

## **Accounting and Tax Matters**

New York State Electric & Gas Corporation – Electric  
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Rochester Gas and Electric Corporation – Electric  
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### **Accounting Matters**

#### *Units of Property*

New York State Electric & Gas Corporation (“NYSEG”) and Rochester Gas and Electric Corporation (“RG&E” and together, the “Companies”) will separately identify a generic unit of property (Battery Storage Equipment) for FERC/PSC account 363 to accommodate the implementation of various required energy storage projects. A ten-year depreciation life has been associated with this account, as shown on Appendix Z.

#### *Capitalization of Payments Made to Third-Party Entities*

The Companies will capitalize and amortize / depreciate payments made to third-party entities for the installation and upgrade of equipment at facilities owned by these third-party entities when those installations and upgrades are required to support the completion of major capital projects at NYSEG or RG&E. Previously, the Companies’ Electric Businesses have treated comparable payments to these entities as an O&M cost. Staff and the Companies agree that the Companies should utilize an alternative accounting approach that capitalizes these types of project payments made to third-party entities when they are in excess of \$500,000.

The Companies’ Gas Businesses will continue to capitalize payments made to pipeline companies or other third parties for capital project costs consistent with past practice, including avoided capital costs at gate stations and local production taps. The Companies have identified one specific project where RG&E can eliminate a local production tap replacement that would have cost approximately \$415,000 with making a payment to a local producer to upgrade their well system at a cost of approximately \$130,000.

#### *Capitalization of Grid Management Enhancement Program (GMEP) costs*

The Grid Model Enhancement Project is a multi-year project which provides inventory of all distribution system endpoints in support of the Distributed System Implementation Plan (DSIP) efforts of the Companies. Traditional regulatory accounting would have the GMEP be expensed. However, this project can be capitalized because it provides benefits over an extended period of time, similar to the DSIP investments that it is related to. The revenue requirements reflect the capitalization of GMEP.

### *Gas Mains and Services*

The Companies will continue to capitalize, with the cost of new mains, the associated costs to tie existing services to the new mains. The Companies also will capitalize, with the cost of new services, the reconnection of customer house lines when services are replaced or relocated. These costs are not included in the Companies' O&M revenue requirements.

### *Computer Software Shared by NYSEG and RG&E*

To keep the accounting for computer software consistent between the two Companies, in situations where the cost of new or updated software which is shared between NYSEG and RG&E exceeds a \$500,000 threshold for one of the two Companies, the software is capitalized at both Companies. This approach has been reflected in the Capital and O&M amounts in this Joint Proposal.

### *NYSDOT Fiber Optic Permitting*

The NYSDOT beginning in 2020 started to demand NYSEG and RG&E pay certain permitting fees associated with capital projects that involve installation of fiber optic cable. Specifically, citing Transportation Corporations Law, Section 7 ("TCL §7"), NYSDOT wants to charge the Companies an annual occupancy and use fee for fiber optic installations within the New York State right-of-way. NYSEG and RG&E disagree with the requirement, as it appears that TCL §7 applies solely to "fiber optic utilities," and not to electric and gas utilities.

However, to the extent NYSDOT's fiber optic use and occupancy fees become necessary, either prospectively or retrospectively, the Companies will (i) capitalize the first-year fee imposed on new projects, as well as fees imposed retroactively on existing installations, and (ii) record the annual fees imposed on these projects in year two and beyond as O&M, subject to the Reconciliation/Deferral provisions identified in section XXIX (M) of the Joint Proposal.

### *Allowance for Recognition under International Financial Reporting Standards ("IFRS")*

To allow for the recognition of assets and liabilities under IFRS accounting similar to those allowed under GAAP, NYSEG and RG&E have the right to receive full compensation or obligation to return certain regulatory deferrals for the Customer Bill Credits, Vegetation Management Danger Tree and Reclamation deferrals and Revenue Decoupling Mechanism Deferrals independent of future demand or other contingent events, including in the event of no longer having a continuation of service.

Nothing in the above paragraph alters the right of the Companies to record regulatory assets and liabilities under Generally Accepted Accounting Principles.

### *AMI Installation-Related Service Wire Replacements*

During the implementation of AMI electric meters, the Companies may find that, for safety reasons, the electric service wire between the meter pan and the residential customer electric

panel box should be replaced. The Companies will replace the load-side service wire and charge the respective costs to capital instead of to O&M.

### **Tax Matters**

#### *2017 Tax Cuts and Jobs Act (Tax Act)*

The revenue requirement of the four Businesses reflects adjustments associated with the Tax Act, including amortizations of protected and unprotected Excess Accumulated Deferred Income Tax (“ADIT”) balances. The amortization amounts and periods are shown on Appendix AA.

#### *Excess ADITs Related to Pre 2018 balances*

The revenue requirement of the four Businesses Areas reflects the refunding of Excess Accumulated Deferred Income. The table below provides the relevant amortization.

<b>Business Area</b>	<b>Protected – Pre Rate Year 1</b>	<b>Protected – Other</b>	<b>Unprotected</b>
NYSEG Electric	1 Year	ARAM	3 Years
NYSEG Gas	3 Years	ARAM	10 Years
RG&E Electric	3 Years	ARAM	3 Years
RG&E Gas	3 Years	ARAM	10 Years

#### *Post 2017 Tax Savings Attributable to the Federal Tax Rate Decrease*

NYSEG Electric will amortize the income tax savings attributable to the post 2017 effects of the federal tax rate decrease (from 35 to 21%) over 1 year and NYSEG Gas, RG&E Electric and RG&E Gas will amortize their respective balances over 1.5 years starting from RY1.

#### *PowerTax Regulatory Asset*

The revenue requirement of the four Businesses reflects the recovery of the deferred PowerTax regulatory asset. The recovery period is over the residual portion of the average remaining book life for each respective Business determined in Cases 15-E-0283, et.al. Specifically, the NYSEG Electric PowerTax regulatory asset will be amortized over 23 years; the NYSEG Gas PowerTax regulatory asset will be amortized over 35 years; the RG&E Electric PowerTax regulatory asset will be amortized over 35 years; and the RG&E Gas PowerTax regulatory asset will be amortized over 30 years.

On January 11, 2018, in Case 18-M-0013, the Commission initiated a third-party audit of the Companies’ Power Tax and Unfunded Regulatory Asset balances. This audit is still ongoing. Staff and the Companies will work together to resolve any differences. Differences that cannot be resolved will be submitted to the Commission’s Alternative Dispute Resolution process for resolution. The Signatory Parties reserve all of their administrative and judicial rights to take and pursue their respective positions with respect to all issues, rulings, matters and decisions in

Case 18-M-0013. Final agreed-upon or Commission-ordered differences resulting from the Staff audit will be applied to the PowerTax Regulatory Asset and amortized over the remaining life.

*Normalization and Unfunded Income Tax Regulatory Assets*

The revenue requirement of the four Businesses reflects full tax normalization as of May 1, 2016; as adjusted in December 2019 to conform to the requirements of ASC-980-740-25. NYSEG and RG&E are authorized to maintain normalization of all federal and state book / tax temporary differences on their books and records except Equity AFUDC tax effects which will be part of the unfunded deferred tax provision consistent with the treatment prior to the implementation of full normalization. The Companies' revenue requirements treat the Unfunded Income Tax regulatory asset at each Business as began amortization over a 50-year period in the 2016 Rate Plan. Appendix AA illustrates the amortization of the unfunded balances to be over 46 years in this rate plan.

On January 11, 2018, in Case 18-M-0013, the Commission initiated a third-party audit of the Companies' Power Tax and Unfunded Regulatory Asset balances. This audit is still ongoing. Staff and the Companies will work together to resolve any differences. Differences that cannot be resolved will be submitted to the Commission's Alternative Dispute Resolution process for resolution. The Signatory Parties reserve all of their administrative and judicial rights to take and pursue their respective positions with respect to all issues, rulings, matters and decisions in Case 18-M-0013. Final agreed-upon or Commission-ordered differences resulting from the Staff audit will be applied to the Unfunded Income Tax Regulatory Asset and amortized over the remaining life.

*Tax Audits*

The Companies will defer the revenue requirement impact of all tax expense and associated interest recorded as the result of federal, state and local tax audits.