from the Company's preconstruction regulatory deferral account balance. Some of the costs Larkin & Associates recommended removing were related to MPC's service company affiliate Southern Company Services. The Commission adopted Larkin & Associates' recommended adjustment in its April 29, 2010 Order.
- ◆ *Project Manager* in the review of Appalachian Power Company's rate request. Issues addressed by Larkin & Associates in testimony included: prior period accumulated depreciation. Plant held for future use, cash working capital, Amos Unit No. 2 and 3 FGD scrubber facilities, Amos Unit No. 2 reheater and turbine modifications, Wheeling network improvements, prepaid pension asset, payroll annualization, group medical and dental insurance expense, group life insurance expense, group long term disability insurance, incentive compensation, savings plan related to incentive compensation expense, reversal of payroll expense related adjustments, stock-based compensation, supplemental executive retirement plan, executive compensation, normalized pension expense for ratemaking purposes, interest synchronization, depreciation expense related to Amos Unit No. 2 and 3 modifications and wheeling network improvements, test year and projected generation O&M production expense, promotional, institutional and corporate advertising, normalize PJM administrative charges included in base rates, associated business development net margins, consolidated income tax savings adjustment, amortization of severance expense and income tax expense.
- ◆ *Project Manager* in a research project for the Arkansas Public Service Commission Staff regarding innovative approaches to rate base, rate of return ratemaking. Larkin & Associates analysis focused on annual earnings reviews, formula rates, recovery of

extraordinary storm damage expenses, plant acquisitions, and construction costs of new facilities.

- ◆ *Project Manager and Expert Witness* in the review of Puget Sound Energy's application for an increase in rates. Issues addressed in Mr. Smith's testimony were: Wild Horse Expansion Project, ADIT associated with 2009 Bonus Tax Depreciation associated with the Wild Horse Expansion Project, Tax Benefits of American Recovery and Reinvestment Act (ARRA), significant change in tax accounting, pension expense and supplemental executive retirement plan expense.
- ◆ *Project Manager and Expert Witness* in the an investigation of issues presented in Entergy Arkansas, Inc.'s (EAI or Company) proposed Annual Earnings Review Procedure Tariff (Rider AER). Issues discussed in Mr. Smith's testimony included: No Separate Capacity Acquisition Rider, Annual filing and review process, Nature of the Rate Adjustment, Determination of the AER Rate, Revaluations for the cost rate for common equity, Provisions for Other Rate Changes, Term of Rider AER, Calculation of the Revenue Deficiency or Excess, Rate of Return and other differences.
- ◆ *Project Manager and Expert Witness* in the Investigation of Entergy Arkansas Inc.'s March 2006 Entergy Cost Recovery Rider Annual Update. Mr. Smith provided additional information concerning EAI's dispute with one of the railroads concerning delivery of coal from the Powder River Basin (PRB) in Wyoming to EM's Arkansas generating plants and comment on other issues raised by the Arkansas Attorney General (AG) and the Arkansas Electric Energy Consumers, Inc. (AEEC). Mr. Smith also addressed the continuation of EAI's Energy Cost Recovery Rider (ECR) in his testimony.
- ◆ *Project Manager and Expert Witness* in the investigation of issues presented in Entergy Arkansas, Inc.'s (EAI or Company) request for approval of the acquisition of new capacity to serve its retail customers. Mr. Smith's testimony addressed the following issues relevant to this phase of the Docket: Recovery of Capacity Costs and EAI'S proposal for a Capacity Acquisition Rider (Rider CA), EAI'S proposed modification of Rider ECR to include costs for a Long-Term Service Agreement (LTSA).Project Manager and Expert Witness in the investigation of selected issues presented in Entergy Arkansas, Inc.'s (EM) rate case application. Mr. Smith's testimony addressed the following issues: Recovery of Capacity Costs and EAI's proposal for a Capacity Management Rider, EAI's Energy Cost Recovery Rider, and Affiliate Charges to EM from Entergy Services, Inc.
- ◆ *Project Manager and Expert Witness* in the review of energy policy issues pertaining to EAI. One of the projects involved a review of EAI's fuel procurement, including the supply of coal to EAI's White Bluff and Independence Steam Electric Station generating units. The Commission established this docket to investigate the Interim Revision to the Energy Cost Recovery Rider filed by Entergy previously in Docket 96-360-U.Project Manager in an engagement to address energy policy issues. Larkin & Associates assisted with the preparation of comments before the Commission which included a general discussion of

the major issues and some specific recommendations on the Commission's Proposed Resource Planning Guidelines (Guidelines) in the form of a mark-up to those Guidelines.

- ◆ *Project Manager* in the review of Southwest Power Pool's (SPP) Application for a Certificate of Public Convenience and Necessity (CCN) and waiver of certain Arkansas statutes and other issues relating to the operation of SPP as an RTO, including the Cost-Benefit Analysis that SPP submitted in this proceeding. In addition, the project team reviewed the filings of Oklahoma Gas and Electric Company (OG&E), Southwestern Electric Power Company (SWEPCO), and The Empire District Electric Company (Empire) in Docket Nos. 04-111-U, 04-143-U, and 05-132-U, respectively, i.e., to participate in the SPP RTO and transfer functional control of certain transmission assets to SPP which were consolidated with this docket. Testimony filed by Larkin & Associates addressed SPP's request for a CCN and waiver of certain Arkansas Statutes and a discussion of the Cost-Benefit Analysis that SPP submitted and various nonquantitative Factors related to SPP's functioning as an RTO and transfer of functional control of certain transmission assets to SPP.
- ◆ *Project Manager* in an engagement to assist the Arkansas General Staff with developing comprehensive resource planning guidelines for electric utilities. Larkin & Associates reviewed comments filed by the other parties before the Federal Energy Regulatory Commission and participated in collaborative meetings with the Public Service Commission Staff.
- ◆ *Project Manager* and *Expert Witness* in Appalachian Power Company's application for an increase in rates. Issues addressed in Mr. Smith's testimony included: self-funded reserve accruals, rate base update, materials and supplies, customers deposits, deferred fuel balance, ADIT, prepaid pension asset, fuel stock inventory, plant held for future use, accounts receivable factoring, mountaineer carbon capture demonstration project, blanket funded capital projects, third-party transmission service revenue, capacity equalization expense, environmental consumables, transmission equalization expense credit, transmission reliability expense, distribution reliability expense, PJM administrative and ancillary fees, emission allowances, Edison Electric Institute dues, obsolete inventory, interest synchronization, New Source Review Settlement, pension expense, interest on customer deposits, depreciation expense, property tax expense, legal expense related to AEP subsidiaries, charitable contributions, stock awards, non-fuel production O&M expense and income tax expense.
- ◆ *Project Manager* and *Expert Witness* in the review of Hawaiian Electric Company Inc.'s rate filing package. Issues addressed in testimony included: customer information system, cash working capital, accumulated deferred income taxes, general inflation, Ward Base Yard capitalization, vehicle fuel cost, expiring amortization, community service activities expense, income taxes, depreciation and amortization, average test year employees, pension and OPEB cost, normalize research and development expenses, research and development tax credit, FUTA tax reduction, international financial reporting standards, rent expense and emission fees.

- ◆ *Project Manager and Expert Witness* in the review of Arizona Public Service Company’s Application for an Interim Increase in rates. Issues addressed in Mr. Smith’s testimony in the interim rate relief requested by APS were: criteria for interim rate relief, ordinary regulatory lag does not justify APS’ requested interim rate relief, alleged emergency circumstances, whether APS requires an interim rate increase during the processing of its general rate case, an alternative basis for determining an amount of interim rate increase for APS should the Commission be inclined to grant an increase, and rate design.
- ◆ *Project Manager and Expert Witness* in the review of Tucson Electric Power Company’s application for a rate increase. Issues addressed in Mr. Smith’s testimony included: Depreciation Rates, Plant Held for Future Use, Luna Plant Facility, Luna Plant Facility Accumulated Deferred Income Taxes, “Implementation Cost Regulatory Asset”, Working Capital, Fuel Inventory, Accumulated Depreciation and ADIT Related to Cost of Removal, Accumulated Depreciation Related to Unauthorized Depreciation Rate Changes, Miscellaneous Accumulated Deferred Income Tax, Account 190, Other Deferred Credits, Customer Care & Billing System, Springerville Unit 1, Luna Facility Depreciation and Property Tax Expense, San Juan Coal Contract, Bad Debt Expense, Edison Electric Institute Dues, Incentive Compensation, Supplemental Executive Retirement Program Expense, Workers’ Compensation Expense, Short-Term Sales, Wholesale Trading Activity, Gain on Sale of SO2 Emission Allowances, Property Tax Expense Interest Synchronization, Depreciation Rates Adjustment, Customer Care & Billing System, Markup Above Cost for Charges from Affiliate, Southwest Energy Services, PPFAC Adjustment, Postage Expense, Miscellaneous Service Revenue, Cash Working Capital, Normalize Affiliate Charges to TEP, Legal Expense Related to Motion to Amend Decision No . 62103, Legal Expense Related to California Proceedings, West Connect Charges Related to Regulatory Asset, Other TEP Changes to Operating Income and Rate Base, Purchased Power and Fuel Adjustment Clause, TEP’s Historical Misuse of Previous Fuel Adjustment Mechanism, Staffs Proposed PPFAC, TEP’s Proposed PPFAC, Costs to Be Included in the PPFAC, Credits to PPFAC Costs Effective Date for PPFAC, PPFAC Forward-Looking and True-Up Components, Carwing Costs on PPFAC bank balance, Filing and Reporting Requirements, Whether Sharing and Cap Provisions Should be Imposed, and Requirement for Commission approval of PPFAC, rate changes.
- ◆ *Project Manager and Expert Witness* in the review of UNS Electric’s revenue requirement and selected other issues, including new depreciation rates, and rules and regulation changes proposed by the Company. Issues discussed in Mr. Smith’s testimony included construction work-in-process, plant in service addition subject to reimbursement, cash working capital, accumulated deferred income tax, revenue adjustment for CARES discount, depreciation and property taxes for CWIP, depreciation and property taxes for CWIP found to be in service in the test year, fleet fuel expense, postage expense, normalize injuries and damages, incentive compensation, supplemental executive retirement program expense, stock based compensation, property tax expense, rate case expense, Edison Electric Institute Dues, other membership and industry association dues, interest

synchronization, depreciation rates correction, emergency bill assistance expense, markup above cost for charges from affiliate, Southwest Energy Services, depreciation rates, changes to purchased power and fuel adjustment clause, and the Company's proposed ratemaking treatment for a new peaking unit, Black Mountain Generating Station.

- ◆ *Project Manager* in a review of the nature of the probable impact of Southwestern Electric Power Company's (SWEPCO) proposed Hempstead project in Hempstead County, Arkansas. Synapse conducted a number of economic modeling runs and summarized the results in its testimony. Also discussed in testimony were the appropriate carbon dioxide emission allowance prices in use in evaluating proposed electric generation projects.
- ◆ *Project Manager* and *Expert Witness* in the review of Appalachian Power Company and Wheeling Power Company's rate request. Issues addressed by Larkin & Associates in testimony included: utility plant held for future use, prior period accumulated depreciation, prepayments, cash working capital, inactive to zero usage material and supplies inventory, self funded reserve accruals, rate case related asset retirement obligation adjustments, pole rental expense, remodeling expense, airplane costs, club initiation fees, written off obsolete inventory, incentive compensation, rate case expense, life insurance premiums, public relations expense, Edison Electric Institute Dues, Other Membership Dues, Three-Year Amortization from Loss on Sale of Bluefield and Wheeling Office Buildings, Amortization of Deferred RTO Formation, Service Company Billings, Institutional Advertising Expense, Interest on Customer Deposits, Expanded Net Energy Cost (ENEC), T&D Management, Consolidated Income Taxes, Interest Synchronization, Depreciation & Amortization Related to Asset Retirement Obligations, Maintenance of Boiler Plant Account 512, Maintenance of Electric Plant Account 513, and Income Tax Expense.
- ◆ *Project Manager* and *Expert Witness* in Delmarva Power and Light Company's Application for Approval of a Change in Electric Distribution Base Rates and Miscellaneous Tariff Changes. Mr. Smith's testimony focuses on Delmarva's proposed depreciation rates for Distribution Plant. Issues addressed in testimony included: objective of depreciation expense, book depreciation expense, depreciable utility plant, accumulated depreciation, impact on the company's revenue requirement, negative net salvage, FAS 143 regulatory liability, remaining life depreciation, whole life depreciation rate, excessive depreciation rate, asset retirement obligations (AROs), FERC Order 631, cost of removal, plant in service, five-year average net salvage allowance approach, and five year rolling average.
- ◆ *Project Manager* and *Expert Witness* in a review of Arizona Public Service Company's (APS) application for an emergency interim rate increase. Issues addressed in Mr. Smith's testimony included: the \$776.2 million cap on recovery of fuel and purchased power expenses, the emergency relief requested by APS and whether APS is experiencing a "financial emergency", and whether requirements should be placed on the Company as conditions for approval of all or part of its emergency request, operation of the PSA as it relates to APS' request for an emergency rate increase.

- ◆ *Project Manager* for Larkin & Associates, acting as a subcontractor to Energy Ventures Analysis, Inc. on the Financial and Management/Performance Audit of the Fuel and Purchased Power Rider of the Cincinnati Gas & Electric Company (CG&E). Larkin & Associates performed the Financial Audit portion of the project covering CG&E's quarterly FPP filings for January through June 2005, in a joint report dated October 7, 2005, and Mr. Smith sponsored Chapter 5 of the report in expert testimony at hearings before the Public Utilities Commission of Ohio on November 1, 2005.
- ◆ *Project Manager* of a multi-firm and multi-disciplinary team investigating fuel procurement of Entergy Arkansas, Inc. on behalf of the Arkansas Public Service Commission Staff. Primary focus of the investigation is on coal procurement of EAI's White Bluff and Independence Steam Electric Stations.
- ◆ *Project Manager* of a multi-firm and multi-disciplinary team investigating issues involving the proposed transfer of operational control of transmission facilities by the Arkansas PSC jurisdictional utilities to the Southwest Power Pool (SPP) Regional Transmission Organization (RTO) including evaluation of the SPP's cost-benefit study and individual utility information.
- ◆ *Project Manager* in the review of a series of Fuel Cost Recovery (FCR) Allowance filings by Georgia Power Company (GPC). Issues addressed by Mr. Smith in his testimony included: Projected Fuel Costs, Projected Recovery of Fuel Costs from Wholesale Customers, Opportunity Energy Sales Profits, Financing Costs, Projected Retail Sales for the Test Period, Derivation of the New FCR Rate, Significant Unplanned Outages and Cost of Replacement Power, GPC's Gas and Oil Hedging Program, the Amount of Fuel and Purchase Power Cost GPC Is Requesting, and the Projection Period Used By GPC.
- ◆ *Project Manager* in the review of a series of Fuel Cost Recovery (FCR) Allowance filings by Savannah Electric & Power Company (SEPCO). Issues addressed in Mr. Smith's testimony included: the Company's Proposed FCR Allowance, Financing Charges, Deferred Fuel Balance and Amortization Period, Fuel Transloader, SEPCO's Gas Hedging Program, the Amount of Fuel and Purchase Power Cost SEPCO Is Requesting, Other Non-Fuel Costs, Coal Cost Increases, The Projection Period Used By SEPCO, SEPCO's Request for Clarification of NOX Allowances, and SEPCO's Residential Rate Differential Proposal.
- ◆ *Project Manager* in the review of the rate case reopener for Connecticut Light & Power Company. Issues addressed in Mr. Smith's brief included: CL&P's claim for unrecognized pension gain, Incentive Compensation, and Affiliate Rent Expense.
- ◆ *Project Member* in a project where Larkin & Associates was retained by the New Jersey Department of Law and Public Safety to assist in submitting comments to the Environmental Protection Agency regarding the EPA's proposed rule published on December 31, 2002 at 67 Federal Register 80290 entitled, "Prevention of Significant Deterioration (PSD) and Non-attainment New Source Review (NSR): Routine Maintenance, Repair and Replacement."

Larkin & Associates assisted the NJ Department of Law with research and drafting of the comments submitted to the EPA.

- ◆ *Project Manager* in the Traditional Standard Offer reopener case for Connecticut Light & Power Company. Issues addressed in Mr. Smith's brief included: Specific Corrections to CL&P's Filing and Mitigation Measures Recommended by OCC, Financing Costs Should Be Calculated on Net-of-Tax Balances, the Cost Rate CL&P Uses To Compute Financing Charges Is Too High, the Devon 7 and 8 RMR Costs Included By CL&P for 2005 Were for a Contract that Terminated on September 30, 2004, and Should Be Removed, CL&P's Current 2005 Sales Forecast Should Be Used to Develop 2005 Rates, the CTA Rate Should Be Temporarily Reduced To the Level Needed To Finance Rate Reduction Bonds, the 2004 CTA and SBC Over-Recoveries Should Be Used to Mitigate the Rate Increase, the Distribution Over-Earnings for 2004 Should Be Used to Mitigate the Rate Increase Scheduled for May 1, 2005 When An Existing CTA Credit Expires, CL&P's Deferred 2003 FMCC Costs and Under-Collected Nonbypassable 2004, FMCC Costs Should Not Be Allowed Into Rates Until Such Costs Are Audited, CL&P Has Access to Financing Necessary to Finance OCC's Recommended Mitigation Measures, the Increase in FMCCs Should Be Subject To A Detailed Review, CL&P's Rates Should Not Be Increased At This Time For Additional RMR Contracts Filed at FERC That Have Not Yet Been Approved, the Proper Use of the EAC Requires Distinct Procedural and Substantive Requirements which the Department Has Not Met, the DPUC Should Examine CL&P's TSO Energy Procurement Process More Closely, and CL&P's Latest Request for a Transmission Rate "Tracker" Should Be Rejected.
- ◆ *Project Manager* in the review of South Carolina Electric & Gas Company's Application for an Increase in its Electric Rates and Charges. A brief submitted by Mr. Smith on behalf of the Department of the Navy addressed the following issues: the Company's request for retail rate recovery of GridSouth costs, fossil fuel inventory, long-term disability (FAS 112) amortization, annualize account 924, A&G expense-property insurance, new internal positions for compliance with new NERC standards, and levelized allowance for other major maintenance expense.
- ◆ *Project Manager* in an engagement where Larkin & Associates assisted the Arkansas Public Service Commission Staff with developing comprehensive resource planning guidelines for electric utilities. Larkin & Associates reviewed comments filed by the other parties before the Federal Energy Regulatory Commission and participated in collaborative meetings with the Public Service Commission Staff.
- ◆ Participated in a project where Larkin & Associates was retained by the New Jersey Department of Law and Public Safety to assist in submitting comments to the Environmental Protection Agency regarding the EPA's proposed rule published on December 31, 2002 at 67 Federal Register 80290 entitled, "Prevention of Significant Deterioration (PSD) and Non-attainment New Source Review (NSR): Routine

Maintenance, Repair and Replacement.” Larkin & Associates assisted the NJ Department of Law with research and drafting of the comments submitted to the EPA.

- ◆ *Project Manager* in the proceeding involving Southern California Edison Company’s (E-3338-E) Application for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze tariffs, Docket No. 00-11-038, Pacific Gas and Electric Company’s Emergency Application to Adopt a Rate Stabilization Plan, Docket No. 00-11-056, and The Utility Reform Network’s Petition for Modification of Resolution E-3527, Docket No. 00-10-028. Testimony submitted by Mr. Smith addressed whether it was reasonable to provide the utilities further interim rate relief based on the outcome of the auditors’ (KPMG and Barrington-Wellesley Group) reports and the reasonableness of using net generation revenues to offset the procurement cost and appropriate tracking of transition cost through the TCBA and TRA.
- ◆ *Project Member* in the review of Connecticut Light & Power Company’s request for an amendment in rates for the period 2004 through 2007. Issues specifically addressed in testimony included: adjustments to CL&P’s proposed initiatives, deferred assets, Storm Damage Accrual reserves, working capital, revenues, recovery of six specific items identified by the Company as exogenous costs under its Incentive Rate Plan. Larkin & Associates testimony first addressed the appropriate definition and specific qualifications for items to be considered as exogenous costs under the Company’s incentive rate plan. The testimony then addressed the following six specific items for which the Company was requesting an increase in rates for exogenous cost recovery: uncollectible expense, pension expense, other post retirement benefit expense, personal property taxes, raise in Connecticut Corporate Business Tax rate and Three-Way Payment Plan deferrals.
- ◆ *Project Manager* in the review of Chesapeake Electric Corporation’s application for approval of a cost accounting manual and code of conduct. Mr. Smith submitted testimony summarizing his conclusions regarding the Company’s code of conduct and cost accounting manual as well as a recommended code of conduct and a suggested corporate organizational structure for study and evaluation by the Company.
- ◆ *Project Manager* in United Illuminating Company’s rate case. Larkin & Associates was retained by the Connecticut Office of Consumer Counsel to address the calculation of the revenue requirement and adjustments to the calculations of rate base and net operating income presented in UI’s filing. Larkin & Associates also addressed the sharing proportions that should be applied if the Department adopts a multi-year rate plan for UI in this proceeding. Issues discussed in testimony included rate plan, over-earnings sharing proportions, subsidiary income tax expense, starting point for 2002 rate year rate base, customer deposits, materials and supplies, rate-a-meter timers, injuries and damages reserve, severance expense, rate case expense, other O&M expense increase, ADIT on pension liability and Bad Debt reserve, accrued vacation and related ADIT, Steel Point remediation, depreciation expense, income tax expense correction, interest synchronization, property tax expense, accelerated amortization.

- ◆ *Project Manager* in the review of Georgia Power Company's application to increase the fuel cost recovery allowance. Mr. Smith analyzed financing charges, recovery of deferred fuel balance, amortization period, major factors which contributed to an increase in the deferred balance, adjustments to the deferred balance to be amortized, GPC fuel and purchased power cost projection, cost of summer energy strips, coal and gas cost increases, change in intercompany interchange contract and other changes in GPC's filing.
- ◆ *Project Manager* in the review of Savannah Electric & Power Company's application to increase the fuel cost recovery allowance. Mr. Smith investigated financing charges, recovery of deferred fuel balance, amortization period, major factors which contributed to an increase in the deferred balance, adjustments to the deferred balance to be amortized, SEPC fuel and purchased power cost projection, cost of summer energy strips, gas cost increases, gas cost volatility, change in intercompany interchange contract and other changes in SEPC's filing.
- ◆ *Project Manager* in the review of Georgia Power Company's M&S inventory. Mr. Smith reviewed monthly reports, issued data requests, reviewed responses to data requests, had discussions with Staff, and reviewed an inventory turnover analysis prepared by Staff under our direction. Mr. Smith issued a report discussing relevant issues including: Turnover Analysis – Follow Through on Zero and Low Turnover Inventories (Fossil Plant Inventories, Nuclear Inventories, CT and Hydro Inventory), and Inventory Sharing/Transactions With Affiliates. Two reports were issued to Staff. Portions of the analysis became the basis for adjustments to the M&S balance in a GPC rate case.
- ◆ *Project Manager* in the investigation of GPC/SEPC's fuel and purchased power procurement practices. The analysis included testing FCR cost calculations and following up on differences discovered, investigating GPC/SEPC coal and gas purchases, investigating purchased power including summer energy strips, system purchases, and off-system purchases, off system sales, coal and gas price increases, gas price volatility, and changes to system agreements. We are also reviewing the results of Staff conducted analyses (SEPC/GPC FCR rates used on bills, invoices, intern prepared calculations), and investigating other issues from FCR cases and GPC rate cases affecting fuel and purchase power cost, and the exclusion of non-retail items, etc.
- ◆ *Project Manager* in the review of Upper Peninsula Power Company's application for a Supply Cost Recovery Plan and Authorization of Monthly Power Supply Cost Recovery Factors for the Calendar Year 2001. Testimony presented by Mr. Smith addressed projected hydro generation, replacement power for a hydro unit outage, economic dispatch and various reductions to the Company's proposed 2001 power costs, affiliated purchase power contracts, and recommendations concerning competitive bidding procedures for power purchases.
- ◆ *Project Manager* in the review of Wisconsin Public Service Corporation's application for a Supply Cost Recovery Plan and Authorization of Monthly Power Supply Cost Recovery Factors for the Calendar Year 2001. Mr. Smith's testimony addressed adjustments to the

energy loss factor, additional coal costs for new coal contracts, forecast and historical analysis of hydro plant generation, and DOE Decontamination and Decommissioning Expense.

- ◆ *Project Manager* in the review of SEPC's proposal for a natural gas procurement and natural gas/oil risk management program to reduce and manage exposure to gas price volatility. Mr. Smith investigated issues including hedging, physical purchases versus financial instruments, and the benefits of hedging, limits on hedging activities, and incentives to promote effective hedging. After a number of rounds of discussions, SEPC revised its hedging proposal to address Staff's concerns and resubmitted a hedging proposal that Staff endorsed.
- ◆ *Project Manager* in the review of Citizens Utilities Company, Kauai Electric Division's rate filing package as it relates to the operating income, rate base, and overall revenue requirement in this case. Larkin & Associates formulated an opinion concerning the reasonableness of amounts included within the Company's application for rate increases. Special emphasis was placed on addressing deferrals made by the Company as a result of a major hurricane, Hurricane Iniki. Hurricane related deferrals addressed in testimony include: AFUDC on Restoration plant; AFUDC rate, cut-off date and on inventory; Iniki related bonuses; shareholder responsibility for restoration plant; deferred expenses; lost gross margins; uncollectibles; joint pole contributions; and accumulated deferred income taxes. Non-hurricane related issues addressed in testimony include: other operating revenues; DSM/IRP expenses on related sales reductions; payroll; incentive compensation; benefits; non-pension postretirement benefits; training expense - Target: Excellence; internal legal and audit costs; rate case expense; administrative office charges; rent expense; disaster recovery inventory; accounts payable related to materials and supplies; and check clearing lag in cash working capital.
- ◆ *Project Manager* in the analysis of Consolidated Edison Company. We were responsible for summarizing all of CPB's proposed adjustments. Mr. Smith addressed and incorporated adjustments on the following issues: Mid-Hudson Generating Site; Accumulated Depreciation; Materials & Supplies projection; Plant Held for Future Use; Accumulated Deferred Income Taxes; Cash Working Capital; labor cost projection and productivity offset; Management Incentive Compensation; Strike Contingency cost; General Escalation and inflation rates used; Alliance for a New New York (ANNY) expense; ratemaking treatment for Indian Point Steam Generators; Con Edison's proposals for accelerated amortization of Plant; ratemaking treatment for the Net Unrecovered Cost of Certain Generating Units; Payroll Taxes; Environmental Protection Agency (EPA) Auction Proceeds; Write-Off of Obsolete M&S; Site Remediation/environmental expense; Real Estate Taxes; Employee Welfare Expenses; Nuclear Decommissioning cost estimates and current expense levels; Unbilled Revenue; Miscellaneous Expenses; IPP Purchases and NUG Buy-Outs; Federal Income Tax Audit Adjustments; and Amortization of Excess Taxes Accrued.

- ◆ *Project Manager* in the review of Central Maine Power Company. Mr. Smith addressed the following issues: Rate Base; Cash Working Capital; O&M Expense Lag; Net Operating Income; Severance Payments; Incentive Compensation; Directors' Pension Plan Expense; Retirement of Company Officer; Employee Residences; Advertising Expense; Miscellaneous Expenses; Edison Electric Institute Dues.
- ◆ *Project Manager* in the review of Metropolitan Edison Company. Larkin & Associates was hired by the Pennsylvania OCA to review Metropolitan Edison Company's (Met-Ed) request to increase its rates. We prepared testimony supporting adjustments to Met-Ed's rate base, including: plant held for future use; plant in service; construction work in progress; materials and supplies; and fuel inventories. We recommended adjustments to net operating income, including: non-pension postretirement benefits; charitable contributions; EEI dues; payroll expense; employee benefits; pilot customer assistance program; and depreciation expense.
- ◆ *Project Manager* in the review of Long Island Lighting Company. Larkin & Associates provided comprehensive technical and consulting assistance to the New York Consumer Protection Board (CPB) in analyzing issues relating to a request for a \$114.6 million increase in electric rates filed by the Long Island Lighting Company (LILCO or Company). Our review focused heavily on O&M expenses, such as R&D, other employee compensation, insurance, payroll inflation, and property tax expense. In addition, we reviewed rate base issues including plant in service, accumulated depreciation, fuel inventory, and accumulated deferred income taxes.
- ◆ *Project Manager* retained by the Department of the Navy and all Other Federal Executive Agencies to assist in the development of comments related to the Transition Costs of Nevada's Vertically Integrated Electric Utilities. Mr. Smith was responsible for analyzing and commenting on types of potential transition costs such as generation assets, qualifying facilities contracts and renewable resource generation, assets associated with potentially competitive services, regulatory assets and liabilities, corporate structure and organization, allocation issues, implementation costs and workforce impacts due to restructuring. Larkin & Associates also analyzed and rendered comments on the following issues: determining recoverable costs, accounting issues and methods of cost recovery.
- ◆ *Project Manager* in the review of revenue requirement issues presented in the June 1998 filing by Georgia Power Company (GPC). Issues addressed in testimony included: accelerated amortization of gain/loss on reacquired debt, accelerated amortization of vacation pay "regulatory asset", accelerated amortization of OPEB "regulatory asset", depreciation expense, revenues based on sales forecast, uncollectibles expense, contract labor, Year 2000 Project expense, non-recurring costs charged to GPC from affiliates, performance divided plan, performance pay plan and performance incentive plan, Commission-ordered adjustments, expiring amortizations, rate case expense normalization, promotional load building program, Rocky Mountain pumped storage plant disallowance, payroll tax expense, cash working capital and interest synchronization.

- ◆ *Project Manager* in the review of revenue requirement issues relative to the financial and operational review of Connecticut Light & Power Company (CL&P) by the Department of Public Utility Control. Based upon the analysis performed, Larkin & Associates adjusted for the removal of the Millstone replacement power and a number of other above average expenses. After applying a reasonable rate of return, it was apparent that CL&P had a substantial excess revenue. Issues addressed in testimony included: Millstone replacement power and outage related expenses, Millstone non-used and useful plant, transmission repair costs, EPRI dues, telephone expense, sales promotion expense, normalization of management audit cost, outside services expense, pension expense, fuel inventory build-up related to Millstone outages, Connecticut State corporation income tax reduction and interest synchronization. Larkin & Associates' review in this case resulted in the Company having to file a rate case.
- ◆ *Project Manager* in the review of Delaware Electric Cooperative's Restructuring Plan for Retail Competition. Larkin & Associates was retained by the Delaware Public Service Commission (DPSC) to provide consulting services to the Hearing Examiner of the DPSC. Duties included: review of filings and briefs of the parties, review of the transcript of the hearing, summarize the positions of the parties, and assist in the preparation of the Hearing Examiners Report.
- ◆ *Project Member* in the review of Delmarva Power & Light's billing system conversion problems. Consulting services were provided to the Hearing Examiner of the Delaware Public Service Commission. Relevant issues addresses included: compensation and economic damages to customers, proration, arbitration procedures. Non-economic issues included: "reaching back" problem, budget plans, tariff rates on bills, high bill parameters, PricewaterhouseCoopers audit report, payment posting sequence, emergency phone number, issue list, lost customers, walk-in offices, and a summit for unresolved issues.
- ◆ *Project Manager* retained by Delaware Public Service Commission to assist the Hearing Examiner in his review of Delmarva Power & Light Company's application seeking approval of a Cost Accounting Manual and Code of Conduct. These proposals recognized the expansion of Delmarva and/or its affiliates into competitive markets. Larkin & Associates reviewed these proposals to ensure that the procedures would prevent cross-subsidization of Delmarva's competitive ventures by its regulated business and that Delmarva's status as a regulated utility would afford its competitive activities no unfair advantages in competitive markets. Additional responsibilities included summarizing all testimony filed by Delmarva and other parties, summarizing the issues for the Hearing Examiner, attending the hearing and developing bench requests and drafting the technical sections of the Commission Order.
- ◆ Larkin & Associates was retained by the Department of the Navy to participate in several phases of the California electric industry restructuring proceedings. Mr. Smith presented expert written testimony in Phases 1 and 2 of the proceedings. Phase 1 discussed the appropriate definition of items to be included in the Transition Costs in general terms and

discussed certain qualifications that should be placed on the determination of market valuation and items to be included in the transition costs. Phase 2 addressed company specific items which the utilities sought to include in the statement of eligible transition costs, addressing both the appropriateness of inclusion of certain items along with actual calculations. Testimony also addressed whether the items for which the utilities were seeking recovery through the transition charges met the requirements set forth in prior phases, previous Commission statements and Assembly Bill 1890 of the California legislature.

- ◆ *Project Leader* in the electric industry restructuring proceedings in Arizona on behalf of the Navy and Department of Defense. Mr. Smith's testimony addressed several issues in regards to competition in the provision of retail electric service throughout the state of Arizona. The questions addressed included: Should the electric competition rules be modified regarding stranded costs, and, if so, how? When should "Affected Utilities" be required to make a stranded cost filing? What costs should be included as part of stranded costs and how should these costs be calculated? Should there be a limitation on the time frame over which stranded costs are calculated? Should there be a limitation on the recovery time frame for stranded costs? Should there be a true-up mechanism and, if so, how should it be calculated? Should there be price caps or a rate freeze imposed as part of the development of a stranded cost recovery program and, if so, how should it be calculated? What factors should be considered for "mitigation" of stranded costs? Mr. Smith prepared testimony in regards to these issues and provided recommendations for each.
- ◆ *Project Manager* in Larkin & Associates' analysis of PECO Energy Company's application, including its testimony, exhibits and workpapers. Mr. Smith presented testimony on behalf of the Navy representing the Department of Defense and all other Federal Executive Agencies to address PECO Energy Company's claim for stranded costs, competitive transition charge (CTC) and adjustments to PECO's claimed amounts. Also addressed PECO's mitigation efforts and the need for additional mitigation to reduce PECO's stranded cost claim and the CTC included in the Company's filing. Specific stranded cost issues addressed include: net investment in existing generating plants, SFAS No. 109 deferred tax asset, nuclear design basis documentation, Limerick & Peach Bottom Chemistry systems, FAS 106 and Pension (FAS 87) over and under-funding, compensated absences, nuclear decommissioning and fossil plant decommissioning. We also addressed the following in testimony: accounts receivable financing, adjusted return for stranded generation-related assets, reserve accounts, market valuation, depreciation reserve shift and mitigation efforts.
- ◆ Larkin & Associates was retained to provide technical assistance to the Residential Utility Consumer Office, and subsequently by the Arizona Corporation Commission Staff, by performing a comprehensive analysis of the application filed by Citizens Utilities Company and its affiliates that requested an alteration to the Arizona Corporation Commission's Decision No. 58360, and requests approval of Citizens' proposed procedure for computing an Allowance for Funds Used During Construction (AFUDC) and for accrual of AFUDC on unspent balances of Industrial Development Revenue Bond funding, pursuant to FERC

Accounting Release No. 13 (AR-13). It was our responsibility to assess an appropriate method of computing AFUDC for Citizens. Our review thoroughly analyzed Citizen's proposed method of accruing AFUDC and AR-13 costs, and resulted in proposing preferable alternatives from the perspective of CUC's ratepayers. Mr. Smith testified in this case.

- ◆ Key project team member in Larkin & Associates' review of Citizens Utilities Company, Arizona Electric Division's request for an increase in rates. Specific issues addressed in Mr. Smith's testimony included: construction work in progress; Stamford Administrative Office common plant balance; materials and supplies; cash working capital; accumulated deferred income taxes; demand side management costs; revenue annualizations; purchased power costs; payroll expense; incentive compensation; employee benefits expense; FAS 106 expense; property taxes; rate case expense; CARES program; Target: Excellence expense; insurance expense; injuries and damages expense; rent expense; Stamford Administrative Office expenses; Phoenix Administrative Office expense; lump sum pension expense; uncollectible accounts expense; income tax expense and investment tax credit amortization. Mr. Smith also addressed Citizens' purchased power and fuel adjustment clause.
- ◆ Key project team member in the review of specific issues pertinent to Entergy Gulf States' filing for an increase in base rates. Specifically, Larkin & Associates was retained to review costs directly charged and allocated by Entergy Services, Inc. (ESI) and Entergy Operations, Inc. (EOI) to Entergy Gulf States. ESI and EOI are nonregulated affiliates of Entergy Gulf States. In addition, Larkin & Associates was retained to review the weather normalization adjustment calculated by Entergy Gulf States.

### **Previous Positions**

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, Mr. Smith was involved in utility regulatory consulting, tax planning and research for businesses and individuals, tax return preparation and review, independent auditing, review and preparation of financial statements. Installed computerized accounting system for a realty management firm.

### **Education**

- ◆ Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.
- ◆ Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.
- ◆ Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.
- ◆ Continuing education required to maintain CPA license and CFP certificate.
- ◆ Received CPA certificate in 1981 and certified Financial Planning certificate in 1983.
- ◆ Admitted to Michigan and Federal bars in 1986.
- ◆ Certified Rate of Return Analyst (CRRRA) 1995

### **Professional Affiliations**

- ◆ Michigan Association of Certified Public Accountants, Committee on Management Consulting Services.
- ◆ Michigan Bar Association
- ◆ American Bar Association, sections on public utility law and taxation
- ◆ Society of Utility and Regulatory Financial Analysts

### **References**

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## Mr. Mark S. Dady, CPA, Larkin & Associates Principal Consultant

Mr. Mark S. Dady will be a *Principal Consultant* for the three scope area(s). He will be one of the *Team Leaders* in the verification of income tax errors. In summary the areas he will be involved in include:

- ◆ *Scope Area 1:* Evaluate Legacy Systems
- ◆ *Scope Area 2:* Evaluate Current PowerTax Systems
- ◆ *Scope Area 3:* Verify Income Tax Errors

As a Certified Public Accountant and regulatory consultant with Larkin & Associates, Mr. Dady has performed in-depth analyses of numerous utility cases, involving electric, gas, and water and sewer utilities. As such, Mr. Dady assists with the review and analysis of regulatory filings, prepares computer spreadsheets and models, prepares discovery requests, and performs accounting and regulatory research.

### Relevant Regulatory Experience

Following are examples of recent electric, gas, telephone and water regulatory cases in which Mr. Dady has participated, specifically electric cases:

- ◆ *Project Member* in the review of MPCo's request for a change of rates. Issues addressed in testimony included: Cost of Gas-Fired Combined Cycle Generation Included in Certification Estimate; Cost Cap Exceptions for Beneficial Capital, Force Majorue and Change in Law; MPCo Assumption for Securitization Occurring in April 2016; Regulatory Asset Amortization Period; Incentive and Stock-Based Compensation; Treatment of Ad Valorem Taxes on the In-Service Assets; and Return on Equity Used and Concerns About MPCo's Proposed Capital Structure.
- ◆ *Project Member* in the review of Kentucky Power Company's requested increase in rates. Issues addressed in testimony included: Accumulated Deferred Income Taxes – 2014 bonus tax depreciation; contributions in aid of construction; cash working capital; commercial and industrial revenue; amortization of deferred IGCC costs; amortization of deferred CCS FEED Study costs; amortization of deferred CARRS site costs; amortization of deferred preliminary Big Sandy FGD costs; parent company loss allocation; incentive compensation expense; stock-based compensation expense; Engage to Gain program costs; PJM charges and credits to reflect removal of Big Sandy; miscellaneous expenses; Mitchell plant maintenance expense; interest synchronization; Big Sandy Retirement Rider; Big Sandy Unit 1 Operation Rider (BS1OR); Environmental surcharge related to Mitchell FGD; Kentucky Economic Development Surcharge; Transmission adjustment; Mitchell plant transfer/Ash Pond costs; Off system sales margin sharing; vegetation management; and Rockport plant unit power sales agreement – return on equity of 12.16 percent.

- ◆ *Project Member* in the review of Pennsylvania FirstEnergy's requested increases in rates for West Penn Power Company, Pennsylvania Electric Company, Pennsylvania Power Company, and Metropolitan Edison Company. Issues addressed in testimony included: Average Rate Base for the Fully Projected Test Year; Deferred Storm Damage; Depreciation Reserve Related to Legacy Meters; Cash Working Capital; Corrections to Remove Transmission Projects from Account 303, Miscellaneous Intangible Plant; Mobile Work Management System Corrections, Account 303, Miscellaneous Intangible Plant; ADIT – Impact of 2013 Change in Tax Accounting Method; ADIT – Error Correction; Consolidated Tax Savings; Miscellaneous Expenses; Amortization of Deferred Storm Damage Expense; Amortization of Merger Storm Damage Deferral; Amortization Expense Related to Legacy Meters; Payroll Expense; Payroll Tax Expense; Employee Benefits; Depreciation Expense – Removal of Transmission Project from Account 303; Depreciation Expense – Mobile Work Management System; Vegetation Management; Rate Case Expense; Interest Synchronization; Pension Expense; Post Retirement Benefits Other Than Pensions; Storm Damage Reserve and Rider; and Federal 2014 Tax Extenders.
- ◆ *Project Member* in the review of Monongahela Power Company and The Potomac Edison Power Company's requested increase in rates. Issues addressed in testimony included: Three deactivated subcritical generating plants (Albright, Rivesville, and Willow Island); cash working capital; property tax payment lag; terminal treatment: post test year environmental pollution control projects; terminal treatment: 2014 MATS control projects; vegetation management year one capital distribution plant; business and occupation taxes; vegetation management expense; revenue at current base rates that should not be removed; payroll expense; savings plan expense; payroll tax expense; incentive compensation and corporate incentives; meter reading expense; depreciation expense – new depreciation rates; payroll expense – new hires related to Harrison Asset Transfer settlement; lease expense; amortization expense related to three deactivated plants; consolidated income tax savings; interest synchronization; depreciation expense – Harrison power station; depreciation expense related to environmental control projects; depreciation expense related to MATS pollution control projects; depreciation expense on vegetation management year one capital distribution plant; vegetation management surcharge; and the Harrison plant acquisition adjustment.
- ◆ *Project Member* and *Expert Witness* on the Mississippi Public Utilities Staff Independent Monitor team in the Mississippi Power Company Kemper Prudence Review. Since 2011, Larkin & Associates, along with Burns & Roe Enterprises, and its successor firms, has been conducting a prudence review of construction costs recorded by MPC related to the Kemper County Integrated Gas Combined Cycle (IGCC) plant on behalf of the Mississippi Public Service Staff for costs incurred through March 31, 2013. Larkin & Associates' portion of the prudence review consists of examining invoices and other documentation provided by the Company related to construction costs incurred in conjunction with the construction of the Kemper County IGCC plant.

- ◆ *Project Member* in the review of Georgia Power Company's Annual Surveillance Report. Larkin & Associates conducted an extensive review of the Company's 2013 ASR filing in order to: replicate and verify the Company's return on equity calculation to ensure it placed within the Commission's ordered ROE band, ensure that the Company's regulatory adjustments were made in compliance with Commission orders, and identify issues and/or adjustments to the Company's filing as appropriate. Larkin & Associates' review implemented the following procedures, amongst others, to make its determination with respect to the Company's reported Return on Equity: compared rate base and operating income components year over year, identified changes in adopted accounting methodologies, and identified new transactions, identified variances as a foundation for discovery questions, prepared multiple rounds of discovery questions and reviewed responses.
- ◆ *Project Member* in the review of Georgia Power Company's request for a rate increase. Issues in testimony included: ECCR Tariff revenue deficiency; DSM Tariff revenue deficiency, Alternative rate plan (2014-2016) revenue deficiency; Municipal Franchise Fee Tariff; steam and other production O&M expense; transmission and distribution O&M expense; wholesale capacity sales revenue; proceeds from sales of scrap material; cash working capital; miscellaneous items/executive financial planning; property tax; interest synchronization; depreciation expense and reserve; Plant Hammond Mercury and Air Toxins Standards (MATS) Project; Plant Branch depreciation; Plant McDonough Unit 6 depreciation; prepaids and deferred debits; operating reserves and deferred credits; Plant Branch Units 1, 3, and 4 net book value; ADIT for deferred nuclear outage cost; ADIT for Purchase Power Agreement (PPA) levelization; pole attachment revenues; revenue for rental of electric property; SERP expense; pension expense; PSC Staff IRP consultant expense; solar implementation and operating expense; income tax expense – state clean energy credit; hydro tax credit; update SCS allocation factors to use 2012 statistics; GPC charges to Southern Power; stock options and stock based compensation; Southern Company Services (SCS) charges to GPC; Southern Nuclear Company charges to GPC; affiliate PPAs/capital leases with Southern Power Company; GPC charges to other affiliates; GPC charges to Southern Power; GPC charges to Southern Company Services for Atlanta Headquarters Building; GPC charges to SouthernLINC; Section 199 Manufacturing Deduction; FIN 48 uncertain tax positions; performance pay plan; step increase approach; costs resulting from the Plant Bowen incident; and earnings test and earnings sharing.
- ◆ *Project Member* in Potomac Electric Power Company's review of its rate request. Issues in testimony included: Increase in base distribution rates; test year ending December 31, 2012, consisting of 12 months of actual results; adjustments to the test year data for known and measurable changes; rate base; cash working capital allowance; lead-lag study; operating expenses; depreciation rates; are Pepco's depreciation rates computed with the appropriate District of Columbia book reserve; is Pepco's accumulated depreciation reserve computed accurately based on D.C.'s jurisdictional amounts; is Pepco correctly recording its gross salvage value in accordance with FERC's uniform system of accounts; net salvage/net

removal cost; comparison of Pepco's requested cost of removal for D.C. distribution plant with the amount allowed in Order No. 15710; comparison of Pepco's requested cost of removal with other alternatives; actual cost of removal; evaluation of Pepco's proposed negative net salvage percentages; and rebuttal to Pepco's witness Spanos's June 17, 2013 supplemental testimony.

- ◆ *Project Member* in the review of the Joint Petition of a merger between Exelon and Constellation. Issues addressed in testimony included: Is the Transaction Consistent with the Public Interest, Convenience and Necessity?, Impact on Jobs and the Economy, Will the Transaction Yield Benefits to BGE Ratepayers?, Merger Synergies (Cost Savings) Is the Transaction Structured not to Harm BGE Ratepayers?, Impact of Merger on BGE's Rates, Ring-Fencing, Dividend Payout Ratio, Proposed Capital Structure, BGE's Bond Rating, Affiliate/Cross Subsidization Issues, Capital Expenditures, Maintenance Expense, Valuation of Assets, Goodwill, Impact on BGE Employment, and BGE Corporate Structure – Pre and Post Merger.
- ◆ *Project Member* in the review of Appalachian Power Company rate request. Issues discussed in testimony by Larkin & Associates included: self-funded reserve accruals, prepayments, rate base update, prepaid pension asset, inactive or zero usage materials & supplies inventory, accumulated deferred income taxes, deferred fuel balance, off-system sales margin, customer revenues for growth, interest on customer deposits, donations, written off obsolete inventory, rate case expense, environmental consumable and allowances, depreciation expense, public relations expense, Edison electric institute dues, other membership dues, service company billings, interest synchronization, adjustment to income tax expense for parent company debt, vegetation management program expense, vehicle fuel expense, normalize remodeling expense, estimated property tax increases and income tax expense.
- ◆ *Project Member* in the review of Appalachian Power Company and Wheeling Power Company's rate request. Issues addressed by Larkin & Associates in testimony included: utility plant held for future use, prior period accumulated depreciation, prepayments, cash working capital, inactive to zero usage material and supplies inventory, self funded reserve accruals, rate base related asset retirement obligation adjustments, pole rental expense, remodeling expense, airplane costs, club initiation fees, written off obsolete inventory, incentive compensation, rate case expense, life insurance premiums, public relations expense, Edison Electric Institute Dues, Other Membership Dues, Three-Year Amortization from Loss on Sale of Bluefield and Wheeling Office Buildings, Amortization of Deferred RTO Formation, Service Company Billings, Institutional Advertising Expense, Interest on Customer Deposits, Expanded Net Energy Cost (ENEC), T&D Management, Consolidated Income Taxes, Interest Synchronization, Depreciation & Amortization Related to Asset Retirement Obligations, Maintenance of Boiler Plant Account 512, Maintenance of Electric Plant Account 513, and Income Tax Expense.

- ◆ *Key Project Member and Expert Witness* for Larkin & Associates, acting as a subcontractor to Energy Ventures Analysis, Inc. on the Financial and Management/Performance Audit of the Fuel and Purchased Power Rider of the Cincinnati Gas & Electric Company (CG&E) following the merger with Cinergy creating Duke Energy Ohio. Larkin & Associates performed the Financial Audit portion of the project covering CG&E's quarterly FPP filings for January through June 2005 (Phase I), in a joint report dated October 7, 2005, and Mr. Smith sponsored Chapter 5 of the report in expert testimony at hearings before the Public Utilities Commission of Ohio on November 1, 2005 (Phase II).
- ◆ *Project Member* in the review of a request by PacifiCorp for an increase in rates. As part of the analysis, Larkin & Associates also reviewed and addressed the Company's request to modify the test year provisions that had long been adopted and approved by the Commission. This case settled prior to filing testimony; however, schedules and exhibits were completed and submitted in order to facilitate settlement negotiations. Larkin & Associates was actively involved in the settlement discussions. Issues addressed by Larkin & Associates in our exhibits and schedules include: major plant additions including a transmission replacement and upgrade program, accounts receivable from associated company, cash working capital, increased revenues from system expansion and upgrade, change in method of accounting for unbilled revenues, normalization of overhaul expense, payroll expense including employee level impacts, incentive compensation, employee benefits, costs of canal failure, depreciation on retired assets, write-off of canceled projects, insurance expense, property taxes, IRS audit settlement adjustments, and amortization of costs associated with early retirement of Company owned coal mine.
- ◆ *Project Member* in the review of Connecticut Light & Power Company's request for an amendment in rates for the period 2004 through 2007. Issues specifically addressed in testimony included: adjustments to CL&P's proposed initiatives, deferred assets, Storm Damage Accrual reserves, working capital, revenues, recovery of six specific items identified by the Company as exogenous costs under its Incentive Rate Plan. Larkin & Associates testimony first addressed the appropriate definition and specific qualifications for items to be considered as exogenous costs under the Company's incentive rate plan. The testimony then addressed the following six specific items for which the Company was requesting an increase in rates for exogenous cost recovery: uncollectible expense, pension expense, other post retirement benefit expense, personal property taxes, raise in Connecticut Corporate Business Tax rate and Three-Way Payment Plan deferrals.
- ◆ *Project Member* in United Illuminating Company's rate case. Larkin & Associates was retained by the Connecticut Office of Consumer Counsel to address the calculation of the revenue requirement and adjustments to the calculations of rate base and net operating income presented in UI's filing. Larkin & Associates also addressed the sharing proportions that should be applied if the Department adopts a multi-year rate plan for UI in this proceeding. Issues discussed in testimony included rate plan, over-earnings sharing proportions, subsidiary income tax expense, starting point for 2002 rate year rate base, customer deposits, materials and supplies, rate-a-meter timers, injuries and damages reserve,

severance expense, rate case expense, other O&M expense increase, ADIT on pension liability and Bad Debt reserve, accrued vacation and related ADIT, Steel Point remediation, depreciation expense, income tax expense correction, interest synchronization, property tax expense, accelerated amortization.

- ◆ *Project Member* in the review of Citizens Utilities Company's application for a rate increase. Issues addressed in testimony included: an overall financial summary, accounting concerns, rate base (interim accumulated depreciation, rate year accumulated depreciation, used and useful, deferred income taxes, deferred costs, IRP Twenty Year Plan, PCB Costs, 1999 Windstorm and Hurricane Floyd costs, HQ Arbitration, Working capital), operating income (revenue adjustments, SAO expense, DAO expense, PSO expense, Rate Case Expense, Legal and Regulatory, Income Tax Expense, Tree Trimming) and summary of accounting problems.

### **Education**

- ◆ Davenport University, Dearborn, MI, Bachelor of Business Administration: Accounting, March 2001 - Graduated with high honors
- ◆ Walsh College, Troy, MI, Master of Science: Accounting, December 2006
- ◆ Certified Public Accounting Certificate, 2007

### **References**

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## Ms. Christina Miller, Larkin & Associates Regulatory Analyst

Ms. Miller is a *Staff Accountant* and *Regulatory Analyst* with Larkin & Associates. Since joining the firm in 1999, Ms. Miller has worked on a diverse range of regulatory projects under the supervision of senior members of the firm. As such, Ms. Miller prepares discovery requests, produces spreadsheets and models, assists with the review and analysis of regulatory filings, and performs regulatory and accounting research. In summary the areas she will be involved in include:

- ◆ *Scope Area 1:* Evaluate Legacy Systems
- ◆ *Scope Area 2:* Evaluate Current PowerTax Systems
- ◆ *Scope Area 3:* Verify Income Tax Errors

### Relevant Regulatory Experience

Following are examples of recent electric, gas, telephone, and water regulatory cases in which Ms. Miller has participated, specifically electric cases.

- ◆ *Project Member* in the review of Iberdrola and UIL Holdings in Connecticut re-filed application for a proposed change in control. A Settlement Agreement was reached before testimony could be filed.
- ◆ *Project Member* in the review of Iberdrola S.A. and UIL Holdings Corp.'s petition in Massachusetts for a proposed change in control. A Settlement Agreement was reached before testimony could be filed.
- ◆ *Project Member* in the review and analysis of the 2016 General Rate Case of San Diego Gas & Electric Company as it pertained to the Company's electric operations. Issues addressed in testimony included: Escalation Factors; Tree-Trimming Balancing Account; New Environmental Regulations Balancing Account; Pension Balancing Account; Post-Retirement Benefits Other Than Pensions Balancing Account; Plant in Service; Electric Distribution Capital Expenditures; Working Cash; Electric Distribution O&M Expenses; Electric Regional Operations Expense; Distribution Operation Expense; Construction Service Expense; Vegetation Management (Tree Trimming); Vegetation Management (Pole Brush); Wildfire Insurance Expense; Wildfire Liability Insurance; and Wildfire Property Damage Reinsurance.
- ◆ *Project Member* in Potomac Electric Power Company's review of its rate request. Issues in testimony included: Increase in base distribution rates; test year ending December 31, 2012, consisting of 12 months of actual results; adjustments to the test year data for known and measurable changes; rate base; cash working capital allowance; lead-lag study; operating expenses; depreciation rates; are Pepco's depreciation rates computed with the appropriate District of Columbia book reserve; is Pepco's accumulated depreciation reserve computed accurately based on D.C.'s jurisdictional amounts; is Pepco correctly recording its gross salvage value in accordance with FERC's uniform system of accounts; net salvage/net removal cost; comparison of Pepco's requested cost of removal for D.C. distribution plant

with the amount allowed in Order No. 15710; comparison of Pepco's requested cost of removal with other alternatives; actual cost of removal; evaluation of Pepco's proposed negative net salvage percentages; rebuttal to Pepco's witness Spanos's June 17, 2013 supplemental testimony; accumulated depreciation of historical plant; general and/or specific projects completed in the test year; reliability projects completed in the test year; post-test year additions; ADIT; bonus tax depreciation; impacts of District of Columbia and federal tax regulation; payroll; and employee health and welfare.

- ◆ *Project Member* in the review of the Joint Petition of a merger between Exelon and Constellation. Issues addressed in testimony included: Is the Transaction Consistent with the Public Interest, Convenience and Necessity?, Impact on Jobs and the Economy, Will the Transaction Yield Benefits to BGE Ratepayers?, Merger Synergies (Cost Savings) Is the Transaction Structured not to Harm BGE Ratepayers?, Impact of Merger on BGE's Rates, Ring-Fencing, Dividend Payout Ratio, Proposed Capital Structure, BGE's Bond Rating, Affiliate/Cross Subsidization Issues, Capital Expenditures, Maintenance Expense, Valuation of Assets, Goodwill, Impact on BGE Employment, and BGE Corporate Structure – Pre and Post Merger.
- ◆ *Project Member* in the review of United Illuminating Company's application for an increase in distribution rates. Issues addressed included Incremental CL&M investment, Central Facility, compensation expense, employee benefits, corporate costs, line clearance, professional services, legal services, audit and accounting expense, allocated A&G, insurance expense, reconnect service fees, security and safety expense, customer service expense, data security expense, distribution advertising expense, membership dues, uncollectibles, facility rent expense, postage increase, travel, education and training expense.
- ◆ *Project Member* in the a research project for the Arkansas Public Service Commission Staff regarding innovative approaches to rate base, rate of return ratemaking. Larkin & Associates analysis focused on annual earnings reviews, formula rates, recovery of extraordinary storm damage expenses, plant acquisitions and construction costs of new facilities.
- ◆ *Project Member* in the review of Tampa Electric Company's request for an increase in rates. Issues addressed included: transmission base rate adjustment clause, annualization of plant-in-service, plant in service projections, CIS upgrades, dredging O&M amortization, plant held for future use, construction work in progress, working capital, storm damage accrual, uncollectible expense, and capital structure. Issues addressed by Mr. Schultz included: payroll, benefits, incentive compensation, D&O liability, tree trimming, pole inspections, transmission inspections, substation preventive maintenance, generation maintenance, rate case expense and office supplies.
- ◆ *Project Member* in the review of Cinergy Corporation's accounting expenditures for construction projects in association with the provisions in the Clean Air Act. Larkin & Associates issued a report detailing its finding and conclusions.

- ◆ *Project Member* in the review of American Electric Power Company’s accounting expenditures for construction projects in association with the provisions in the Clean Air Act. Larkin & Associates issued a report detailing its finding and conclusions.
- ◆ *Project Member* in the review of Duke Energy Corporation’s accounting expenditures for construction projects in association with the provisions in the Clean Air Act. Larkin & Associates issued a report detailing its finding and conclusions.
- ◆ *Project Member* in a review of the application of PacifiCorp for approval of its proposed electric rate schedules and electric service regulations. Issues analyzed included: incentive compensation, payroll, pensions/post-retirement benefits, working capital, Bridger Coal Company Rate Base, Environmental Settlements, Revenue Normalization Correction, Distribution Expense Correction, Accounting Write-Offs, Assets under construction write-off, Cholla Assets Under Construction Write-Off, Additional Assets Under Construction Written Off, Obsolete Inventory Write-Offs/Reserve, FERC Contingency Write-Off, Blue Sky Program, Stoel Rives Pricing Settlement, Transition Team Costs, Miscellaneous Outside Service Expense, Annualization of Contract Cost Savings, Dave Johnston (Glenrock) mine closure, systems applications and products software (SAP), re-engineering, 1997 computer software write-down, Company’s proposed 1999 software write-off, uncollectible expense, and potential updates (pending additional information from the Company).
- ◆ *Project Member* in an investigation of over-earnings by the Connecticut Light & Power Company. Issues analyzed included: over-earning standards, cause of over earnings, treatment of over-earnings, impact of over-earnings on conditions of NU/ConEd Merger, and the Company’s proposed initiatives.
- ◆ *Project Member* in the review of Wisconsin Public Service Corporation’s application for a Supply Cost Recovery Plan and Authorization of Monthly Power Supply Cost Recovery Factors for the Calendar Year 2001. Ms. Miller assisted by analyzing issues such as additional coal costs for new coal contracts, forecast and historical analysis of hydro plant generation, and reviewing company material.
- ◆ *Key Project Member* in the review of Delaware Electric Cooperative’s Restructuring Plan for Retail Competition. Larkin & Associates was retained by the Delaware Public Service Commission (DPSC) to provide consulting services to the Hearing Examiner of the DPSC. Duties included: review of filings and briefs of the parties, review of the transcript of the hearing, summarize the positions of the parties, and assist in the preparation of the Hearing Examiners Report.
- ◆ *Key Project Member* in the review of Delmarva Power & Light’s billing system conversion problems. Consulting services were provided to the Hearing Examiner of the Delaware Public Service Commission. Relevant issues addresses included: compensation and economic damages to customers, proration, arbitration procedures. Non-economic issues included: “reaching back” problem, budget plans, tariff rates on bills, high bill parameters, PriceWaterhouseCoopers audit report, payment posting sequence, emergency phone number,

issue list, lost customers, walk-in offices, and a summit for unresolved issues. Duties included: review of filings and briefs of the parties, review of the transcript of the hearing, summarize the positions of the parties, and assist in the preparation of the Hearing Examiners Report.

- ◆ *Project Member* in the review of Delmarva Power & Light's application for Approval of a Cost Accounting Manual and a Code of Conduct. Ms. Miller assisted by reviewing filings, transcripts, The Cost Accounting Manual, Code of Conduct, and summarizing the positions of the parties, and assisting in the preparation of the Hearing Examiners Report.
- ◆ *Key Project Member* in the review of Chesapeake Utilities Corporation application for Approval of a Cost Accounting Manual and a Code of Conduct. Ms. Miller reviewed filings, responses to data requests, the proposed Cost Accounting Manual, and proposed Code of Conduct. She also assisted in drafting a revised Code of Conduct and testimony.

### Education

- ◆ Eastern Michigan University - Ypsilanti MI, Bachelor of Business Administration: Accounting, April 1996

### References

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## Ms. Megan Cranston, Larkin & Associates Regulatory Analyst

After completing two internships with Larkin & Associates while studying for her accounting degree at Central Michigan University, and upon graduation, Ms. Megan Cranston joined Larkin & Associates, PLLC in January 2016 as a *Regulatory Analyst*. As such, Ms. Cranston assists on regulatory reviews by analyzing information, performing accounting and regulatory research, editing documents, and preparing computer spreadsheets. In summary the areas she will be involved in include:

- ◆ *Scope Area 1:* Evaluate Legacy Systems
- ◆ *Scope Area 2:* Evaluate Current PowerTax Systems
- ◆ *Scope Area 3:* Verify Income Tax Errors

### Relevant Regulatory Experience

Following are examples of regulatory cases in which Ms. Cranston has participated.

- ◆ *Project Member* in the review of the rate request of Virginia American Water Company. Issues addressed by Larkin & Associates in testimony included: Revenue Stabilization Mechanism; Water/Wastewater Infrastructure Service Charge; Rate Design – Single Tariff Pricing/Uniform Customer Charge for the Hopewell, Prince William and Alexandria Water Districts; Hopewell District Pump Station Fuel Spill; and Dale Service Corporation Acquisition Adjustment.
- ◆ Assisted with Green-e Energy verifications for several clients. Applied the Green-e Energy verification protocol and assisted with drafting the agreed-upon procedures reports.
- ◆ *Project Member* in the review of Dominion Virginia Power/Virginia Electric and Power Company's biennial earnings review and presentation of its prospective revenue requirement. Issues in testimony included: Biennial Review Period Earnings; Prospective Revenue Sufficiency; Correction of Income Tax Expense for Taxable Income Addition for Lobbying Dues; Capital Investment for Five Capacity Up-Rating Projects; Impairment Write-Down for emission Allowances; Normalize Nuclear Refueling Outage O&M Expense; Normalize Major Storm Expense; Warren Count CWIP; Conforming Changes to Interest Synchronization; Long-Term Incentive Plan Performance Award Costs Recorded During Review Period That Exceeded a Payout of 100 Percent; Amortization of Regulatory Asset for Combined Under-Earnings; and Income Tax Expense.

### Education

- ◆ Central Michigan University, Mount Pleasant, MI, Bachelor of Science: Accounting (Major) Information Systems (Minor), December 2015
- ◆ University of Michigan – Dearborn, Master of Science in Accounting, Anticipated Graduation – Spring 2019

### **Prior Work Experience**

- ◆ Larkin & Associates, PLLC, Summer Accounting Intern (2013-2014)
- ◆ Central Michigan University, Calkins Hall Front Desk Manager (2012-2013)
- ◆ Dressbarn, Sales Associate (2012)
- ◆ Thomas's Catering, Server (2011)

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## Ms. Dawn Bisdorf, Larkin & Associates Research Associate

Ms. Dawn Bisdorf is a *Research Analyst* with Larkin & Associates, PLLC. As such, Ms. Bisdorf assists with the review and analysis of regulatory filings by preparing computer spreadsheets and models and performing accounting and regulatory research. In summary the areas she will be involved in include:

- ◆ *Scope Area 1:* Evaluate Legacy Systems
- ◆ *Scope Area 2:* Evaluate Current PowerTax Systems
- ◆ *Scope Area 3:* Verify Income Tax Errors

### Relevant Regulatory Experience

Following are examples of electric, gas, and water regulatory cases in which Ms. Bisdorf has participated, specifically electric cases.

- ◆ *Project Member* in the review of the Joint Petition of a merger between Hawaii Electric Light Company, Hawaiian Electric Company, and NextEra Energy. Issues addressed in testimony included: Whether the Proposed Transaction is in the Public Interest; Whether the Applicants are fit, willing, and able to properly provide safe, adequate, reliable electric service at the lowest reasonable cost in both the short and the long term; Whether the Proposed Transaction, if approved, would diminish, in any way, the commission's current regulatory authority over the HECO Companies, particularly in light of the fact that the ultimate corporate control of the HECO Companies will reside outside of the State; Whether the financial size of the HECO Companies relative to NextEra's other affiliates would result in a diminution of regulatory control by the commission; and Whether any conditions are necessary to ensure that the Proposed Transaction is not detrimental to the interests of the HECO Companies' ratepayers or the State and to avoid any adverse consequences and, if so, what conditions are necessary.
- ◆ *Project Member* in the review of Iberdrola and UIL Holdings in Connecticut re-filed application for a proposed change in control. A Settlement Agreement was reached before testimony could be filed.
- ◆ *Project Member* in the review of the proposed change of control application submitted by Iberdrola and UIL Holdings in Connecticut. Issues addressed in testimony included: Overview of the Proposed Acquisition and Merger, Standard of Review, Background of Prior Transaction Between UIL and Iberdrola, Section 338(H)(10) Election Issue, Protection From Harm - Ring-Fencing Provisions, Protection From Harm - Accounting and Regulatory Conditions, Goodwill, Accounting Issues Related to Goodwill and Acquisition Premium, Protecting UI, CNG, and SCG Ratepayers from the Risk of "Push Down" Accounting, Risks of a Substantial Goodwill Impairment, Summary of Recommended Conditions to Protect Ratepayers Relating to Goodwill, Transaction Costs, Costs Included in Transaction Costs, Change In Control Plan Payments, Costs for Litigation Related to the Proposed Merger, No Transaction Costs Should be Recorded in the Capital Structure, Balance Sheets and Income Statements of UIL, UI, CEC or CTG or the UIL Utilities, Termination Fee, Tax Indemnification, Tax Elections That, if Made, Could Harm UI,

CNG, And SCG's Connecticut Ratepayers, Benefit to UIL Shareholders - Stock Premium, Public Benefit - Customer Fund, Impact of Accelerating Iberdrola's U.S. Net Operating Losses and Other Tax Benefits, Other Safeguards and Reporting Requirements. The change in control transaction was rejected by the PURA's draft decision on June 30, 2015.

- ◆ *Project Member* in the review of Iberdrola S.A. and UIL Holdings Corp.'s petition in Massachusetts for a proposed change in control. A Settlement Agreement was reached before testimony could be filed.
- ◆ *Project Member* in Virginia Electric and Power Company's 2015 biennial review of rates, terms, and conditions for the provision of generation, distribution, and transmission services. Issues addressed in testimony included: 2013 and 2014 Biennial Review Period Earnings; Prospective Revenue Sufficiency; Loss Contingency Related to Coal Ash Ponds; Removal of Major Storm Expense for Prospective Ratemaking; Long Term Incentive Plan Performance Award Costs Recorded During 2014 that Exceeded a Payout Percentage of 100 Percent; Special One-Time Restricted Stock Awards Expense; Conforming Changes to Interest Synchronization; Property Tax Expense Functionalization; Projected Environmental Compliance Costs for Prospective Ratemaking; Fossil Plant O&M Costs for Prospective Ratemaking; and Income Tax Expense.
- ◆ *Project Member* in the review of Kentucky Power Company's requested increase in rates. Issues addressed in testimony included: Accumulated Deferred Income Taxes – 2014 bonus tax depreciation; contributions in aid of construction; cash working capital; commercial and industrial revenue; amortization of deferred IGCC costs; amortization of deferred CCS FEED Study costs; amortization of deferred CARRS site costs; amortization of deferred preliminary Big Sandy FGD costs; parent company loss allocation; incentive compensation expense; stock-based compensation expense; Engage to Gain program costs; PJM charges and credits to reflect removal of Big Sandy; miscellaneous expenses; Mitchell plant maintenance expense; interest synchronization; Big Sandy Retirement Rider; Big Sandy Unit 1 Operation Rider (BS1OR); Environmental surcharge related to Mitchell FGD; Kentucky Economic Development Surcharge; Transmission adjustment; Mitchell plant transfer/Ash Pond costs; Off system sales margin sharing; vegetation management; and Rockport plant unit power sales agreement – return on equity of 12.16 percent.
- ◆ *Project Member* in the review of Pennsylvania FirstEnergy's requested increases in rates for West Penn Power Company, Pennsylvania Electric Company, Pennsylvania Power Company, and Metropolitan Edison Company. Issues addressed in testimony included: Average Rate Base for the Fully Projected Test Year; Deferred Storm Damage; Depreciation Reserve Related to Legacy Meters; Cash Working Capital; Corrections to Remove Transmission Projects from Account 303, Miscellaneous Intangible Plant; Mobile Work Management System Corrections, Account 303, Miscellaneous Intangible Plant; ADIT – Impact of 2013 Change in Tax Accounting Method; ADIT – Error Correction; Consolidated Tax Savings; Miscellaneous Expenses; Amortization of Deferred Storm Damage Expense; Amortization of Merger Storm Damage Deferral; Amortization Expense Related to Legacy Meters; Payroll Expense; Payroll Tax Expense; Employee Benefits; Depreciation Expense – Removal of Transmission Project from Account 303; Depreciation Expense – Mobile Work Management System; Vegetation Management; Rate Case Expense; Interest Synchronization;

Pension Expense; Post Retirement Benefits Other Than Pensions; Storm Damage Reserve and Rider; and Federal 2014 Tax Extenders.

- ◆ *Project Member* in the review the proposed merger between Exelon and PHI Holdings. Issues addressed in testimony included: Factor 1 – ratepayers, shareholders, the financial health of the utilities standing alone and as merged, and the economy of the district; Impact of the proposed transaction on Pepco’s DC ratepayers; the Customer Investment Fund; Accounting Issues Related to Goodwill, Protecting Pepco Ratepayers from the Risk of “Push Down” Accounting, Risks of a Substantial Goodwill Impairment on Exelon’s Balance Sheet, Goodwill in Transmission Formula Rates, the Treatment of Transaction Costs, the Joint Applicants’ Estimate of Synergies, Costs to Achieve in Excess of Synergy Savings, Pepco’s Rate Case Plans and Concerns about Rate Increases, Tax Indemnification, Tax Elections That, if Made, Could Harm Pepco’s D.C. Ratepayers; Impact of the Proposed Transaction on PHI’s Shareholders, Impact of the Proposed Transaction on Phi’s Executives, Impact of the Proposed Transaction on Exelon, Impact of the Proposed Transaction on the Economy of the District, the Cost of Electricity to the DCG, the Estimated Impact on the DCG from Pepco Rate Increases, Factors that could cause Pepco rate increases to be higher under Exelon’s ownership; Tax Revenue that PHI and Pepco are Providing to the District; Locations of PHI and Pepco Office Facilities in the District, the PHI and Pepco D.C. Headquarters, Risks that Exelon’s attempts to achieve post-acquisition merger savings present to PHI and Pepco office locations and employment in the District and to District residents, Other Conditions and Reporting Requirements, Pepco and PHI Service Company’s Historical Charitable Contributions.
- ◆ *Project Member* in the review of Duke Energy Indiana, Inc. seeking approval of an ongoing review progress report to reflect costs incurred for its IGCC Generating Facility. Mr. Smith’s testimony addressed the following issues: “Commercial Operation” of the Edwardsport IGCC did not occur during the combined IGCC-12 and 13 review periods; Need for performance standards and an operating cost cap to protect ratepayers from excessive costs and poor plant performance; Unreasonably high cost of the Edwardsport IGCC during the IGCC-12 and 13 review periods; Concern that DEI is classifying costs in a manner to evade the “hard cost cap” and that is inadequately documented, not transparent and cannot be adequately reviewed; Commission ordered refund and carrying costs on ratepayer monies being held by the Company; and the need for additional proceedings.
- ◆ *Project Member* in the review of Monongahela Power Company and The Potomac Edison Power Company’s requested increase in rates. Issues addressed in testimony included: Three deactivated subcritical generating plants (Albright, Rivesville, and Willow Island); cash working capital; property tax payment lag; terminal treatment: post test year environmental pollution control projects; terminal treatment: 2014 MATS control projects; vegetation management year one capital distribution plant; business and occupation taxes; vegetation management expense; revenue at current base rates that should not be removed; payroll expense; savings plan expense; payroll tax expense; incentive compensation and corporate incentives; meter reading expense; depreciation expense – new depreciation rates; payroll expense – new hires related to Harrison Asset Transfer settlement; lease expense; amortization expense related to three deactivated plants; consolidated income tax savings; interest synchronization; depreciation expense – Harrison power station;

depreciation expense related to environmental control projects; depreciation expense related to MATS pollution control projects; depreciation expense on vegetation management year one capital distribution plant; vegetation management surcharge; and the Harrison plant acquisition adjustment.

- ◆ *Project Member* in the review of Georgia Power Company's Annual Surveillance Report. The Larkin conducted an extensive review of the Company's 2013 ASR filing in order to: replicate and verify the Company's return on equity calculation to ensure it placed within the Commission's ordered ROE band, ensure that the Company's regulatory adjustments were made in compliance with Commission orders, and identify issues and/or adjustments to the Company's filing as appropriate. Larkin & Associates' review implemented the following procedures, amongst others, to make its determination with respect to the Company's reported Return on Equity: compared rate base and operating income components year over year, identified changes in adopted accounting methodologies, and identified new transactions, identified variances as a foundation for discovery questions, prepared multiple rounds of discovery questions and reviewed responses.
- ◆ *Project Member* in the review of Appalachian Power Company's requested increase in rates. Issues addressed in testimony included: prior period accumulated depreciation, acquisition of 50% undivided interest in the Mitchell Plant, materials and supplies, cash working capital, Putnam coal terminal, pension asset, prepaid rent, storm costs, Atmos Unit 3 Depreciation reserve, Apco Coal inventory, Construction Work in Progress-Mitchell Plant, Atmos Unit 3 CWIP, Non ENEC O&M expense, depreciation expense, property tax expense, consolidated income tax savings, revenue from large customer load charges, Felman special contract revenue, Net Lost Revenue related to EE/DR programs, inflation expense, financing cost allowance-pension asset, interest synchronization, vegetation management expense, corporate aviation expense, O&M and payroll tax expense related to additional lineman, incentive compensation, adjustment to O&M expense related to Mitchell Plant, property tax expense functionalization and the Companies' vegetation management surcharge.
- ◆ *Project Member* in the review of Appalachian Power Company's request for an increase in rates. Issues addressed in testimony included: capital structure, 2012 and 2013 biennial review period earnings, IGCC costs, charitable contributions, Putnam coal terminal, coal inventory, 2009 storm costs, jurisdictional amount of ADIT related to the Atmos Unit 3 depreciation reserve deficiency, pension asset, Atmos Unit 3 Acquisition, corporate aviation expense, property tax, incentive compensation, stock based compensation, major storm cost, impact of failure to interrupt demand response customers, production O&M expense, interest synchronization, other issues and deferral of 2014 and 2015 costs for vegetation management pilot program.
- ◆ *Project Member* in the proposed acquisition of UNS Energy by Fortis, Inc. Issues addressed in testimony included: omissions from presentation of post-merger corporate organization structure, standard of review, previous attempt to sell Unisource Energy, Fortis' acquisition of other U.S. utilities, good will, transaction costs, change in control costs, retention bonuses, UNS Energy shareholder litigation costs, confirmation that there is no Internal Revenue Code § 338(H)(10) election, bond ratings/changes to cost of debt/post merger capital structure, preserving TEP

Springerville Section 45 Synfuel benefits for Arizona Ratepayers, Luxembourg conduit/inter-company debt financing/impact on Fortis' anticipated earnings accretion, Arizona Ratepayer benefits, and Fortis corporate cost increases resulting from the merger.

- ◆ *Project Member* in the review of certain issues concerning the revenue requirements and rate design proposed by Chugach Electric Association for the 2013 test year. Issues addressed in testimony included: storm expense normalization, gain on sale of Bernice Lake Power Plant, Chugach's proposed split tier, potential bypass of the Chugach's Teeland Substation/Principles for developing an "anti-bypass" rate, T-2 transmission rate optionality, and functionalized cost of service/revenue requirement.
- ◆ *Project Member* in the review of certain issues concerning the revenue requirements proposed by Alaska Power Company for the 2012 test year. Issues addressed in testimony included: cash working capital, miscellaneous expenses not recoverable in rates, bonus expense, Coffman Cove Loss, Rate Design, and Thorne Bay Utility Plant Acquisition Adjustment.
- ◆ *Project Member* in the review of UNS Electric's request for a rate increase. Issues in testimony included: Post Test Year Plant Not in Service; Removal of One-Half of Prepaid D&O Insurance; Depreciation and Property Tax Expense on Post Test Year Plant Not in Service; Post Test Year Pay Increases; Rate Case Expense; Incentive Compensation Expense; Injuries and Damages; Directors and Officers' Liability Insurance; Edison Electric Institute and Industry Association Dues; Allocated Cost of TEP's New Headquarters Building to UNSE; Interest Synchronization; Depreciation Rates – Dismantlement Cost; Base Cost of Fuel and Purchased Power; and Purchased Power and Fuel Adjustment Clause.
- ◆ *Project Member* in the review of Duke Energy Inc.'s request for approval of an ongoing review progress report to reflect costs incurred for its IGCC Generating Facility. Mr. Smith's testimony addressed the Commission ordered refund and carrying costs on ratepayer monies being held by the Company.
- ◆ *Project Member* in the review of Georgia Power Company's request for a rate increase. Issues in testimony included: ECCR Tariff revenue deficiency; DSM Tariff revenue deficiency, Alternative rate plan (2014-2016) revenue deficiency; Municipal Franchise Fee Tariff; steam and other production O&M expense; transmission and distribution O&M expense; wholesale capacity sales revenue; proceeds from sales of scrap material; cash working capital; miscellaneous items/executive financial planning; property tax; interest synchronization; depreciation expense and reserve; Plant Hammond Mercury and Air Toxins Standards (MATS) Project; Plant Branch depreciation; Plant McDonough Unit 6 depreciation; prepaids and deferred debits; operating reserves and deferred credits; Plant Branch Units 1, 3, and 4 net book value; ADIT for deferred nuclear outage cost; ADIT for Purchase Power Agreement (PPA) levelization; pole attachment revenues; revenue for rental of electric property; SERP expense; pension expense; PSC Staff IRP consultant expense; solar implementation and operating expense; income tax expense – state clean energy credit; hydro tax credit; update SCS allocation factors to use 2012 statistics; GPC charges to Southern Power; stock options and stock based compensation; Southern Company Services (SCS) charges to GPC; Southern Nuclear Company charges to GPC; affiliate PPAs/capital leases with Southern Power

Company; GPC charges to other affiliates; GPC charges to Southern Power; GPC charges to Southern Company Services for Atlanta Headquarters Building; GPC charges to SouthernLINC; Section 199 Manufacturing Deduction; FIN 48 uncertain tax positions; performance pay plan; step increase approach; costs resulting from the Plant Bowen incident; and earnings test and earnings sharing.

- ◆ *Project Member* in Chugach Electric Association, Inc.'s review of its development of the transmission tariff and COSS/Rate Design. Issues in testimony included: Duplication of Revenue Requirement in Chugach's Proposed Rate Schedules T-7 and T-8 with Rate Schedule T-1; "Wheel Through" Transactions; Chugach's Proposed Wheeling Rates; Treatment of Revenue from Off-System Wheeling Transactions; Discounting of Transmission and Ancillary Service Rates; Chugach's Unreliable Test Year Demand Data; Application of Transmission Rates and "Free Rider" Issue; Split Tier; and Changes to the Labor-Based Allocator.
- ◆ *Project Member* in Potomac Electric Power Company's review of its rate request. Issues in testimony included: Increase in base distribution rates; test year ending December 31, 2012, consisting of 12 months of actual results; adjustments to the test year data for known and measurable changes; rate base; cash working capital allowance; lead-lag study; operating expenses; depreciation rates; are Pepco's depreciation rates computed with the appropriate District of Columbia book reserve; is Pepco's accumulated depreciation reserve computed accurately based on D.C.'s jurisdictional amounts; is Pepco correctly recording its gross salvage value in accordance with FERC's uniform system of accounts; net salvage/net removal cost; comparison of Pepco's requested cost of removal for D.C. distribution plant with the amount allowed in Order No. 15710; comparison of Pepco's requested cost of removal with other alternatives; actual cost of removal; evaluation of Pepco's proposed negative net salvage percentages; and rebuttal to Pepco's witness Spanos's June 17, 2013 supplemental testimony.
- ◆ *Project Member* in the review of Virginia Electric and Power Company's presentation of its prospective revenue requirement. Issues in testimony included: 2011 and 2012 Biennial Review Period Earnings; Prospective Revenue Sufficiency; Correction of Income Tax Expense for Taxable Income Addition for Lobbying Dues; Capital Investment for Five Capacity Up-Rating Projects; July 2011 Impairment Write-Down for emission Allowances; Normalize Nuclear Refueling Outage O&M Expense; Normalize Major Storm Expense; Warren Count CWIP; Conforming Changes to Interest Synchronization; 2010-2011 Long-Term Incentive Plan Performance Award Costs Recorded During 2011 That Exceeded a Payout of 100 Percent; Amortization of Regulatory Asset for 2011-2012 Combined Under-Earnings; and Income Tax Expense.
- ◆ *Project Member* in the review of Georgia Power Company's 2013 Integrated Resource Plan. Issues in testimony included: Requests for Cost Recovery should be Addressed in Other Forums Where the Company's Earnings and Risk are Considered, Rather than in the 2013 IRP Proceeding; Georgia Power's Requested Accounting Reclassifications and Amortizations should be Addressed in a Forum Which Considers Georgia Power's Costs and Earnings.
- ◆ *Project Member* in the review of Duke Energy Inc.'s request for recovery of related costs and credits through its IGCC generating facility cost recovery. Mr. Smith's testimony addressed: Cost of

Delay Related to the Company's Requested Revenue Requirement for CWIP-Related Financing Costs/Return on Investment; Cost of Delay Related to the Company's Requested Accrual of AFUDC; Other Costs of Delay; AFUDC Rate of Return; Commission Ordered Refund and Carrying Costs on Ratepayer Monies Being Held by the Company; Portion of Edwardsport that was Placed "In Service" for Federal Income Tax Purposes in August 2012 and Impact on IGCC-10 Period Deferred Income Taxes.

- ◆ *Project Member* in Potomac Electric Power Company's review of its rate request. Issues in testimony included: Grid Resiliency Surcharge; Vegetation Management/Tree Trimming; Undergrounding of Existing Distribution Lines; Priority Feeder Program; Pepco's Financial Resources/Financing Cost Component; and Incentives and Penalties.
- ◆ *Project Member* in Appalachian Power Company, Docket No. PUE-2011-00037. Issues addressed in testimony filed by Larkin & Associates included: plant in service, construction work in progress, accumulated depreciation and amortization, materials and supplies other than coal inventory, customer deposits, accumulated deferred income taxes, coal inventory, cash working capital, accounts receivable factoring, pension asset net or related ADIT, average rate year, net VA retail jurisdictional distribution CWIP additions, capacity equalization payments, incentive compensation, stock based compensation, supplemental executive retirement plan, payroll tax expense, obsolete inventory, severance cost amortization, charitable contributions, interest synchronization, depreciation expense, property tax expense, central machine shop base salaries net of billings to affiliates, administrative expense for AEPSC Washington DC office, miscellaneous 2010 expense over charges, interest on prepaid pension asset, uncollectibles correction of amounts related to off-system sales margin, estimated future emissions allowance sales gain and income tax expense.
- ◆ *Project Member* in Arizona Public Service Company, Docket No. E-01345-11-0224. Issues addressed in testimony filed by Larkin & Associates included: post test year plant additions end of test year construction work in progress, accumulated depreciation, accumulated deferred income taxes, working capital, cash working capital, other rate base updates, revenues, amortization of deferred pension and OPEB costs, SERP, stock compensation, update adjustment to sync up transformers excluded from the FERC formula rate, forensic investigation of grant funded projects, general advertising expense, property tax expense, depreciation expense, interest synchronization, base cost of fuel and purchased power, payroll expense adjustment, amortization of 2010 severance costs, D&O liability insurance, annual incentive compensation, fossil non plant maintenance expense, EEI dues, depreciation rates, special ratemaking treatment for impact of APS' acquisition of SCE's ownership interest in Four Corners units 4 and 5.
- ◆ *Project Member* in the review of Tucson Electric Power Company's General Rate Application. Issues addressed by Larkin & Associates included: Sahuarita-Nogales Transmission Line, Working Capital, Cash Working Capital – Lead Lag Study, Prepaid Directors and Officers' Liability Insurance, Fuel Inventory, UniSource Energy Headquarters Building, Sahuarita-Nogales Transmission Line Amortization Expense, Incentive Compensation (PEP) Program Expense, Overhaul and Outage Expense, Interest Synchronization, Base Cost of Fuel and Purchased Power, Rate Case Expense, Directors and Officers' Liability Insurance, Edison Electric Institute and Industry Association

Dues, Property Tax Expense, Property Tax and Depreciation Expense – New Headquarters Building, Other Operating Revenue: Reimbursed Operating Expenses for Springerville Units 3 and 4, Springerville Unit 1 Levelized Expense, Day Nite Design Branding/Marketing/General Corporate Advertising, Lime Expense, Depreciation Rates, Post-Test Year Plant, ADIT – Impact of Net Operating Loss Carryforward Attributable to Tax Depreciation, and Green Watts.

- ◆ *Project Member* in the review of Ohio Power Company and Columbus Southern Power Company’s capacity charges. Issues addressed by Larkin & Associates included: Return on Equity and Rate of Return; CWIP; Plant Held for Future Use; Cash Working Capital; Prepayments; ADIT; Operating and Maintenance expense; Payroll and benefits for eliminated positions; AEP 2010 Severance program cost; Income Tax expense; Capacity equalization revenue; Ancillary Services revenue; Energy sales margin and Ancillary Services Receipts; and Proof of service.
- ◆ *Project Member* in the review of South Carolina Electric & Gas’ rate request. Issues addressed by Larkin & Associates included: Electric Weather Normalization Adjustment (E-WNA), Storm Reserve Fund, Storm Insurance Premiums, and Federal Income Tax Expense – Impact from §199 Deduction for Domestic Production Activities.
- ◆ *Project Member* in the review of Dominion North Carolina Power’s rate request. Issues addressed by Larkin & Associates included: Impact of Nucor’s recommended rate of return, normalize expense for obsolete inventory write-offs, purchased power demand expenses – adjust for PJM capacity rate, annual incentive plan expense, emission allowance impairment, Bear Garden costs after commercial operation date, costs associated with plant abandonment, Company requested regulatory assets for plant abandonment and emission allowance write-off, voluntary separation program costs, income tax expense – impact of operating expense adjustments, and income tax expense – interest synchronization.
- ◆ *Project Member* in the review of Commonwealth Edison Company’s reconciliation of its formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: ADIT related to operating reserves – accrued vacation pay, merger costs, plant additions for new business and billing determinants, and carrying costs.
- ◆ *Project Member* in the review of Ameren Illinois Company’s reconciliation of its formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: deduct accrued vacation from rate base, FIN-48 – rate base treatment of uncertain tax positions, federal investment tax credit, estimated ADIT impact from tax over book depreciation on 2012 plant additions for bonus tax depreciation, corporate “branding” and E-Store expense, image building advertising – “Focused Energy. For Life”, image building corporate sponsorships in Account 930.1, impact of changes in State Corporate Income Tax Rate on deferred State Income Tax expense, use of average calendar year rate base for annual reconciliations, and carrying cost for under- or over-collected balances.
- ◆ *Project Member* in the review of Duke Energy Inc.’s request for approval of an ongoing review progress report to reflect costs incurred for its IGCC Generating Facility. Issues addressed in testimony include: Total project cost – estimating, recovery and disallowance; cost recovery and

disallowance – the timing issue; cost recovery and disallowance – the AFUDC and CWIP issues; accounting, tax and ratemaking implications of in service criteria and timing; and elimination of deferred tax incentive.

- ◆ *Project Member* in the review of Delmarva Power & Light Company’s rate increase request. Issues addressed by Larkin & Associates in testimony included remove CWIP from rate base, cash working capital – revenue collection lag, CWC – expense adjustments, reliability closings – 2011 – accumulated depreciation and ADIT, reliability closings – January 2012 – accumulated depreciation and ADIT, reliability closings – February-June 2012 – accumulated depreciation and ADIT, credit facilities costs, rate case expense, remove AFUDC, uncollectible expense, postage expense, directors and officers liability insurance expense, non-executive incentive expense, pension expense, interest synchronization, expense for new customer information system, reliability investment recovery mechanism, and advance metering infrastructure ratemaking.
- ◆ *Project Member* in the review of Ameren Illinois Company’s formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: deduct accrued vacation from rate base, remove ADIT on deferred compensation, FIN-48 – rate base treatment of uncertain tax positions, federal investment tax credit, estimated ADIT impact from tax over book depreciation on 2011 and 2012 plant additions for bonus tax depreciation, “branding” expense, E-Store expense, athletic events expenditures, corporate sponsorship, Edison Electric Institute dues – lobbying expense, interest synchronization, use of average calendar year rate base for annual reconciliations, and carrying cost for under- or over-collected balances.
- ◆ *Project Member* in the review of Commonwealth Edison Company’s formula rate plan request. Issues addressed in testimony filed by Larkin & Associates included: accrued vacation expense, ADIT, FIN 48 - rate base treatment of uncertain tax positions, federal investment tax credit, estimated ADIT impact from tax over book depreciation on 2011 and 2012 plant additions for bonus tax depreciation, “branding expense”, E-store expense, athletic events expenditures, corporate sponsorship, EEI dues-lobbying expense, interest synchronization, and calculation of annual reconciliations.
- ◆ *Project Member* in the evaluation of the impact of the proposed acquisition of T.W. Phillips Gas and Oil Co. by LDC Holdings II LLC, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP on ratepayers in the Pennsylvania commonwealth. Issues addressed in Mr. Smith’s testimony included: Benefits Claimed by Applicants; Lack of Any Cost Savings Quantified by Applicants; Ownership Term, Potential Costs and Risks, T.W. Phillips’ ADIT, Merger Savings, Cost Savings, and Synergy-Related Benefits; Ratepayer Protections to which Applicants have Committed; Concerns Identified in the Secretarial Letter Dated January 5, 2011.
- ◆ *Project Member* in the review of Colorado Public Service Company’s rate increase request. Issues addressed by Larkin & Associates in testimony included: recovery of deferred costs related to the expiration of the Black Hills Wholesale Power Sales agreement, plant held for future use and corporate aircraft.

- ◆ *Project Member* in the review of Appalachian Power Company's rate request. Issues addressed by Larkin & Associates in testimony included: plant in service, construction work in progress, accumulated depreciation and amortization, materials and supplies other than coal inventory, customer deposits, accumulated deferred income taxes, coal inventory, cash working capital, accounts receivable factoring, pension asset net or related ADIT, average rate year, net VA retail jurisdictional distribution CWIP additions, capacity equalization payments, incentive compensation, stock based compensation, supplemental executive retirement plan, payroll tax expense, obsolete inventory, severance cost amortization, charitable contributions, interest synchronization, depreciation expense, property tax expense, central machine shop base salaries net of billings to affiliates, administrative expense for AEPSC Washington DC office, miscellaneous 2010 expense over charges, interest on prepaid pension asset, uncollectibles correction of amounts related to off-system sales margin, estimated future emissions allowance sales gain and income tax expense.
- ◆ *Project Member* in the review of Hawaiian Electric Company Inc.'s rate filing package. Issues addressed in testimony included: rate base for December 31, 2010 recorded amounts, adjust rate base for revised December 31, 2011 estimated amounts, other rate base components, cash working capital, fully reflect tax savings from major tax accounting change for repairs, vegetation management expense, remove labor expense for positions beyond the test year, generation department vacancies, emission fee, uncollectibles, community service activities expense, income taxes-interest synchronization, depreciation and amortization, depreciation expenses-D&O, customer deposit interest, employee benefits and pensions, average test year employees-vacancy adjustment, O&M associated with capital, A&G capitalization study, electric discount benefit replacement, cost containment measures, AES outside legal and reliability standards working group, bargaining unit wage increase, board of directors fees and expenses, software expense, renewable energy planning, airport distributed generation, environmental management information system, Honolulu Unit 9 overhaul. Kalaeloa and Barbers Point Harbor pipelines, city water, Clean Island Council, etc., and HECO's proposed deferred software cost recovery provision.
- ◆ *Project Member* in the review of Commonwealth Edison Company's application for a rate increase. Issues addressed in testimony filed by Larkin & Associates included: cash working capital, remove capitalized restricted stock from CWIP/Accumulated depreciation, reallocation of general and intangible plant, remove capitalize disallowances, adjustment for capitalized AIP over 100 percent of target, miscellaneous accumulated deferred income taxes, other cash working capital adjustments, reserves for accrued vacation and accrued incentive pay, net of related ADIT, jurisdictional ADIT on bad debt reserve, estimated ADIT impact from tax over book depreciation on 2011 distribution plant additions, treat SERP as a net pension asset component, miscellaneous expense disallowances, restricted stock expense, legal fees related to IRS dispute-sale of fossil generating units, remove photovoltaic pilot costs, depreciation expense adjustment from G&I reallocation, adjustment for three years of Illinois distribution tax credits recorded in 2010, interest synchronization, ComEd annual incentive compensation, Exelon Business Services Affiliated Incentive Compensation Expense charged to ComEd, Carrying cost on SERP ADIT as part of net pension carrying costs, use jurisdictional allocation for property tax expense based on same

methodology in Docket No. 10-0467, average calendar year rate base for annual reconciliations and carrying cost for under- or over-collected balances.

- ◆ *Project Member* in the review of Tucson Electric Power Company’s General Rate Application. Issues addressed by Larkin & Associates included: Depreciation Rates, Plant Held for Future Use, Luna Plant Facility, Luna Plant Facility Accumulated Deferred Income Taxes, “Implementation Cost Regulatory Asset”, Working Capital, Fuel Inventory, Accumulated Depreciation and ADIT Related to Cost of Removal, Accumulated Depreciation Related to Unauthorized Depreciation Rate Changes, Miscellaneous Accumulated Deferred Income Tax, Account 190, Other Deferred Credits, Customer Care & Billing System, Springerville Unit 1, Luna Facility Depreciation and Property Tax Expense, San Juan Coal Contract, Bad Debt Expense, Edison Electric Institute Dues, Incentive Compensation, Supplemental Executive Retirement Program Expense, Workers’ Compensation Expense, Short-Term Sales, Wholesale Trading Activity, Gain on Sale of SO2 Emission Allowances, Property Tax Expense Interest Synchronization, Depreciation Rates Adjustment, Customer Care & Billing System, Markup Above Cost for Charges from Affiliate, Southwest Energy Services, PPFAC Adjustment, Postage Expense, Miscellaneous Service Revenue, Cash Working Capital, Normalize Affiliate Charges to TEP, Legal Expense Related to Motion to Amend Decision No . 62103, Legal Expense Related to California Proceedings, West Connect Charges Related to Regulatory Asset, Other TEP Changes to Operating Income and Rate Base, Purchased Power and Fuel Adjustment Clause, TEP’s Historical Misuse of Previous Fuel Adjustment Mechanism, Staffs Proposed PPFAC, TEP’s Proposed PPFAC , Costs to Be Included in the PPFAC, Credits to PPFAC Costs Effective Date for PPFAC, PPFAC Forward-Looking and True-Up Components, Carrying Costs on PPFAC bank balance, Filing and Reporting Requirements, Whether Sharing and Cap Provisions Should be Imposed, and Requirement for Commission approval of PPFAC, rate changes.
- ◆ *Project Member* in the review of Appalachian Power Company’s Application for an increase in rates. Issues addressed by Larkin & Associates included: Self-Funded Reserve Accruals, Rate Base Update, Materials and Supplies, Customer Deposits, Deferred Fuel Balance, Accumulated Deferred Income Taxes, Prepaid Pension Asset, Fuel Stock Inventory, Plant Held for Future Use, Accounts Receivable Factoring, Mountaineer Carbon Capture Demonstration Project, Blanket Funded Capital Projects, Third Party Transmission Revenue, Capacity Equalization Expense, Environmental Consumables and Allowances Expense, Transmission Equalization Expense Credit, Transmission Reliability Expense, Distribution Reliability Expense, Distribution Reliability Expense, PJM Administrative and Ancillary Fees, Emission Allowances, Edison Electric Institute Dues, Obsolete Inventory, Interest Synchronization, New Source Review Settlement, Pension Expense, Interest on Customer Deposits, Depreciation Expense, Property Tax Expense, Legal Expense Related to AEP Subsidiaries, Charitable Contributions, and Stock Awards.
- ◆ *Project Member* in the review of Arizona Public Service Company’s Application for an Interim Increase in rates. Issues addressed by Larkin & Associates included: the interim rate relief requested by APS, criteria for interim rate relief, ordinary regulatory law does not justify APS’ requested interim rate relief, alleged emergency circumstances, whether APS requires an interim rate increase during the processing of its general rate case, an alternative basis for determining an

amount of interim rate increase for APS should the Commission be inclined to grant an increase, and rate design.

### **Education**

- ◆ Walsh College, Troy, MI, Master of Science: Accounting, March 2017
- ◆ Schoolcraft College, Livonia, MI, Associates Degree: Accounting, December 2007
- ◆ Madonna University, Livonia, MI, Bachelor of Arts: Social Sciences, 1998

### **Relevant Prior Experience**

From 2003 – 2006, Ms. Bisdorf held various accounting positions where she dealt with accounts receivable, accounts payable and bank reconciliations, along with assisting in general office duties.

### **References**

Meade Browder  
Office of the Attorney General, 900 East Main Street, Richmond, VA 23219  
(804) 225-4337

Lynne White  
Tom White  
West Virginia Consumer Advocate Division, 723 Kanawha Blvd, East, Charleston, WV 25301  
(304) 558-0526

Richard Sobolewski  
State of Connecticut  
Office of Consumer Counsel, 10 Franklin Square, New Britain, Connecticut 06051-2644  
(860) 827-2900

Larry Cook  
Kent Chandler  
Office of Rate Intervention, 1024 Capital Center Dr., Suite 200, Frankfort, KY 40601  
(502) 696-5300

## Ms. Jaye M. Kain

### Project Administrator & Analyst

Ms. Jaye M. Kain has over 20 years of business experience. Her background, which includes a blend of experience in project administration and management, training, scientific research, and grant writing, provides her with a unique perspective from which to manage investigations and evaluate their findings. Her communication skills make her a natural facilitator for the assimilation of data produced by seemingly disparate specialties.

Ms. Kain holds one Bachelor's degree in Environmental Geoscience and a second Bachelor's degree in Geology from Edinboro University of Pennsylvania. She also holds a Master of Science in Geology from the University of Michigan.

In the conduct of comprehensive and focused management and operations audits, Ms. Kain manages the Schumaker & Company project platform built to address both technical and administrative issues during the course of any project. To this end, Schumaker & Company is dedicated to ensuring that a thorough, detailed work plan is developed and executed, and that the project is completed on schedule, within budget. Ms. Kain provides Schumaker & Company with analytical support for diagnostic review of functional areas and in-depth analyses of pre-identified project issues. Analytical work performed on Schumaker & Company projects can be robust and fit for purpose, but Ms. Kain's ability to quickly adapt and respond to changing business focus helps projects stay the course.

Combining Internet/computer technology, Schumaker & Company developed a package of tools which enhanced collaboration with document management and issue tracking. Ms. Kain uses conventional, as well as the Schumaker & Company proprietary, project management and control tools and techniques to maintain data integrity, track interview and information requests, establish specific consultant and client interview times and confirmations, send information requests and reports electronically, and organize document filing/retrieval through a built-in cross-referencing system between the database and paper files.

Arizona Public Service Company  
Cobra Pipeline  
Dayton Power & Light Company  
Duke Energy Indiana, Kentucky, and Ohio  
El Paso Electric Company  
Equitable Gas Company/EQT  
Jersey Central Power & Light  
Michigan Public Service Commission  
National Fuel Gas Distribution Corporation

Nova Scotia Power Incorporated  
Orwell-Trumbull Pipeline  
Pennsylvania-American Water Company/American Water  
PECO Energy Company/Exelon  
Philadelphia Gas Works  
Philadelphia Water Department  
Tennessee-American Water Company/American Water  
Toledo Department of Public Utilities  
Water Services Corporation of South Carolina



## VIII. Conflict(s) of Interest Disclosure

Neither Schumaker & Company nor any of its consultants have conducted any assignments, such as management/operations/technology audits, storm review, fuel adjustment clause, audit preparation services, etc., within the last five years on behalf of any electric, gas, water, or telephone utilities under the jurisdiction of the New York State Public Service Commission, except Long Island Power Authority, which Schumaker & Company performed a safety program assessment in 2017, nor have they ever performed assignments for CECONY, O&R, NYSEG, and RG&E, nor any of their affiliates.

Nor have we performed work for other organizations associated with the utility industry in New York State, except we did complete an assignment between May 2012 and August 2013 that involved ten consultants over roughly 3,595 hours to conduct a comprehensive management audit of National Fuel Gas Distribution Corporation (NFGDC) for the New York State Public Service Commission.

No former employees of the New York State Department of Public Service (NYSDPS) are part of our proposed project team.

Schumaker & Company agrees that neither it nor any of its affiliates or principals or employees will perform any work for CECONY, O&R, NYSEG, and RG&E or their affiliates during the course of the audit.



## IX. References

### Schumaker & Company

Descriptions of selected comprehensive management, operations, and technology audit projects involving electric and gas utilities are incorporated into our proposal response. We urge you to call the references in this selected projects list to obtain corroborating feedback regarding our strong commitment to independent objectivity and superior results. Other utility references can be provided upon request.

#### *Arizona Public Service Company*

*July 2016 –December 2016*

Phoenix, AZ



Mr. Eric Van Epps  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

(602) 364-1072  
[evanepps@azcc.gov](mailto:evanepps@azcc.gov)



Ms. Kerri Carnes  
Arizona Public Service Company  
400 North 5<sup>th</sup> Street  
Phoenix, AZ 85004

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#### **Team: Dennis Schumaker, Patricia Schumaker, and Jaye Kain**

Assisted Arizona Corporation Commission (ACC) in the matter of a fuel and purchased power procurement audit of the Arizona Public Service Company, which included an audit of APS fuel clause filings and APS' policies, practices, procedures, rules, accounting practices, and cost allocations, including reports, audits, analyses, and opinions of third party entities, agencies, and auditors who have reviewed relevant aspects of APS' business operations. Focus areas included: coal costs and plant operations, gas for electric power production, nuclear fuel expense, purchased power expense and sales for resale, fuel clause computations, and fuel clause related policies, procedures, rule, cost allocations and manuals. This assignment involved three consultants over roughly 352 hours during a 4-month effort, for a total project cost of approximately \$94,866.

#### *Orwell-Trumbull Pipeline Company and Cobra Pipeline Company*

*November 2016 –May2017*

Willoughby, Ohio



Mr. Roger Sarver  
Public Utilities Commission of Ohio  
180 East Broad Street, 3rd Floor  
Columbus, Ohio 43215 3793

(614) 466-7647  
[roger.sarver@puco.ohio.gov](mailto:roger.sarver@puco.ohio.gov)

#### **Team: Patricia Schumaker, Dennis Schumaker, Julia Bodamer, and Jaye Kain**

Assisted the Public Utilities Commission of Ohio (PUCO) in an investigative audit of all pipeline companies owned or controlled by Richard Osborne, specifically Orwell-Trumbull Pipeline Company and Cobra Pipeline Company, and their affiliates that are subject to PUCO's jurisdiction. The focus of this investigative audit focused on examining the Companies' structure, functions, affiliates, and related party transactions, and operating procedures, including financial management. This assignment involved three consultants over roughly 300 hours during a seven-month effort, for a total project cost of approximately \$64,742.

**Philadelphia Gas Works**

Philadelphia, PA

**October 2014 – August 2015**

Mr. Nathan Paul, Audit Supervisor  
Bureau of Audits, Pennsylvania Public Utility Commission  
3rd Floor East, Commonwealth Keystone Building  
400 North Street, Harrisburg, PA 17120

(717) 214-8249  
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Mr. Nicholas J. Vaccarino, Director Strategic Development  
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**Team: Patricia Schumaker, Dennis Schumaker, Lee Burgess, Joseph DeFuria, D. Kerry Laycock, Martha King, Robert Rosenkoetter, Gail Stopar, and Jaye Kain, plus Milligan, LLC**

Assisted the Pennsylvania Public Utility Commission (PaPUC) in a stratified management and operations audit of Philadelphia Gas Works (PGW) in 2015 and also 2008. The primary focus was the business components of PGW that are subject to regulation by the PaPUC, specifically any functions supporting PGW service production and delivery, whose costs are borne ultimately by Pennsylvania ratepayers. The objectives included the determination of what improvements, if any, can be accomplished in the management and operations of PGW pursuant to Section 522(b) of the Public Utility Code 66 Ps. C.S. §522(b). Specifically, Schumaker & Company looked for economies, efficiencies, or improvements which benefit PGW and its ratepayers. In doing so, we identified which economically practical opportunities for cost saving measures could be instituted. This audit consisted of a three-step study process, including a diagnostic review that assessed the condition of each functional area or business unit against evaluative criteria or expected business practice and an in-depth analysis of pre-identified areas or issues. This assignment involved thirteen consultants over roughly 2,298 hours during a 10-month effort, for a total project cost of approximately \$570,326.

**Jersey Central Power & Light**

Morristown, New Jersey

**June 2010 – June 2011**

Mr. Dennis J. Moran, Director, Division of Audits  
Mr. Art Gallin  
Mr. Gary Schmidt  
State Of New Jersey, Board of Public Utilities  
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Mr. Larry Sweeney, Rates & Regulatory Affairs –NJ  
Mr. Santino (Sonny) Fanelli  
Mr. Jim O'Toole  
Jersey Central Power & Light Co  
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**Team: Patricia Schumaker, Dennis Schumaker, Lee Burgess, Eugene Johnson, D. Kerry Laycock, Robert Rosenkoetter, David Vondle, Gail Stopar, and Jaye Kain**

Assisted the New Jersey Board of Public Utilities in an audit of the affiliated transactions between Jersey Central Power and Light (JCP&L) and its affiliates, and a comprehensive management audit of JCP&L. Task areas included an examination of affiliate relationships and cost allocation methodologies, executive management and corporate governance, organization structure, human resources, strategic planning, finance, accounting and property records, cash management, procurement and purchasing of energy, distribution and operation management, extensions and upgrades to provide regulated services, clean energy, market conditions, contractor performance, customer service, external relations, support services, and a review of actions taken by JCP&L regarding prior audits. As part of the audit, Schumaker & Company reviewed and assessed affiliate cost allocation methodologies to determine accounting and allocation procedures for separating the costs of inter-company transactions. Analysis determined if current accounting and allocation procedures were equitable, fair, and did not favor certain affiliates over JCP&L and its ratepayers. Additionally, examination assessed the electric generation policies, distribution policies, and assignment strategies of JCP&L and its affiliates. This assignment involved nine consultants over roughly 2,944 hours for a total project cost of approximately \$594,720.

**Equitable Gas Company***January 2009 – May 2010*

Pittsburgh, Pennsylvania



Mr. George Dorow, Audit Supervisor  
 Pennsylvania Public Utility Commission  
 Bureau of Audits – Western Region, U-PARC Bldg., A-6  
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Mr. Robert Narkevic, Project Coordinator  
 Equitable Gas Company  
 225 North Shore Drive, Pittsburgh, PA 15212-5861

(412) 395-3248  
[rnarkevic@eqt.com](mailto:rnarkevic@eqt.com)

**Team: Patricia Schumaker, Dennis Schumaker, Lee Burgess, Kerry Laycock, Julia Bodamer, Robert Rosenkoetter, Gail Stopar, and Jaye Kain**

Assisted the Pennsylvania Public Utility Commission in a management and operations audit of Equitable Gas Company (EGC), a subsidiary of EQT Corporation, and EGC's relationship with its affiliates. The primary focus was the business components of EGC still subject to regulation by the PaPUC. Specifically, we addressed EGC service delivery and production, whose costs are borne ultimately by Pennsylvania ratepayers. The objectives included determination of possible improvements for the management and operations of EGC pursuant to Section 522(b) of the Public Utility Code 66 Pa. C.S. §522(b). This assignment involved eight consultants over roughly 2,312 hours during an 11-month effort, for a total project cost of approximately \$492,584.

**PECO Energy Company***June 2006 – August 2007*

Philadelphia, Pennsylvania



Mr. John Clista, Manager  
 Bureau of Audits, Pennsylvania Public Utility Commission  
 3rd Floor East, Commonwealth Keystone Building  
 400 North Street, Harrisburg, PA 17120

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Mr. Richard A. Schlesinger  
 Sr. Rate Specialist & Regulatory Process Lead  
 PECO Energy Company, Regulatory & Governmental Affairs  
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**Team: Patricia Schumaker, Dennis Schumaker, Julia Bodamer, Lee Burgess, D. Kerry Laycock, Martin Murphy, Robert Rosenkoetter, Siegfried Guggenmoos, Gail Stopar, and Jaye Kain**

Assisted the Pennsylvania Public Utility Commission (PaPUC) staff in a stratified management and operations audit of PECO Energy Company. This audit consisted of three phases. The first involved a diagnostic review that assessed the condition of each functional area or business unit against evaluative criteria or expected business practice. While this review was primarily limited to determining if appropriate management controls, systems and processes are in place, it was of sufficient scope to identify significant problems requiring additional focused analysis. The second phase entailed an in-depth analysis of pre-identified areas or issues. These analyses were of sufficient depth to present specific recommendations for changes in combination with projected costs and potential dollar savings or other quantifiable benefits. The third phase constituted an in-depth, focused analysis of two issues (emergency response and GIS) resulting from the diagnostic review phase. This assignment involved ten consultants over roughly 4,064 hours during a 13-month effort for a total project cost of approximately \$843,112.

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## Larkin & Associates

References for Larkin & Associates for specific projects that demonstrate our capabilities to perform the work described herein are:

- Project Title:**           **Management/Performance and Financial Audit of the Alternative Energy Recovery Rider of Duke Energy Ohio, Inc.**
- Completion Date:       2016  
 Project Manager:       Ralph C. Smith  
 Key Participants:       Ralph C. Smith, Mark S. Dady  
 Contact Name:          Mahila Christopher  
 Organization:          Public Utilities Commission of Ohio  
 Address:                180 East Broad Street, Columbus, OH 43215-3793  
 Telephone No.:         (614) 728-3954
- Project Title:**           **Management/Performance and Financial Audits of the FAC of the Ohio Power Company**
- Completion Date:       2015  
 Project Manager:       Ralph C. Smith  
 Key Participants:       Ralph C. Smith, Mark S. Dady  
 Contact Name:          Tamara Turkenton and Chuck Goins  
 Organization:          Public Utilities Commission of Ohio  
 Address:                180 East Broad Street, Columbus, OH 43215-3793  
 Telephone No.:         (614) 466-1825 and (614) 728-2263
- Project Title:**           **Regulatory Compliance Audit of the 2013 Distribution Investment Rider (DIR) of Ohio Power Company, d/b/a AEP-Ohio**
- Completion Date:       2014  
 Project Manager:       Ralph C. Smith  
 Key Participants:       Ralph C. Smith, Mark S. Dady, Dawn Bisdorf  
 Contact Names:         Doris McCarter  
 Organization:          Public Utilities Commission of Ohio  
 Address:                180 East Broad Street, Columbus, OH 43215-3793  
 Telephone No.:         (614) 466-1825 and (614) 728-2263
- Project Title:**           **Appalachian Power Company Biennial Review**
- Completion Date:       2014  
 Project Manager:       Ralph C. Smith  
 Key Participants:       Ralph C. Smith, Mark S. Dady, Dawn Bisdorf  
 Contact Names:         Meade Browder  
 Organization:          Virginia Office of the Attorney General – Division of Consumer Counsel  
 Address:                900 East Main Street, Richmond, VA 23219  
 Telephone No.:         (202) 339-6347

**Project Title: Management/Performance and Financial Audits of the Fuel and Purchased Power Rider and the Alternative Energy Rider of the Ohio Power Company**

Completion Date: 2014  
 Project Manager: Ralph C. Smith  
 Key Participants: Ralph C. Smith, Mark S. Dady  
 Contact Name: Tamara Turkenton, Chuck Goins, and Craig Smith  
 Organization: Public Utilities Commission of Ohio  
 Address: 180 East Broad Street, Columbus, OH 43215-3793  
 Telephone No.: (614) 466-1825 and (614) 728-2263

**Project Title: Management/Performance and Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company**

Completion Date: Audit 1: 2010, Audit 2: 2011, Audit 3: 2012  
 Project Manager: Ralph C. Smith  
 Key Participants: Ralph C. Smith, Mark S. Dady  
 Contact Name: Tamara Turkenton, Vic Gallina (since retired)  
 Organization: Public Utilities Commission of Ohio  
 Address: 180 East Broad Street, Columbus, OH 43215-3793  
 Telephone No.: (614) 466-1825

**Project Title: In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company**

Completion Date: 2012  
 Project Manager: Ralph C. Smith  
 Key Participants: Ralph C. Smith, Dawn Bisdorf  
 Contact Names: Dan Johnson  
 Organization: Public Utilities Commission of Ohio  
 Address: 180 East Broad Street, Columbus, OH 43215-3793  
 Telephone No.: (614) 644-7642

**Project Title: Petition of Indiana Michigan Power Company for Authority to Increase its Rates and Charges for Electric Utility Service**

Completion Date: 2012  
 Project Manager: Ralph C. Smith  
 Key Participants: Ralph C. Smith, Dawn Bisdorf  
 Contact Names: Damon Xenopoulos  
 Organization: Brickfield, Burchette, Ritts & Stone, PC, representing Steel Dynamics, Inc.  
 Address: 1025 Thomas Jefferson Street, NW, Eighth Floor, West Tower  
 Washington, DC 20007  
 Telephone No.: (202) 339-6347

**Project Title:** **Appalachian Power Company**  
 Completion Date: 2012  
 Project Manager: Ralph C. Smith  
 Key Participants: Ralph C. Smith, Mark Dady, Dawn Bisdorf  
 Contact Names: Meade Browder  
 Organization: Virginia Office of the Attorney General – Division of Consumer Counsel  
 Address: 900 East Main Street, Richmond, VA 23219  
 Telephone No.: (202) 339-6347

**Project Title:** **Appalachian Power Company and Wheeling Power Company both d/b/a American Electric Power Co.**  
 Completion Date: 2010  
 Project Manager: Ralph C. Smith  
 Key Participants: Ralph C. Smith, Mark S. Dady, Dawn Bisdorf  
 Contact Names: Tony Sade, Lynne White  
 Organization: West Virginia Consumer Advocate Division  
 Address: 7th Floor, Union Building, 723 Kanawha Boulevard, East, Charleston, WV 25301  
 Telephone No.: (304) 558-0526

**Project Title:** **Financial, Management, and Performance Audit of the FAC for Dayton Power and Light**  
 Completion Date: Audit 1: 2011, Audit 2: 2012, Audit 3: 2013, Audit 4: 2014, Audit 5: 2015, Audit 6: 2016  
 Project Manager: Ralph C. Smith  
 Key Participants: Ralph C. Smith, Mark S. Dady  
 Contact Names: Tamara Turkenton, Vic Gallina (since retired)  
 Organization: Public Utilities Commission of Ohio  
 Address: 180 East Broad Street, Columbus, OH 43215-3793  
 Telephone No.: (614) 466-1825

**Project Title:** **Georgia Power Company Rate Case**  
 Completion Date: 2013  
 Project Manager: Ralph C. Smith  
 Key Participant: Ralph C. Smith, Mark S. Dady, Dawn Bisdorf  
 Contact Name: Sheree Kernizan, Dan Walsh, Tom Newsome, Rob Trokey  
 Organization: Georgia Public Service Commission  
 Address: 244 Washington St., S.W., Atlanta, GA 30334  
 Telephone No.: 404-656-0994

**Project Title:** **Georgia Power Company Annual Surveillance Report Reviews**  
 Completion Date: 2013, 2014, 2015, 2016, 2017  
 Project Manager: Ralph C. Smith  
 Key Participant: Ralph C. Smith, Mark S. Dady, Dawn Bisdorf  
 Contact Name: Rob Trokey, Sheree Kernizan, Tom Newsome  
 Organization: Georgia Public Service Commission  
 Address: 244 Washington St., S.W., Atlanta, GA 30334  
 Telephone No.: 404-656-0994

## **X. Insurance Attestation**

Schumaker & Company understands that any business applying for permits, licenses, or contracts with New York State provide evidence of appropriate workers' compensation and disability benefits insurance coverage. We attest that we understand the mandatory insurance requirements and will provide documentation of such to the NYSDPS upon selection.

For example, our State Farm workers' compensation coverage includes not only Michigan, but also New York. We also have disability coverage in New York through the New York State Insurance Fund.



## XI. Minority-and Women-Owned Business (M/WBE) Enterprises

We do not have any certifications in New York; however, Schumaker & Company is a small business enterprise (SBE) according to federal guidelines, plus our firm is also certified as a disadvantaged business enterprise (DBE) under the US Department of Transportation guidelines and the Michigan Unified Certification Program (MUCP), as shown below, plus we are a woman-owned business enterprise (WBE) certified in Wayne County (DBE/Michigan), Pennsylvania (SDB), City of Philadelphia (WBE), New Jersey (WBE), North Carolina (HUB), California (WBE), Illinois (WBE), Delaware (WBE/SBF), and Wayne County Airport Authority (SBE/Michigan). Other certificates can also be provided upon request.

