

NYSEG and RG&E Implementation Plan  
Focused Operations Audit to Investigate the  
Income Tax Accounting of Certain New York  
State Utilities  
Case 18-M-0013

The table below provides an implementation plan summary.

Recommendation (Short Description)	Recommendation Adopted, modified or Rejected?	Modification/Rejection justification (3)	Auditor Priority ranking (5)	Start Date # Days after plan Approval or Oth. Meas. (6)	End Date (6)	Implementation Benefits, Risks, Costs, etc. (7)	Executive Officer (8)	Deliverable
III-1 Normalization internal control	Adopted	N/A - fully adopted	Med. 6-12 months	December-2023	May-2024	See applicable plan section	Kevin Donnelly, Dave Beber	Two unexecuted normalization checklists
III-2 ETR Analysis	Adopted with modifications	We will perform the requested action, but only on applicable property related activity.	Med. 6-12 months	April-2024	November-2024	See applicable plan section	Dave Beber	12 Mos Ended 4/30/23 ETR analysis limited to normalization impacting components.
III-3 Adequate staffing levels and expertise	Adopted	N/A - fully adopted	Med. 6-12 months	April-2024	May-2024	See applicable plan section	Kevin Donnelly, Dave Beber	Staffing assessment table
IV-1 Continue to prepare and update TBBS Calculations	Adopted	N/A - fully adopted	High 0-6 months	January-2024	February-2024	N/A due to existing practice	Dave Beber	Unexecuted written control 43848.
IV-2 Reconcile, at least annually, the TBBS to the general ledger	Adopted	N/A - fully adopted	High 0-6 months	January-2024	February-2024	N/A due to existing practice	Dave Beber	Unexecuted written control 43848.
IV-3 Maintain granular plant and book depreciation detail from the SAP Global Fixed Asset System	Adopted	N/A - fully adopted	High 0-6 months	January-2024	February-2024	See applicable plan section	April Theberge	Reconciliations from June 2021 confirming that the new automated US GAAP depreciation calculated by SAP is within 2% of our manual recalculation. Internal Audit Report from 2022.
IV-4 Avangrid maintenance of control documentation.	Adopted	N/A - fully adopted	High 0-6 months	March-2024	April-2024	N/A due to existing practice	Dave Beber	2022 control 43873 workbook
IV-5 Avangrid Management review & sign off on Control ID# 60002 - for the Provision to Return.	Adopted	N/A - fully adopted	Med. 6-12 months	March-2024	April-2024	N/A due to existing practice	Dave Beber	2022 control 39452 workbook
IV-6 Enhance review of (1) Tax Basis Balance Sheets, effective tax rates, (3) fluctuations in ADIT balances, and (4) SFAS 109 asset balances	Adopted with modifications	Applicable Board and Officers should be those of NYSEG and RG&E, rather than Avangrid	High 0-6 months	May-2024	December-2024	See applicable plan section	Dave Beber	2024 Report to Boards of Directors Providing 2023 Interim Adj. results, ETR, ADIT and F109 Flux and notable changes.
IV-7 Retain flow-through and normalized difference data and related deferred income tax data in PowerTax and/or PowerPlan Provision.	Adopted with modifications	The Companies modify this recommendation for the following reasons: (1) The cost of maintaining the system as recommended is cost prohibitive (2) The information in the system was only complete relative to the time it was produced. Since the Companies ceased using the system, additional activity relative to the balances of the system has occurred.	High 0-6 months	January-2024	June-2024	See applicable plan section	Dave Beber	Listing of Data responses that include relevant Powerplan and Powertax data as submitted in this case.
IV-8 Internal management coordination to ensure that the income taxes included in each Company's respective rate case filings do not contain errors which could result in a normalization violation.	Adopted	N/A - fully adopted	High 0-6 months	April-2024	May-2024	See applicable plan section	Kevin Donnelly, Dave Beber	The second recommendation III-1 deliverable; an unexecuted normalization checklist that considers current rate case activity.
V-1 Assess the costs, benefits, and necessity of a Private Letter Ruling from the IRS.	Adopted	N/A - fully adopted	High 0-6 months	January-2024	March-2024	See applicable plan section	Dave Beber	Private Letter Ruling assessment analysis (or analyses).
V-2 Continue to propose the current corrective method of amortizing the PTRAs and UTRAs regulatory asset balances in future electric and gas rate cases.	Adopted	N/A - fully adopted	Med. 6-12 months	March-2024	April-2024	N/A due to existing practice	Dave Beber	Straight line amortization tables of PTRAs and UTRAs balances to end of life.

## **Recommendation III-1:**

NYSEG and RG&E should implement internal controls that focus on (1) determining whether the appropriate amount of deferred federal income tax expense has been included in their rate cases to avoid a normalization violation, and (2) determining whether treatments in rate cases would cause an income tax normalization violation. Refer to Findings III-3 and III-4 (subfinding #'s 15, 16 and 17).

### **Priority:**

The auditor classified this as medium with an implementation timing of 6 to 12 months. Final report p. 49. The Companies intend to implement this recommendation within the recommended time frame, commencing upon Commission approval of the Implementation Plan.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation. The deliverables to achieve this recommendation are implementation of two controls, a Detection control and a Prevention control. The implemented controls are not considered SOX controls as they relate to the preparation of state regulatory proceedings.

Parts A and B Steps 1 and 2 address the concern raised in findings III-4, 15 and 16. Part A step 4 and Part B step 4 address the concern raised in Finding III-4, 17. Regarding the Part B plan, this would not take the form of a financial control due to its consideration of forward-looking data within a rate case filing. Implementation of deliverables for both Parts include normalization compliance checklists. The proposed implementation activities and deliverables are described below as well as in Appendix I

### **Implementation plan:**

Part A. The first deliverable consists of a Detection control implemented to assess whether the appropriate amount of deferred federal income tax has been included in rate cases in conformance with the normalization requirements. Specific actions:

1. Avangrid's Tax department develops and deploys a normalization checklist which includes depreciation/deferred tax, investment tax credit and excess accumulated deferred income tax sections.
2. Applicable Regulatory accounting personnel complete the normalization checklist for each applicable taxpayer (at the business area level). Checklist items include
  - a. Depreciation consistency assessment (ratemaking book depreciation compared to book depreciation assumed for deferred taxes;
  - b. Gross salvage normalization;
  - c. Proration of accumulated deferred income tax (ADITs)) for rate base purposes using the IRS proscribed formula;
  - d. Investment Tax Credit methodology conformity;
  - e. Average Rate Assumption Method conformity; and
  - f. Annual compliance filing (ACF) review of effective tax rate (ETR) property component to verify full normalization of all property book/tax differences other than Equity allowance for funds used during construction (AFUDC) with any deviations over the business area's materiality threshold explained.
3. Applicable Tax and Regulatory management review the checklist.
4. If a potentially non-conforming event is identified, Regulatory management will notify the Tax Department and applicable business area leads to provide any required notice to the NYPSC, and to take steps to remediate and correct the non-conformance relating to income tax treatment as necessary to avoid a normalization violation in a rate case filing.

Note that outside of this plan, as part of the Companies current rate cases, the Companies are working with NYDPS Staff to discuss actions they can take to facilitate the preparation and presentation of income tax related information in future rate case filings.

Part B. The second deliverable consists of a Prevention process implemented to assess whether the appropriate amount of deferred federal income tax has been included in rate cases in conformance with the normalization requirements. Specific actions:

1. Avangrid's Tax department develops normalization checklist which includes a depreciation/deferred tax, investment tax credit and excess accumulated deferred income tax section
2. Applicable Regulatory accounting personnel complete the normalization checklist prior to the filing of a rate case for each applicable taxpayer (i.e., Company - at the business area level).
3. Applicable Tax and Regulatory management review the checklist
4. If a potentially non-conforming event is identified, Regulatory management will notify the rate case executive and will implement any needed corrective actions prior to case submission.
5. During future rate case proceedings, if responsive testimony is filed by Staff or other stakeholders addressing the issue of income tax normalization, the Company will assess the potential implications and file responsive (rebuttal) testimony as necessary to support the Company's position on avoiding a normalization violation.

**Justification for modifications or rejection (if applicable):**

Not applicable.

**Recommendation implementation start and end dates:**

Start date: December 2023

End date: May 2024

**Implementation Benefits, Risks, Costs, etc. (If applicable):**

Implementation will utilize existing in-house resources, with minimal expected incremental costs, and thus, benefits are expected to exceed costs. See the analysis below.

<u>Quantifiable Impacts</u>		Regulatory	Tax	Total		
	<b><u>Costs</u></b>					
	Estimated annual hours	10	10	20		
	Estimated labor rate	100	100	100		
	Estimated annual cost	1,000	1,000	2,000		
	<b><u>Benefits</u></b>					
	Savings			0		
	Quantifiable Other than Savings			0		
	Net Costs to Implement			2,000		
<u>Other benefits (Not quantifiable)</u>	Will increase the likelihood that the amount of deferred federal income tax expense has been included in the Companies' rate cases to avoid a normalization violation and will help determine whether treatments in prospective rate cases would cause an income tax normalization violation. As the cost of such a theoretical violation is a contingent one, it would depend on the facts and circumstances applicable at that time. Because these considerations are not known at this time, the calculation of potential benefits is not considered quantifiable.					
<u>Risks</u>	A key risk is that the implemented controls will not detect that an improper amount of deferred taxes has been included in the Companies' rate cases and a normalization violation is not otherwise avoided. As the implementation plan itself is a mitigation plan, there is no additional mitigation consideration.					

**Final Deliverable(s)**

- 1) An unexecuted normalization checklist that considers historical case activity. Appendix I provides the draft checklist. The final checklist will be provided after receiving plan approval.
- 2) An unexecuted normalization checklist that considers current rate case activity. See Appendix I provides the draft checklist. The final checklist will be provided after receiving plan approval.

**Executive Sponsor(s), Project/Team Lead(s):**

- Kevin Donnelly                      SVP Planning & Regulatory
- David Beber                              VP Tax
- Jacob Hurwitz                          Senior Director Revenue Requirements
- Melissa Dorsey                          Director, Corp. Tax - Networks

## **Recommendation III-2:**

The Companies should conduct ETR analysis of its book accounting amounts and include this analysis as part of its key internal controls. Ratemaking treatments that lead to ETR impacts should be investigated as part of the Companies ETR review analysis. Specifically, the Avangrid Tax Department should evaluate the trend in the ETR analysis and should document, at least annually, such review and whether any of the book-tax differences that are impacting the ETR could be indicative of a federal income tax normalization violation. Refer to Finding III-2 (subfinding #'s 24 and 25) and Findings III-3 and III-4 (subfinding #10).

### **Priority:**

The auditor classified this as medium with an implementation timing of 6 to 12 months. Final report p. 49. The Companies will adopt in accordance with the recommended timing as more specifically described in the implementation plans for Recommendations III-1 and IV-6.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation with modifications. The recommendation modification is prompted by the recommendation requirement to consider information that would have no impact on normalization. We will perform the requested action, but only on applicable property related activity.

### **Implementation plan:**

See the implementation plans for Recommendation III-1, Part A, step 2f and Recommendation IV-6, step 1b.

### **Justification for modifications or rejection (if applicable):**

NYSEG and RG&E adopted full normalization effective with their respective business area 2015 rate cases. With this implementation, the Companies dramatically reduced their ETR complexity as they are now required to provide deferred taxes on all of their property related non-equity AFUDC book/tax differences. Therefore, to respond to this specific normalization related recommendation, the Companies will include in the normalization control identified in implementation plan III-1, Part A, step 6 annual review and documentation of the property related ETR to confirm conformity with full normalization (other than E. AFUDC).

### **Recommended implementation start and end dates:**

Start date: April 2024  
End date: November 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

Implementation will utilize existing in-house resources, with limited expected incremental costs, and thus, benefits are expected to outweigh the costs.



### Recommendation III-3:

NYSEG and RG&E should develop a process to review the Avangrid Tax Department resources dedicated to the Companies at least annually to ensure adequate staffing levels and expertise related to tax developments, tax accounting, and normalization issues. Refer to Findings III-3 and III-4 (subfinding #'s 21-30).

#### **Priority:**

The auditor classified this as medium with an implementation timing of 6 to 12 months. Final report p. 49. The Company will implement this plan the earlier of October 2024 or within 12 months of Commission acceptance of the implementation plan.

#### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation. For avoidance of doubt, this adoption will not result in the creation of a SOX control.

#### **Implementation plan:**

Each fall, Avangrid's Tax department will provide Regulatory with an implementation plan deliverable consisting of a table or list of individuals (both employees and contractors) assigned to review NYSEG and RG&E tax matters and report on any identified issues with existing staffing levels and expertise. The list will identify whether the assigned resource is new and if so will also provide years of relevant tax experience, education and any applicable normalization related training. The following table is an example of what would be provided each year.

<b>Responsible Position or Person (indicate if new hire)</b>	<b>Assignment (Indicate if new)</b>	<b>Experience</b>	<b>Education and Relevant Training</b>
Director – Corp. Tax, Networks	Oversee all NY income tax matters	20 years public accounting tax experience with specialty in property related tax methods	BA in Accounting from University of CT. MS in Taxation from Pace Univ. CPA in CT and New York
Income Tax Manager (Contracted Resource)	Manage (as provided for in the MSA agreement) all NY income tax deliverables (Regulatory, Accounting, etc.)	12 years of experience in public and industry tax accounting, including 8 years of experience with regulated entities.	B.S. in Accounting (USM), active CPA (ME - since Apr 2014; MA - since Feb 2021)
Director – Indirect Taxes	Oversee all NY indirect tax matters	20+ years Indirect Tax management experience, 13+ with Avangrid's Tax Dept.	B.S. Philosophy (Portland St. Univ) IPT Property Tax, Credits & Incentives, Appraisal for Ad Valorem Taxation Planning Committee member & presenter
Manager Indirect Taxes	Manage NY indirect tax deliverables (Non-Property Indirect Taxes)	14 Years of experience in public and industry corporate tax environment including	BS in Accounting (Virginia Tech) MS in Accounting (Virginia Tech)

		10 years experience focusing on SALT/ Indirect Taxes	CPA Certification (VA since 2010; WA since 2022)
Manager Indirect Taxes	Manage NY indirect tax deliverables (Property Tax)	35 years of utility experience including 29 years in utility property taxes including 20 years supporting Avangrid Networks' companies.	MBA from Thomas College, Waterville ME. Certified Maine Assessor (CMA). State of Maine Notary

**Justification for modifications or rejection (if applicable):**

Not applicable.

**Recommended implementation start and end dates:**

Start date: April 2024

End date: May 2024

**Implementation Benefits, Risks, Costs, etc. (if applicable):**

Implementation costs could vary depending upon whether additional resources are deemed necessary. At this time no incremental resources are proposed, and with current implementation costs being considered minimal, benefits are expected to exceed costs. The benefit of this exercise is to ensure adequate staffing resources are available. The risk of not doing this exercise is having vacancies in various tax positions.

	Regulatory	Tax	Total
<b><u>Cost</u></b>			
Estimated Hours	2	10	12
Labor Rate	100	100	200
Labor Cost	200	1,000	1,200
<b><u>Benefits</u></b>			
Quantifiable Savings	-	-	-
Quantifiable Other than Savings	-	-	-
	-	-	-
Net cost to Implement			1,200

**Final Deliverable(s)**

Staffing assessment table. See example above under Implementation Plan.

**Executive Sponsor(s), Project/Team Lead(s):**

- Kevin Donnelly            SVP Planning & Regulatory
- David Beber                VP Tax

- Jacob Hurwitz Senior Director Revenue Requirements
- Melissa Dorsey Director, Corp. Tax - Networks

## **Recommendation IV-1:**

NYSEG and RG&E should continue to prepare and update the tax basis balance sheets (“TBBS”). Refer to Findings III-3 and III-4 (subfinding #'s 6, 8 and 31).

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 50. The Company is already doing this and therefore implementation is immediate.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation.

### **Implementation plan:**

NYSEG and RG&E will continue to prepare and update the TBBS’s annually through key control 43848 which has been in effect since 2018 for tax return years since 2017. “Annually, the Tax Supervisor/Managers, NETNO or above recalculates the NETNO and NETSO current year ending Deferred Tax balance based on the PY ending Deferred Tax balance, including any known changes related to PTR adjustments, state rate changes, audit adjustments (if any), and any other changes as documented by the Tax Managers, NETNO and NETSO.”NYSEG and RG&E are part of the NETNO group and, as part of this control, each company submits its own TBBS.

### **Justification for modifications or rejection (if applicable):**

Not applicable.

### **Recommended implementation start and end dates:**

Start date: January 2024

End date: February 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

No implementation costs due to pre-existence of this control. The benefit is that it establishes the Companies’ regulatory commitment to annually perform this control which promotes timely detection of an incorrect deferred tax treatment in rates. The risk of not implementing is the control might otherwise be eliminated which could make it more difficult to detect an accounting and/or ratemaking deferred tax issue.

### **Final Deliverable(s)**

Unexecuted written control 43848 USGAAP TBBS Deferred TaxSum&Appr-NETNO&NETSO-AGR. This control is applicable for both NYSEG and RG&E.

### **Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                  Director, Corp. Tax - Networks

## **Recommendation IV-2**

NYSEG and RG&E should continue to reconcile, at least annually, the TBBS to the NYSEG and RG&E general ledgers. Refer to Findings IV-6 and IV-7 (subfinding #'s 10 and 11).

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 50. The Company is already doing this and therefore implementation is immediate.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation.

### **Implementation plan:**

The Companies will continue to do this as part of Key Control 43848. See Implementation plan for IV-1 for more details.

### **Justification for modifications or rejection (if applicable):**

Not applicable.

### **Recommended implementation start and end dates:**

Start date: January 2024

End date: February 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

No implementation costs due to pre-existence of this control. The benefit is that it establishes the Companies' regulatory commitment to annually perform this control which promotes timely detection of an incorrect deferred tax treatment in rates. The risk of not implementing is the control might otherwise be eliminated which could make it more difficult to detect an accounting and/or ratemaking deferred tax issue.

### **Final Deliverable(s)**

Unexecuted written control 43848 USGAAP TBBS Deferred TaxSum&Appr-NETNO&NETSO-AGR. This control is applicable for both NYSEG and RG&E.

### **Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                  Director, Corp. Tax - Networks

## **Recommendation IV-3**

NYSEG and RG&E should maintain the granular plant and book depreciation detail from the SAP Global Fixed Asset System that is used by the Companies to calculate their group depreciation adjustment. Refer to Finding IV-4 (subfinding #'s 3 through 8).

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 50. The Company is already doing this and therefore implementation is immediate.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation.

### **Implementation plan:**

Though no exceptions were noted in the consultants review of the group depreciation adjustments for 2016 & 2017 (page 22 of the report), the Company implemented several enhancements to its depreciation process to eliminate reliance on manual excel spreadsheets and increase automation. Effective in 2020, the group depreciation adjustment is calculated and posted directly in SAP without manual intervention. The results of the calculation are posted separately between life and cost of removal components. Additionally, the Company obtained from its depreciation consultant a bifurcation of the approved depreciation rates into life, removal and gross salvage components which the Company has loaded separately in SAP.

It is not clear from recommendation IV-3 at which level of granularity the consultant is suggesting the Company maintain book depreciation detail, however the Company notes that it is not possible to maintain accumulated depreciation at the individual asset level because a portion of the balance is related to non-surviving assets. The balance related to non-surviving assets results from variances between accrued cost of removal and actual net salvage inclusive of undepreciated gross investment at the time of individual asset retirements. Consistent with PowerPlant, the accumulated depreciation balance for each group of assets must be allocated to the gross investment of the individual assets at points in time and the allocation to each individual asset will vary as retirements and cost of removal is experienced in the asset group.

### **Justification for modifications or rejection (if applicable):**

Not applicable.

### **Recommended implementation start and end dates:**

Start date: January 2024

End date: February 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

No implementation costs\_ The configuration for the improvements was included as part of the customization for the UIL SAP roll-out which kicked off in July of 2019. The improvements were validated to be complete and accurate for the NY Companies in June of 2021. There was no incremental cost to the NY Companies.

The benefits to automating the improvements described above include real time posting of depreciation expense, increased granularity of information in SAP and elimination of reliance on manual excel spreadsheets. There were no risks to implementing the improvements as manual calculations and controls were maintained during the development and implementation period and continued one year after implementation.

**Final Deliverable(s)**

Reconciliations from June 2021 confirming that the new automated US GAAP depreciation calculated by SAP is within 2% of our manual recalculation. We included these reconciliations in documentation of our internal controls.

Internal Audit Report from 2022 in which Internal Audit noted the improvements and testing of the Networks Depreciation Process.

**Executive Sponsor(s), Project/Team Lead(s):**

- April Theberge                      VP / Control / Accounting & Process

## **Recommendation IV-4**

Avangrid should collect and maintain written evidence (e.g., tick marks, cross references, completed review list, etc.) that indicate the steps pursuant to Internal Control ID# 50001 – NETNO (i.e., Network entities which include NYSEG and RG&E) were completed. Refer to Findings IV-6 and IV-7 (subfinding #'s 5 through 7).

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 50. The Company is already doing this and therefore implementation is immediate.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation and applies it to the Control currently in existence.

### **Implementation plan:**

Control 43873 over the current and deferred tax provisions replaced Control 50001 and continues to be performed. As part of the control checklist the preparer confirms the mathematical accuracy of the Provision report, deferred Rollforwards and State provision report, this is evidenced with tick marks within the workpapers. The reviewer reperforms this step and reviews all the tick marks for accuracy and completeness. The tax manager and director evidence review of their controls by listing their name and the date the control was performed on the checklist. This is done prior to uploading the control to our internal control management system.

### **Justification for modifications or rejection (if applicable):**

Not applicable.

### **Recommended implementation start and end dates:**

Start date: March 2024

End date: April 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

No implementation costs due to the Companies currently performing this recommendation. The benefit of this control is that it formalizes the regulatory required collection, documentation and maintenance of evidence required to fulfill control execution responsibilities. The risk of not implementing this recommendation is that there could be a cessation of performing the recommended steps which could reduce broader control effectiveness and possibly impede the detection of an accounting and/or ratemaking error.

### **Final Deliverable(s)**

2022 control 43873 USGAAP Current-Def.-Provisions rev-NETNO/NETSO-AGR workbook.

### **Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                  Director, Corp. Tax - Networks

## **Recommendation IV-5**

An Avangrid Manager and/or Director should review and sign off on Internal Control ID# 60002 – NET North (i.e., part of the Network that includes NYSEG and RG&E) for the Provision to Return. Refer to Findings IV-6 and IV-7 (subfinding # 14).

### **Priority:**

The auditor classified this as medium with an implementation timing of 6 to 12 months. Final report p. 50. The Company is already doing this and therefore implementation is immediate.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation.

### **Implementation plan:**

The Companies will continue to prepare and review the Provision to Return at the entity level. Each Company's respective Provision to Return control package is reviewed and approved by a Tax Director as part of the completion of key control 39452.

### **Justification for modifications or rejection (if applicable):**

Not applicable.

### **Recommended implementation start and end dates:**

Start date: March 2024

End date: April 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

No implementation costs. The benefit of implementing this control is that it formalizes for regulatory purposes, the procedures performed to reduce the risk of errors within the provision to return calculation. The risk of not implementing this recommendation is that the control might get eliminated which could impede the Companies' ability to detect a customer rates impacting income tax issue. .

### **Final Deliverable(s)**

2022 control 39452 workbook.

### **Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                  Director, Corp. Tax - Networks

## **Recommendation IV-6**

The head of the Avangrid Tax Department, Controller, CFO, Board of Directors Audit Committee, and NYSEG and RG&E personnel in charge of ratemaking should enhance its review of (1) each Company's Tax Basis Balance Sheets for notable changes, (2) the components of each Company's effective tax rate calculations for notable trends, (3) fluctuations in each Company's ADIT balances, and (4) each Company's SFAS 109 asset balances and investigate any growth in those balances annually in order to identify potential normalization violations and to promptly implement related reporting and remediation measures. Refer to Finding III-3 (subfinding #'s 21-30) and Findings IV-6 and IV-7 (subfinding #15)

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 50. The Companies will implement this recommendation within three months of all required data being available. Typically, the data will be available in November of the year after the applicable TBBS tax year. For example, the 2023 tax return TBBS is expected be completed by November 15, 2024.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation with modifications.

### **Implementation plan:**

The head of Avangrid's Tax Department, Controller and the Companies' respective (i.e. NYSEG and RG&E) CFO, Board of Directors (BOD), and personnel in charge of ratemaking (collectively the Tax Matters Management and Governance Team or TMMGT) will enhance their review of (1) the applicable New York Company Tax Basis Balance Sheets for notable changes, (2) the components of each Company's effective tax rate calculations for notable trends, (3) fluctuations in each Company's ADIT balances, and (4) each Company's SFAS 109 asset balances and investigate material and unusual growth in those balances annually in order to identify potential normalization violations and to promptly implement related reporting and remediation measures. As part of this plan, Management will do the following:

1. The Vice President of Tax (or other individual responsible tax oversight) will annually report to the respective Boards of Directors, Controller, C.F.O. and Regulatory executive(s) in charge of NY ratemaking -
  - a. a summary of interim results, including Tax Basis Balance Sheet and Provision to Return (PTR) impacts. Included in this report will be any notable and material changes which will include
    - i. TBBS and/or PTR changes that impacted any of the individual NY Companies' earnings by \$3M or greater
    - ii. TBBS and/or PTR balance sheet changes that impacted the Companies Tax Regulatory Asset balances by \$3M of greater pre-gross-up
  - b. A componentized, by business area ETR analysis for the most recent actual ACF year compared to the corresponding components and totals assumed in rates.
  - c. an ADIT fluctuation analysis with notable trends discussed.
  - d. a SFAS109 Regulatory Asset fluctuation analysis with any material and unusual growth explained

Unless otherwise noted, such analysis will be completed at the legal entity level.

### **Justification for modifications or rejection (if applicable):**

Modification of reviewers - NYSEG and RG&E have officers and separate boards directly responsible for each company’s respective company financial reporting and it is these individuals rather than Avangrid’s Board of Directors Audit Committee and executives who should enhance their review.

Modification of information to be provided. The recommendation could be read to require the Companies to report **any** fluctuations in the SFAS 109 Regulatory or UITRA asset balances, rather than those of an unusual and/or material nature. Such level of reporting would be unduly burdensome to the Companies’ staff, executives and Boards and inconsistent with respective levels of responsibility. For example, the Companies’ management expects significant changes in the Companies SFAS 109 asset balances during periods of heavy construction and Equity AFUDC build-up. Providing updates on this and other routine changes (including those of a small impact) is considered unnecessary and inefficient; especially given the enhanced control procedures enacted elsewhere as part of the broader implementation plan. Therefore, the Company will review and investigate those changes in balance of a material and unusual nature, rather than changes of a routine and expected nature.

Modification of timing – The Companies will implement within 0-6 months as recommended, but the timing range should begin with when the required data becomes available in its entirety. For example, if the Companies’ TBBS calculations are completed by November 15, and this is the last required piece of information we would report the required information by the next board meeting.

**Recommended implementation start and end dates:**

Start date: May 2024  
End date: December 2024

**Implementation Benefits, Risks, Costs, etc. (if applicable):**

Implementation costs are limited to the incremental personnel costs to prepare and review the required information. The risk remains that errors occur at a level that fall below a detectable threshold, which could build up over an extended period of time.

	<u>Est. Hours</u>	<u>Labor Rate</u>	<u>Total</u>	<u>Comment</u>
<b><u>Cost</u></b>				
Board Reporting	8	100	800	
Incremental TBBS Review	4	100	400	
ETR Analysis	4	100	400	
ADIT Analysis	8	100	800	
Unfunded Reg.Asset Review	4	100	400	Overall estimated hours represents an expected value that could be higher or lower.
Labor Cost	28	100	2,800	
<b><u>Benefits</u></b>				
Quantifiable Savings	-	-	-	
Quantifiable Other than Savings	-	-	-	
	-	-	-	

**Final Deliverable(s)**

2024 Report to Boards of Directors Providing 2023 Interim Adj. results, ETR, ADIT and F109 Flux and notable changes.

**Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                 Director, Corp. Tax - Networks

## **Recommendation IV-7**

In the event the Commission ever reconsiders the full normalization approach and reverts back to flow-through tax accounting, NYSEG and RG&E should retain flow-through and normalized difference data and related deferred income tax data in PowerTax and/or PowerPlan Provision. Refer to Finding IV-4 (subfinding #'s 20 and 21).

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 50.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation with modifications.

### **Implementation plan:**

For the historical information, the Companies noted in their response to Tax-18-251, which is attached to this plan as Appendix II, that the Companies ceased using the PowerTax deferred tax module beginning in 2015. The system therefore excludes almost 10 years of book/tax difference activity associated with its vintaged book/tax difference records. The less than complete nature of information within the system, coupled with the exorbitant costs (identified in the analysis below as Option 1) to maintain it, make full adoption of the recommendation burdensome for the Companies and its customers. Since, as part of this investigation, and the discovery in Case 15-E-0283, et. al. the Companies gathered and submitted all available and relevant PowerTax and or PowerPlan documentation, we can agree to preserve this submitted information. The deliverable will be a tracking listing of applicable data requests, by case, with dates provided and specific reports identified, as well as confirmation that the Companies have complete copies of the response including the provided PowerPlan/PowerTax system reports.

### **Justification for modifications or rejection (if applicable):**

The Companies implementation modifies this recommendation for following reasons:

1. The cost of maintaining the system as recommended is cost prohibitive
2. The information in the system was only complete relative to the time it was produced. Since the Companies ceased using the system, additional activity relative to the balances of the system has occurred.

### **Recommended implementation start and end dates:**

Start date: January 2024

End date: June 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

The cost to maintain the PowerPlan system is estimated to be in the range of \$200,000 per year. As noted above, from a practical perspective, flow through tax accounting would need to be implemented prospectively. As such, the recommended maintenance of data within the cited legacy systems would produce no quantifiable benefit, therefore rendering the cost of preserving the system unnecessary.

	Option 1	Option 2			
	Keep Dormant System	Retire Dormant System & Save Output			
	Total	Total			
	\$000s	\$000s			
	<b>Cost (2024-2028)</b>				
	Software Licensing & Maint. Fees	1,200,000	-		
	Internal Labor @ 100 /hour	8,000	4,000		
	Total Cost	1,208,000	4,000		
	<b>Benefits</b>				
	Quantifiable Savings	-	-		
	Quantifiable Other than Savings	-	-		
		-	-		
	Net cost to Implement	1,208,000	4,000		

**Final Deliverable(s)**

Listing of Data responses that include relevant Powerplan and PowerTax data as submitted in this case.

**Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                  Director, Corp. Tax - Networks

## **Recommendation IV-8:**

The Companies respective Tax Departments and rate case teams should coordinate at the time of NYSEG's and RG&E's next rate case filings to ensure that the treatment of income taxes included in each Company's respective rate case filings do not contain errors which could result in a normalization violation. Refer to Findings IV-6 and IV-7 (subfinding #15).

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 50. The Companies' respective departments will coordinate as recommended immediately commencing with a plan to file their next respective rate cases.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation.

### **Implementation plan:**

The Companies respective Tax Departments and rate case teams will coordinate at the time of NYSEG's and RG&E's next rate case filings in order to ensure that the treatment of income taxes included in each Company's respective rate case filings do not contain errors which could result in a normalization violation. This will be accomplished via the execution of the control provided for in implementation plan III-1 Part B.

### **Justification for modifications or rejection (if applicable):**

Management is implementing as described within this entire implementation plan, a number of steps to enhance the achievement of required normalization outcomes, such that a potential future violation would be improbable. While such actions enhance the likelihood of avoiding a possible normalization violation, analysis of normalization compliance issues is complex, and there is no guarantee regarding a particular outcome from the Internal Revenue Service.

### **Recommended implementation start and end dates:**

Start date: April 2024  
End date: May 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

There is no separate analysis for this item since the implementation plan and deliverable is covered by the Recommendation III-1, Part B plan.

### **Final Deliverable(s)**

Same as the second recommendation III-1 deliverable; an unexecuted normalization checklist that considers current rate case activity. See Appendix I, which provides the draft checklist. The final checklist will be provided after receiving plan approval.

### **Executive Sponsor(s), Project/Team Lead(s):**

- Kevin Donnelly                      SVP Planning & Regulatory
- David Beber                         VP Tax
- Jeremy Euto                         VP Regulatory
- Melissa Dorsey                      Director, Corp. Tax - Networks

## **Recommendation V-1:**

This recommendation has one primary component that requires a determination whether a [normalization] Private Letter Ruling (PLR) request is necessary or beneficial and two contingent secondary components that would be required if the Companies determined they should pursue a PLR and obtain one. The primary recommendation reads

“NYSEG and RG&E should assess the costs, benefits, and necessity of a Private Letter Ruling from the IRS. In consultation with the Department of Public Service, NYSEG and RG&E should determine whether to seek a Private Letter Ruling. Refer to Finding III-1 (subfinding #15); Finding IV-8 (subfinding #'s 18 through 20); Finding V-2 (subfinding #'s 7 through 9); Findings V-3 and V-4 (subfinding #'s 7 through 12, 15 through 21 and 24 through 27); Finding V-6 (subfinding #'s 4 and 5); and Finding V-7 (subfinding #2). A PLR can help with providing clarification with regard to how to treat the three issues identified above with regard to the PowerTax Regulatory Asset. Risks in directing that a PLR should be sought including: (1) that the PLR would be drafted by the Company as an advocacy piece, not a neutrally and objectively worded request; and (2) that once the IRS ruling is issued, the results will need to be followed. The secondary recommendations are not presented due to the fact that as explained below, the Companies have determined that they should not pursue the PLR.

### **Priority:**

The auditor classified this as high with an implementation timing of 0 to 6 months. Final report p. 51. The Company has completed the implementation as part of this plan submission.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation.

### **Implementation plan:**

The Companies prepared an analysis that concludes a PLR is not necessary. This analysis includes consideration of input from NYDPS Staff and consultants. This conclusion is supported by the analysis set forth in the deliverable for this plan step.

### **Justification for modifications or rejection (if applicable):**

Not applicable.

### **Recommended implementation start and end dates:**

Start date: January 2024  
End date: March 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

No implementation costs (if the implementation plan is accepted as submitted).

### **Final Deliverable(s)**

Private Letter Ruling assessment analysis.

### **Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                    Director, Corp. Tax - Networks

## **Recommendation V-2:**

NYSEG and RG&E should continue to propose the current corrective method of amortizing the PTRA and UITRA regulatory asset balances in future electric and gas rate cases.

### **Priority:**

The auditor classified this as medium with an implementation timing of 6 to 12 months. Final report p. 52. The Company is already doing this and therefore implementation is immediate.

### **Conclusion as to Adopted, Modified or Rejected:**

The Company adopts this recommendation.

### **Implementation plan:**

NYSEG and RG&E will continue to propose the current corrective method of amortizing the PTRA and UITRA regulatory asset balances in future electric and gas rate cases.

### **Justification for modifications or rejection (if applicable):**

Not applicable.

### **Recommended implementation start and end dates:**

Start date: March 2024

End date: April 2024

### **Implementation Benefits, Risks, Costs, etc. (if applicable):**

No implementation costs.

### **Final Deliverable(s)**

Straight line amortization tables of PTRA and UITRA balances to end of life.

### **Executive Sponsor(s), Project/Team Lead(s):**

- David Beber                      VP Tax
- Melissa Dorsey                  Director, Corp. Tax - Networks

Appendix I  
Normalization Compliance Checklist(s) for Rate Cases

## Checklist to Review Most Recent Rate Case Normalization Considerations

For each applicable taxpayer (at the business area level) and with regards to their Public Utility Property, confirm:	Manager (Preparer) Regulatory Sign Off	Regulatory 2 <sup>nd</sup> Level Reviewer Signoff
<p>a. Depreciation consistency (book depreciation for recovery purposes and book depreciation assumed for deferred taxes is the same)</p> <p>Broader Consistency Rule conformity - The absence of an inconsistent procedure or adjustments which include the use of an estimate or projection of the taxpayer’s tax expense, depreciation expense, or reserve for deferred taxes under § 168(i)(9)(A)(ii), unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base (the “Consistency Rule”)</p>		
b. Gross salvage normalized		
c. Proration of ADITs for rate base purposes using the IRS prescribed formula		
d. Investment Tax Credit methodology conformity		
e. Average Rate Assumption Method conformity for any amortization of Protected Excess ADIT Amort.		

For each applicable taxpayer (at the business area level) and with regards to their Public Utility Property, confirm:	Manager (Preparer) Regulatory Sign Off	Regulatory 2 <sup>nd</sup> Level Reviewer Signoff
f. ACF review of ETR property component to verify full normalization of all property book/tax differences other than Equity AFUDC with any deviations over the business area's materiality threshold explained.		
g. If a potentially non-conforming event is identified, obtain Tax Department review and confirmation		
h. Regulatory management assesses whether formal notification to NYPSC is appropriate and whether to engage NYDPS Staff in discussions regarding event details and planned corrective action		

## Checklist to Review Prospective Rate Case Normalization Considerations

For each applicable taxpayer (at the business area level) and, with regards to their Public Utility confirm:	Manager (Preparer) Regulatory Sign Off	Regulatory 2 <sup>nd</sup> Level Reviewer Signoff
<p>a. Depreciation consistency (book depreciation for recovery purposes and book depreciation assumed for deferred taxes is the same)</p> <p>Broader Consistency Rule conformity - The absence of an inconsistent procedure or adjustments which include the use of an estimate or projection of the taxpayer’s tax expense, depreciation expense, or reserve for deferred taxes under § 168(i)(9)(A)(ii), unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base (the “Consistency Rule”)</p>		
b. Gross salvage normalized		
c. Proration of ADITs for rate base purposes using the IRS prescribed formula		
d. Investment Tax Credit methodology conformity		
e. Average Rate Assumption Method conformity for any amortization of Protected Excess ADIT Amort.		
f. ACF review of ETR property component to verify full normalization of all property book/tax differences other than Equity AFUDC with any deviations over the business area’s materiality threshold explained.		
g. If a potentially non-conforming event is identified, obtain Tax Department review and confirmation		

For each applicable taxpayer (at the business area level) and, with regards to their Public Utility confirm:	Manager (Preparer) Regulatory Sign Off	Regulatory 2 <sup>nd</sup> Level Reviewer Signoff
h. Regulatory management implements conforming case change(s)		
i. Reperform steps a. through f. (and steps g and h if necessary)		

18-M-0013

In the Matter of a Focused Operations Audit to Investigate the Income Tax Accounting of Certain New York State Utilities.  
Implementation Plan

Appendix II (page 1 of 2)

**Requesting Party:** Mark Dady  
**Request No.:** TAX-18-251 (18-M-0013)  
**Date of Request:** August 23, 2019  
**Response Due:** September 25, 2019  
**Date of Reply:** September 24, 2019  
**Respondent:** David Beber, Director – Corporate Tax  
**Subject:** TAX-18-094

**Questions:**

Refer to the response to TAX-18-094. This response states in part that the Company did not use the deferred tax module within PowerTax for the years 2015-2017, thus the Company could not provide the requested PowerTax reports for those years. However, TAX-18-094 requested that the Company identify and provide the plant-related tax basis balance sheets for each utility for each year 2012-2017, which were not provided. Instead, the Company provided copies of PowerTax Report 257 for 2012, 2013 and 2014 (by reference to DPS-Tax-42 Supplemental).

- a. For each year 2012 through 2017, please provide the requested tax basis balance sheets electronically in Excel with all formulas and calculations intact.
- b. Since the NYSEG and RG&E implemented PowerTax in 2012, please explain fully and in detail why the Company did not use the deferred tax module within PowerTax for the years 2015 through 2017.
- c. Pursuant to part "a", in lieu of using the deferred tax module within PowerTax, explain fully and in detail how the Company calculated its deferred tax computations during the period 2015 through 2017 and provide the related documentation. Show detailed calculations.

**Responses:**

- a. The Companies provided 2012 through 2015 tax basis balance sheets (TBBS) as part of the response to TMR-16-029-DPS-Tax-29, Case 15-E-0283 et.al. Attachments 1 and 2 of this response provide the 2016 TBBS files for NYSEG and RGE respectively. Attachments 3 and 4 of this response provide the 2017 TBBS files for NYSEG and RGE respectively.

In the Matter of a Focused Operations Audit to Investigate the Income Tax Accounting of Certain New  
York State Utilities.  
Implementation Plan

Appendix II (page 2 of 2)

- b. The Companies ceased using PowerTax deferred Tax beginning in 2015, concurrent with the cessation of using the Powerplant fixed asset module. Unlike the Powerplant fixed asset module (which directly interfaced with PowerTax deferred tax), the SAP fixed asset module was unable to provide the requisite book data at a level of granularity and degree of efficiency that was cost effective. As previously mentioned, this change did not impact the May 2016 through 2017 period as a result of the Companies adopting full normalization.
- c. See the response to part b above. The requested information is not readily available and therefore the Companies will supplement this response as soon as this information is obtained.