



October 31, 2022

In The Matter of the Petition of  
Public Service Electric and Gas Company  
for Approval of Changes in its Electric Tax Adjustment  
Credit and Gas Tax Adjustment Credit  
"2022 TAC Filing"

BPU Docket No. \_\_\_\_\_

***VIA BPU E-FILING SYSTEM & ELECTRONIC MAIL***

Carmen Diaz, Acting Secretary  
Board of Public Utilities  
44 South Clinton Avenue, 1st Floor  
P.O. Box 350  
Trenton, New Jersey 08625-0350

Dear Acting Secretary Diaz:

Enclosed for filing on behalf of petitioner Public Service Electric and Gas Company is the Petition, Testimony of Clifford Pardo and Stephen Swetz, and Supporting Schedules in the above-referenced proceeding.

Please be advised that workpapers are being provided via electronic version only.

Consistent with the Order issued by the Board in connection with In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic for a Temporary Waiver of Requirements for Certain Non-Essential Obligations, BPU Docket No. EO20030254, Order dated March 19, 2020, this document is being filed electronically with the Secretary of the Board and the New Jersey Division of Rate Counsel. No paper copies will follow.

Sincerely,

A handwritten signature in black ink that reads "Aaron I. Karp".

cc Attached Service List (E-mail only)

**BPU**

Robert Brabston  
Board of Public Utilities  
44 South Clinton Avenue  
9th Floor  
P.O. Box 350  
Trenton NJ 08625  
robert.brabston@bpu.nj.gov

**BPU**

Son Lin Lai  
Board of Public Utilities  
44 South Clinton Avenue  
9th Floor  
P.O. Box 350  
Trenton NJ 08625-0350  
(609) 292-2098  
son-lin.lai@bpu.nj.gov

**BPU**

Heather Weisband  
Board of Public Utilities  
44 South Clinton Avenue  
3rd Floor, Suite 314  
P.O. Box 350  
Trenton NJ 08625-0350  
Heather.Weisband@bpu.nj.gov

**DAG**

Pamela Owen  
NJ Dept of Law & Public Safety  
Division of Law, Public Utilities Section  
R.J. Hughes Justice Complex  
25 Market Street, P.O. Box 112  
Trenton NJ 08625  
Pamela.Owen@law.njoag.gov

**PSE&G**

Bernard Smalls  
PSEG Services Corporation  
80 Park Plaza-T10  
Newark NJ 07102-4194  
(973) 430-5930  
bernard.smalls@pseg.com

**Rate Counsel**

Maura Caroselli Esq.  
Division of Rate Counsel  
140 East Front Street  
4th Floor  
Trenton NJ 08625  
mcaroselli@rpa.nj.gov

**BPU**

Robert Glover  
Board of Public Utilities  
44 South Clinton Avenue  
3rd Floor, Suite 314  
P.O. Box 350  
Trenton NJ 08625-0350  
robert.glover@bpu.nj.gov

**BPU**

Paul Lupo  
Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton NJ 08625-0350  
paul.lupo@bpu.nj.gov

**BPU**

Michael Beck  
Board of Public Utilities  
44 South Clinton Avenue  
3rd Floor, Suite 314  
P.O. Box 350  
Trenton NJ 08625-0350  
michael.beck@bpu.nj.gov

**PSE&G**

Michele Falcao  
PSEG Services Corporation  
80 Park Plaza, T10  
P.O. Box 570  
Newark NJ 07102  
(973) 430-6119  
michele.falcao@pseg.com

**PSE&G**

Matthew M. Weissman Esq.  
PSEG Services Corporation  
80 Park Plaza-T10  
Newark NJ 07102-4194  
(973) 430-7052  
matthew.weissman@pseg.com

**Rate Counsel**

Christine M. Juarez  
Division of Rate Counsel  
140 East Front Street, 4th Flr.  
P.O. Box 003  
Trenton NJ 08625  
(609) 984-1460  
cjuarez@rpa.state.nj.us

**BPU**

Bart Kilar  
Board of Public Utilities  
44 South Clinton Avenue  
9th Floor  
P.O. Box 350  
Trenton NJ 08625-0350  
bart.kilar@bpu.nj.gov

**BPU**

Jacqueline O'Grady  
Board of Public Utilities  
44 South Clinton Avenue  
9th Floor  
P.O. Box 350  
Trenton NJ 08625-0350  
(609) 292-2947  
jackie.ogrady@bpu.nj.gov

**DAG**

Matko Ilic  
NJ Dept. of Law and Public Safety  
Richard J. Hughes Justice Complex  
Public Utilities Section  
25 Market Street, P.O. Box 112  
Trenton NJ 08625  
matko.ilic@law.njoag.gov

**PSE&G**

Aaron I. Karp Esq.  
PSEG Services Corporation  
80 Park Plaza T10  
P.O. Box 570  
Newark NJ 07102  
(973)-430-8970  
aaron.karp@pseg.com

**PSE&G**

Caitlyn White  
PSEG Services Corporation  
80 Park Plaza, T-10  
P.O. Box 570  
Newark NJ 07102  
(973)-430-5659  
caitlyn.white@pseg.com

**Rate Counsel**

Brian O. Lipman  
Division of Rate Counsel  
140 East Front Street, 4th Flr.  
P.O. Box 003  
Trenton NJ 08625  
(609) 984-1460  
blipman@rpa.nj.gov

**Rate Counsel**

Maria Novas-Ruiz Esq.  
Division of Rate Counsel  
140 East Front Street, 4th Flr.  
P.O. Box 003  
Trenton NJ 08625  
(609) 984-1460  
mnovas.ruiz@rpa.state.nj.us

**Rate Counsel**

Sarah Steindel  
Division of Rate Counsel  
140 East Front Street, 4th Flr.  
P.O. Box 003  
Trenton NJ 08625  
(609) 984-1460  
ssteinde@rpa.nj.gov

**Rate Counsel**

Brian Weeks Esq.  
Division of Rate Counsel  
140 East Front Street, 4th Flr.  
P.O. Box 003  
Trenton NJ 08625  
(609) 984-1460  
bweeks@rpa.state.nj.us

STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES

In The Matter of the Petition of	:	
Public Service Electric and Gas Company	:	
for Approval of Changes in its Electric Tax	:	DOCKET NO.
Adjustment Credit and Gas Tax Adjustment Credit	:	
("2022 TAC Filing")	:	

**VERIFIED PETITION**

Public Service Electric and Gas Company ("PSE&G", the "Company", or "Petitioner"), a corporation of the State of New Jersey, having its principal offices at 80 Park Plaza, Newark, New Jersey, respectfully petitions the New Jersey Board of Public Utilities (the "Board" or "BPU") pursuant to *N.J.S.A.* 48:2-21 as follows:

**Introduction and Overview of the Filing**

1. Petitioner is a public utility engaged in the distribution of electricity and the provision of electric Basic Generation Service, and distribution of gas and the provision of Basic Gas Supply Service, for residential, commercial, and industrial customers within the State of New Jersey. PSE&G provides service to approximately 2.4 million electric and 1.8 million gas customers in an area having a population in excess of 6.2 million persons and that extends from the Hudson River opposite New York City, southwest to the Delaware River at Trenton, and south to Camden, New Jersey.

2. Petitioner is subject to Board regulation for the purposes of setting its retail distribution rates and to assure safe, adequate, and reliable electric distribution and natural gas distribution service pursuant to *N.J.S.A.* 48:2-21 et seq.

3. The Company respectfully submits this Petition and supporting testimonies and exhibits seeking Board approval for electric and gas base rate changes associated with the Electric

Tax Adjustment Credit (“ETAC”) and Gas Tax Adjustment Credit (“GTAC”) (collectively “TACs”) for 2023.

4. This filing is being made pursuant to the Board’s October 29, 2018 Order approving the Stipulation of Settlement of PSE&G’s 2018 Base Rate Case.<sup>1</sup>

### **Background**

5. The Tax Cuts and Jobs Act was signed into law on December 22, 2017 (the “2017 Act”), with an effective date of January 1, 2018.

6. The 2017 Act set forth changes to the Federal Internal Revenue Tax Code (“Tax Code”), including a reduction in the maximum corporate tax rate from thirty-five percent (35%) to twenty-one percent (21%).

7. The 2017 Act was reviewed by the Board in January 2018, and based upon this review the BPU found the reduction in the corporate tax rate resulted in a savings to New Jersey public utilities, and thus an over-collection of tax revenue that would not be paid in federal income taxes.<sup>2</sup>

8. On January 31, 2018, the Board issued its Consideration Order that expressed its goal to ensure that “the rate revenue resulting from expenses relating to taxes reflected in rates but no longer owed as the result of the 2017 Act shall be passed onto the ratepayers.” With this goal in mind, the BPU directed several New Jersey public utilities, including PSE&G, to make filings detailing certain impacts of the 2017 Act. Consideration Order, at 2.

9. Specifically, the Board directed New Jersey utilities to:

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<sup>1</sup> *I/M/O The Petition of Public Service Electric and Gas Company for the Approval of an Increase in Electric and Gas Rates and for Changes in Tariffs for Electric and Gas Service, B.P.U.N.J. NO. 16 Electric and B.P.U.N.J. NO. 16 Gas, and for Changes in Depreciation Rates, Pursuant to N.J.S.A. 48:2-18, N.J.S.A 48:2-21, and N.J.S. 48:2-21.1, and for Other Appropriate Relief, Docket Nos. ER18010029 and GR18010030, Order rel. October 29, 2018 (“Rate Case Order”).*

<sup>2</sup> *I/M/O The New Jersey Board of Public Utilities’ Consideration of the Tax Cuts and Jobs Act of 2017, Docket No. AX18010001, Order rel. January 31, 2018 (“Consideration Order”).*

- Submit tariff rates reflecting the new corporate tax rate of 21% (versus the prior 35% rate) “to be effective on April 1, 2018” on an interim basis until the Board’s review was complete. Consideration Order, at 3, 5.
- Address the effect on rates due to impacts on the utilities’ Accumulated Deferred Income Taxes (“ADIT”), and address “the flowback of excess accumulated income taxes.” *Id.*, at 3, 4.
- Defer, with interest, the effects of the 2017 Act, and specify the distinct interest rates to be applied to the portion of the effects related to ADIT, and the portion of the effects related to grossing up the revenue requirement at the new rate of 21% rather than the old tax rate of 35%. *Id.*, at 2, 3. It was specified that the utilities’ submissions should include “the mechanism by which the deferrals will be returned to ratepayers.” *Id.*, at 5.
- “Identify the proposed treatment of changes, if any, from the 2017 Act” with respect to a variety of miscellaneous issues in addition to the tax rate reduction and excess ADIT, including expense and interest deductions, contributions in aid of construction; and investment tax credits. *Id.*, at 3.

10. On March 2, 2018, PSE&G filed a petition pursuant the Consideration Order that included a proposed plan as well as final issued tariff sheets effective April 1, 2018, reducing its electric and gas distribution rates by approximately \$114 million annually to reflect the impact of the Tax Act.

11. By Order dated March 26, 2018,<sup>3</sup> the Board directed that PSE&G's proposed plan be reviewed in the Company's 2018 base rate case.

12. The March 26, 2018 Order also directed the Company to file tariffs reflecting its proposed rate reduction to be effective April 1, 2018 on an interim basis subject to the outcome of its 2018 base rate case proceeding.

13. Pursuant to the March 26, 2018 Order, the Company reduced its base rates effective April 1, 2018, three months post the legislatively enacted income tax reduction, to eliminate any further over-collection. PSE&G deferred the over-collection for the period January 1, 2018 through March 31, 2018 on the books for return to customers (\$5.6 million for electric and \$21.8 million for gas, excluding interest).

14. On August 8, 2018, PSE&G updated its base rate case proceeding request based upon twelve (12) months of actual data and no estimated data for its test year ("12+0 update"). The Company's 12+0 update reflected a proposed increase in operating revenues of approximately \$272 million annually on an ongoing basis for PSE&G's electric and gas operations (approximately \$147 million in annual electric revenues and \$125 million in annual gas revenues), or an approximate 3.6% increase in overall revenues, less an approximate \$39 million<sup>4</sup> refund provided in the first three months assuming rates effective October 1, 2018.

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<sup>3</sup> *I/M/O The New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017, et.al.* Docket Nos. AX18010001 and ER 1803023, Order rel. March 26, 2018.

<sup>4</sup> On October 10, 2018 PSE&G filed an Errata to the Stipulation and Settlement to correct a mathematical error in this number. The actual refund of excess income tax recovery is \$27.8 million.

15. After engaging in extensive discovery, filing testimony and participating in numerous settlement discussions, the parties came to a resolution of the base rate case and reached an agreement to settle the matter in early October, 2018.

16. The Stipulation of Settlement was approved by the Board on October 29, 2018, and among other things, included the terms and operation of the tax adjustment credits applicable to electric and gas rates.

17. Specifically the parties agreed to implement an ETAC and GTAC.

18. The TACs comprise of the following components:

- a) A one-time refund of the excess income tax recovery from January – March 2018 will be issued during the two-month period November and December 2018 and include interest based upon the Company's interest rate obtained on its commercial paper and/or bank credit lines utilized in the preceding month;
- b) Refund of the protected excess deferred tax balance, flowed back to customers under the Average Rate Assumption Method ("ARAM") or any other method as required by the IRS;
- c) Refund of the unprotected excess deferred tax balance over an approximate 5-year period through December 31, 2023;
- d) Refund of the historic Safe Harbor Adjusted Repair Expense ("SHARE") balance as of October 31, 2018 over a 10 year period, with one-third of the balance returned over the approximately 5- year period through December 31, 2023, and the balance returned over the following 5-year period ending December 31, 2028;



- e) Return on the increase in rate base at the Company's after-tax Weighted Average Cost of Capital ("WACC") from the flow-through of rate base related excess deferred taxes, comprised of all protected excess deferred taxes, the historic SHARE, and a portion of the unprotected excess deferred taxes;
- f) Payment of interest at the Company's after-tax WACC on the balance of the non-rate base related excess deferred taxes until fully refunded over the approximately 5-year period;
- g) Flow-through of the estimated current period SHARE deduction, plus or minus true-ups from prior periods, calculated as the actual SHARE tax deduction less all associated SHARE book depreciation, multiplied by the Federal tax rate. Any true-ups from prior periods are flowed back to customers in the next appropriate period. This adjustment is inclusive of expenses that made up the ADR repair allowance deduction previously in base rates such that all repair related flow through will be done through the TACs; and
- h) A revenue gross-up of the net tax flow-through.

19. The excess deferred taxes and historic SHARE balances the Company agreed to flow back to customers through the TACs are as follows:

<b>2018 BASE RATE CASE</b>				
<b>Tax Flow-Through Balances</b>				
\$000				
	<b>Electric</b>	<b>Gas</b>	<b>Total</b>	<b>Amortization</b>
Excess deferred tax (EDT) flowback - Protected	424,259	326,618	750,877	ARAM
EDT flowback - Unprotected (Rate Base Related)	175,105	213,929	389,034	5 yr
EDT flowback - Unprotected (Non-Rate Base Related)	56,308	59,971	116,279	5 yr
Historic SHARE flowback	130,493	287,201	417,694	10 yr
<b>Total</b>	<b>786,165</b>	<b>887,719</b>	<b>1,673,884</b>	

20. The TAC amounts were allocated to each rate class and then refunded to customers through a dollar per kWh or dollar per therm basis for each rate schedule.

21. The initial TACs were implemented along with the revenue requirement increase upon approval of the Stipulation in PSE&G's 2018 base rate case, and the excess income tax recovery for the first quarter of 2018 was refunded to customers over the two month period of November and December 2018, with interest. The TAC was then reset in January 2019 once the initial refund was made to customers in November and December of 2018.

22. On September 26, 2019, following implementation of the initial TACs, the Company filed its 2019 TAC Filing (Dockets ER19091302 and GR19091303) and proposed rates effective January 1, 2020. The Board provisionally approved the proposed rates effective February 1, 2020.

23. The revenue requirements requested in the 2019 TAC Filing were subsequently updated by discovery request RCR-TAX-0013 to incorporate IRS guidance on the Company's PLR request, a requirement of PSE&G's 2018 Base Rate Case. PSE&G incorporated the guidance of the PLR requests into the final TAC rates approved by the Board on July 16, 2020.

24. On October 28, 2020, the Company filed its 2020 TAC filing (Dockets ER20100685 and GR20100686) and proposed rates effective January 1, 2021.

25. Rates for the 2020 TAC were approved by the Board on August 18, 2021 for rates effective September 1, 2021.

26. On October 29, 2021, the Company filed its 2021 TAC filing (Dockets ER21101201 and GR21101202) and proposed rates effective January 1, 2022.

27. Rates for the 2021 TAC were approved by the Board on June 8, 2022 for rates effective July 15, 2022.

**Company's Submission**

28. The Company now hereby submits its 2022 TAC cost recovery filing for rates effective January 1, 2023 based on actual results through June 30, 2022 and an eighteen-month period of forecasted financials through December 31, 2023. A matrix identifying the location of all minimum filing requirements established for the TAC in the 2018 base rate case is included as Appendix A to this Petition.

29. Appended to this Petition as Attachment 1 are the testimony and exhibits of Mr. Clifford Pardo, Vice President of Tax and Assistant Controller for PSEG Services Company. In his testimony, Mr. Pardo: (a) provides background on the 2017 Act and on the creation of Excess ADIT; (b) describes the components of Excess ADIT and provides the actual and projected flow-back ADIT balances and activity on an actual basis through June 30, 2022 and on a forecast basis through December 31, 2023; (c) describes and supports all changes to the Excess ADIT balances and/or amortizations from what was approved in the Company's 2018 base rate case Order; (d) supports the forecast for the current period SHARE deduction as well as a comparison of the most recent filed 2021 federal tax return to the estimates; (e) describes and supports the IRS ruling on the classification of excess deferred income taxes associated with accounting changes to repair deductions and mixed service costs and the post-1981 cost of removal; and (f) provides the IRS guidance on the proper classification of excess ADIT balances as protected or unprotected, or any other guidance associated with the Excess ADIT or the current SHARE.

30. Appended to this Petition as Attachment 2 is the testimony of Mr. Stephen Swetz, Senior Director – Corporate Rates and Revenue Requirements for PSEG Services Corporation. In his testimony, Mr. Swetz: (a) describes the mechanism by which PSE&G proposes to flow back savings to customers; (b) describes the rate design methodology used by the Company to calculate new base rates as a result of the income tax impacts; (c) recalculates the TACs to be effective January 1, 2023; (d) addresses the treatment of PSE&G's income tax over-recovery, including interest on that over-recovery; and (e) describes the refund of PSE&G's excess deferred taxes created as a result of the 2017 Act.

31. Appended to this Petition as Attachment 3 are clean and red-lined electric and gas tariff sheets reflecting the changes in the ETAC and GTAC as identified in Attachment 2, Schedules SS-TAC-6E and SS-TAC-6G.

32. For the ETAC, the Company proposes a refund from January 1, 2023 through December 31, 2023 of approximately \$108.8 million, which when added to the Company's estimated under-collected balance with interest at December 31, 2022 of \$13.4 million, results in a total proposed refund to customers of approximately \$95.4 million.

33. The proposed refund represents a decrease in the credit to electric customers of approximately \$16.5 million compared to the current ETAC.

34. The annual impact of the proposed rates to the typical residential electric customer using 740 kWh in a summer month and 6,920 kWh annually would be an increase in the annual bill from \$1,295.28 to \$1,302.00, or \$6.72 or approximately 0.52% (based upon Delivery Rates and BGS-RSCP charges in effect October 1, 2022 and assuming that the customer receives BGS-RSCP service from PSE&G).

35. For the GTAC, the Company estimates a refund from January 1, 2023 through December 31, 2023 of approximately \$188.4 million, which when added to the Company's estimated under-collected balance with interest at December 31, 2022 of \$21.4 million, results in a total proposed refund to customers of approximately \$167.0 million.

36. The proposed refund represents an increase in the credit to gas customers of approximately \$69.5 million compared to the current GTAC.

37. The annual impact of the proposed rates to the typical residential gas heating customers using 172 therms in a winter month and 1,040 therms annually would be a decrease in the annual bill from \$1,345.42 to \$1309.92, or \$35.50 or approximately 2.64% (based upon Delivery Rates and BGSS-RSG charges in effect October 1, 2022, and assuming that the customer receives BGSS service from PSE&G).

38. Attachment 4 contains the residential customer bill impacts comparing the current and proposed ETAC and GTAC for the above-referenced typical customers.

39. Attachments 5 and 6 are the income statement and balance sheet required by the Minimum Filing Requirements in the Rate Case Order.

40. Attachment 7 is a draft Form of Notice of Filing and of Public Hearings (Form of Notice). This Form of Notice sets forth the requested changes to the electric and gas rates and will be placed in newspapers having a circulation within the Company's electric and gas service territories upon receipt, scheduling, and publication of public hearing dates. A Notice will be served on the County Executives and Clerks of all municipalities within the Company's electric and gas service territories upon scheduling of public hearing dates.

41. In accordance with the Board's recent Covid-19 Order,<sup>5</sup> notice of this filing, the Petition, testimony, and schedules will be served upon the Department of Law and Public Safety and upon the Director, Division of Rate Counsel by electronic mail. Electronic copies of the Petition, testimony, and schedules will also be sent to the persons identified on the service list provided with this filing.

42. PSE&G requests that the Board find the proposed rates, as shown in Attachment 3, are just and reasonable, and that PSE&G should be authorized to implement the proposed rates as set forth herein, effective January 1, 2023 upon issuance of a written BPU order.

43. Any final rate relief found by the Board to be just and reasonable may be allocated by the Board for consistency with the provisions of N.J.S.A. 48:2-21 and for other good and legally sufficient reasons, to any class or classes of customers of the Company. Therefore, the average percentage changes in final rates may increase or decrease compared to the proposed rates based upon the Board's decision.

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<sup>5</sup> *In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic for a Temporary Waiver of Requirements for Certain Non-Essential Obligations*, BPU Docket No. EO20030254, Order dated March 19, 2020.

**Communications**

44. Communications and correspondence related to the Petition should be sent as follows:

Matthew M. Weissman, Esq.  
Managing Counsel - State Regulatory  
PSEG Services Corporation  
80 Park Plaza, T10  
P. O. Box 570  
Newark, NJ 07102  
e-mail: [matthew.weissman@pseg.com](mailto:matthew.weissman@pseg.com)

Aaron I. Karp, Esq.  
Associate Counsel - Regulatory  
PSEG Services Corporation  
80 Park Plaza, T10  
P.O. Box 750  
Newark, NJ 07102  
e-mail: [aaron.karp@pseg.com](mailto:aaron.karp@pseg.com)

Michele Falcao  
Regulatory Filings Supervisor  
PSEG Services Corporation  
80 Park Plaza, T10  
P.O. Box 570  
Newark, New Jersey 07102  
e-mail: [michele.falcao@pseg.com](mailto:michele.falcao@pseg.com)

Caitlyn White  
Regulatory Case Coordinator  
PSEG Services Corporation  
80 Park Plaza, T10  
P.O. Box 570  
Newark, New Jersey 07102  
e-mail: [caitlyn.white@pseg.com](mailto:caitlyn.white@pseg.com)

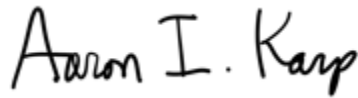
Bernard Smalls  
Paralegal  
PSEG Services Corporation  
80 Park Plaza, T10  
P.O. Box 570  
Newark, New Jersey 07102  
e-mail: [bernard.smalls@pseg.com](mailto:bernard.smalls@pseg.com)

**Conclusion and Requests for Approval**

Based on the foregoing, PSE&G respectfully requests that the Board retain jurisdiction of this matter and review and expeditiously issue an order approving this Petition specifically finding that the proposed tariff changes are approved as just and reasonable, and may become effective prior to January 1, 2023.

Respectfully submitted,

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

A handwritten signature in black ink that reads "Aaron I. Karp". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line.

DATED: October 31, 2022

By: Aaron I. Karp  
Assistant Counsel - Regulatory  
PSEG Services Corp.  
80 Park Plaza, T10  
P. O. Box 570  
Newark, New Jersey 07102  
Phone: (973) 430-8970



In The Matter of the Petition of :  
Public Service Electric and Gas Company :  
for Approval of Changes in its Electric Tax : BPU DOCKET NO. \_\_\_\_\_  
Adjustment Credit and Gas Tax Adjustment Credit :  
("2022 TAC Filing") :

Stephen Swetz, of full age, being duly sworn according to law, on his oath deposes  
and says:

1. I am the Sr. Director – Corporate Rates and Revenue Requirements of PSEG Services Corporation.
2. I have read the forgoing Petition, and the factual matters stated therein are true and correct to the best of my knowledge and belief.

Dated: October 31, 2022

BY



STEPHEN SWETZ

**APPENDIX A**

<b>PUBLIC SERVICE ELECTRIC AND GAS</b> <b>Minimum Filing Requirements – Tax Adjustment Credit (“TACs”)</b>	
<b>MINIMUM FILING REQUIREMENTS</b>	<b>LOCATION IN FILING</b>
<b>I. General Filing Requirements</b>	
1. Income Statement for the most recent 12 month period, as filed with the BPU.	Attachment 5
2. Balance Sheet for the most recent 12 month period, as filed with the BPU.	Attachment 6
3. Amortization of the excess income tax recovery for the first quarter of 2018 as a result of the Tax Cuts and Jobs Act.	Attachment 2, Direct Testimony of Stephen Swetz, Schedule SS-TAC-2E/G
4. Actual and projected flow-back ADIT balances and activity for the recovery period, defined as actual results through June of the current year and a forecast through the following calendar year.	Attachment 2, Direct Testimony of Stephen Swetz, Schedule SS-TAC-2E/G,  Attachment 1, Direct Testimony of Cliff Pardo, Schedule CP-TAC-2
5. Monthly over/under balance worksheet detailing how the flow-backs in the TAC are returned to customers. .	Attachment 2, Direct Testimony of Stephen Swetz, Schedule SS-TAC-3E/G
6. Workpaper detailing the estimate for the current period SHARE deduction as well as a comparison of the most recent filed tax return to the estimates used in the TAC Calculation.	Attachment 1, Direct Testimony of Cliff Pardo, Schedule CP-TAC-3
7. A calculation of the proposed rate adjustment based on the revenue requirement calculation as provided in Attachment C. Each annual TAC filing will reflect an update for the latest estimates for the following period at the time of the filing and a true-up for actuals (e.g., the protected amortization will reflect the latest ARAM actuals/estimate)	Attachment 2, Direct Testimony of Stephen Swetz, Schedule SS-TAC-6E/G
8. A detailed explanation of the variances from the deferred tax balances provided in Attachment C or any subsequent cost recovery filing, including:  a. An explanation for all transfers between protected and unprotected categories during the current rate period or any proposals for the next recovery period. This will include the basis for the reclassification of each temporary difference.	Attachment 1, Direct Testimony of Cliff Pardo,

## APPENDIX A

b. Status of the Company's efforts to obtain additional guidance from the IRS concerning the proper classification of excess ADIT balances as protected or unprotected.	Attachment 1, Direct Testimony of Cliff Pardo,
c. A copy of any Private Letter Ruling ("PLR") requests prepared by PSE&G related to the SHARE or excess deferred taxes.	Attachment 1, Direct Testimony of Cliff Pardo, Schedule CP-TAC-4
d. A copy of any and all PLR requests or responses relied upon by PSE&G for any adjustments to the balances or amortizations as shown in Attachment C	Attachment 1, Direct Testimony of Cliff Pardo, Schedule CP-TAC-4, Schedule CP-TAC-7
e. A copy of any other related IRS announcements, adjustments, procedures or other authoritative guidance.	Attachment 1, Direct Testimony of Cliff Pardo, Schedule CP-TAC-5

**STATE OF NEW JERSEY**

**BOARD OF PUBLIC UTILITIES**

**In The Matter of the Petition of  
Public Service Electric and Gas Company  
for Approval of Changes in its Electric Tax Adjustment  
Credit and Gas Tax Adjustment Credit  
“2022 TAC Filing”**

**BPU Docket Nos. \_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**CLIFFORD PARDO  
VICE-PRESIDENT OF TAX AND ASSISTANT  
CONTROLLER  
PSEG SERVICES COMPANY**

**October 31, 2022**

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY  
DIRECT TESTIMONY  
OF  
CLIFFORD PARDO  
VICE-PRESIDENT OF TAX AND ASSISTANT CONTROLLER**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Clifford Pardo. My business address is 80 Park Plaza, Newark, New Jersey.

**Q. By whom are you employed and in what capacity?**

A. I am employed by PSEG Services Company as Vice-President of Tax and Assistant Controller. My professional credentials are attached as Schedule CP-TAC-1.

**Q. What is the purpose of your testimony?**

A. In this case, I am testifying on behalf of Public Service Electric and Gas Company ("PSE&G", or the "Company"). The purpose of this testimony is to present and support the flow-back of excess accumulated deferred income taxes ("ADIT") through the Electric and Gas Tax Adjustment Credits ("ETAC" and "GTAC" respectively, or collectively referred to as "TACs") as set forth in Attachment C of the Stipulation of Settlement approved by the Board in the Company's 2018 base rate case in Docket Nos. ER18010029 and GR18010030 on October 29, 2018. I will also support the flow-back of current and forecasted period tax benefits associated with the Safe Harbor Adjusted Repair Expense ("SHARE"). Specifically, my testimony will:

## ATTACHMENT 1

- 1 • Provide background on the creation of Excess ADIT as a result of the Tax Cuts and  
2 Jobs Act of 2017 (“the 2017 Act”) and the purpose of this filing;
- 3 • Describe the components of Excess ADIT and provide the actual and projected flow-  
4 back ADIT balances and activity on an actual basis through June 30, 2022 and on a  
5 forecast basis through December 31, 2023;
- 6 • Describe and support all changes to the Excess ADIT balances and/or amortizations  
7 from what was approved in Attachment C of the Company’s 2018 base rate case;
- 8 • Support the forecast for the current period SHARE deduction as well as a comparison  
9 of the most recent filed federal tax return to the estimates;
- 10 • Describe and support the IRS ruling on the classification of excess deferred income  
11 taxes associated with accounting changes to repair deductions and mixed service costs  
12 and the post-1981 cost or removal ; and
- 13 • Provide the IRS guidance on the proper classification of excess ADIT balances as  
14 protected or unprotected, or any other guidance associated with the Excess ADIT or  
15 the current SHARE.

16 **Q. Do you sponsor any schedules as part of your prepared testimony?**

17 A. Yes. I sponsor the following schedules that were prepared or compiled under my direct  
18 supervision:

- 19 • Schedule CP-TAC-1 describes my professional qualifications and business  
20 experience;
- 21 • Schedule CP-TAC-2 summarizes the change in ADIT balances approved in the  
22 2018 base rate case to the projected balances as of December 31, 2023 by  
23 component;  
24

- Schedule CP-TAC-3 details the calculation of the forecasted SHARE, including a comparison to the last filed tax return;
- Schedule CP-TAC-4 provides the Private Letter Ruling (“PLR”) request seeking clarification on classification issues required by the 2018 base rate case Order;
- Schedule CP-TAC-5 provides a notification from the IRS requesting comments on issues related to the Act;
- Schedule CP-TAC-6 provides comments the Company worked on with the Edison Electric Institute (“EEI”) in response to the IRS notification provided in Schedule CP-TAC-5; and
- Schedule CP-TAC-7 provides the IRS response to the Company’s PLR requests.

**Q. Are there any other witnesses in this proceeding?**

A. Yes. Mr. Stephen Swetz, who provides the calculation of revenue requirements and new proposed TACs.

## **II. BACKGROUND ON THE TAC COMPONENTS**

**Q. Please explain the impact of the 2017 Act on this proceeding.**

A. The 2017 Act reduced the federal statutory corporate income tax rate from a maximum of 35% to 21%, effective January 1, 2018, which reduced PSE&G’s federal tax expense beginning January 1, 2018. This reduction in tax expense created a built-in over-collection in base rates at that time, since those rates were set to recover costs at the 35% federal income tax rate. Pursuant to the Board’s Order in Docket No AX18010001, the Company reduced its base rates, to reflect the 21% statutory federal income tax rate, effective April 1, 2018, three months post the legislatively enacted income tax reduction, to eliminate any further over-collection. PSE&G deferred the over-

1 collection for the period January 1, 2018 through March 31, 2018 on the Company's  
2 books for return to customers (\$5.6 million for electric and \$21.8 million for gas,  
3 excluding interest). The Company refunded the entire over-collection to customers,  
4 with interest, over the two-month period November through December 2018 in  
5 accordance with the Order approving the 2018 base rate case.

6 **Q. Please describe how income taxes are recovered in the ratemaking process.**

7 A. PSE&G, through the ratemaking process, includes in customers' rates its current and  
8 deferred income tax expense. Current tax expense represents the tax expense expected  
9 to be paid to the government for that tax year. Deferred tax expense represents a future  
10 tax liability that will eventually be paid when related temporary differences between  
11 book and taxable income reverse. The plant-related accumulated deferred tax expense  
12 is the cumulative future tax liability, commonly referred to as ADIT, is not only a future  
13 tax liability but is also a reduction to the Company's rate base for rate making purposes  
14 as the Company retains the cash benefit of the tax deduction until the temporary  
15 differences between book and taxable income reverse.

16 **Q. How does a tax rate change create excess deferred taxes?**

17 A. Deferred taxes are calculated as the difference between book and tax accounting  
18 multiplied by the enacted tax rate. However, when the tax rate declined to 21%, those  
19 temporary differences, which were recorded at 35%, were remeasured at the new lower  
20 rate of 21%. Accordingly, the Excess ADIT balance to be refunded to customers is  
21 essentially computed as follows: 14% (i.e. the difference between the predecessor and  
22 successor federally enacted tax rates) \* (Accumulated deferred tax balance / 40.85%)



1 = Excess ADIT. The 40.85% tax rate is the prior statutory combined federal and state  
2 tax rate. Excess deferred taxes fall into three categories (a) those restricted by the tax  
3 normalization rules (sometimes referred to as “protected” plant related ADIT), (b)  
4 those that are not (sometimes referred to as “unprotected” plant related ADIT), and (c)  
5 those that are unprotected, non-plant related ADIT.

6 As required by IRS normalization rules, the protected plant excess ADIT will  
7 be returned to PSE&G’s customers, but no more rapidly than permitted under the  
8 Average Rate Assumption Method (“ARAM”). The ARAM provision provides for the  
9 reversal of excess ADIT on a vintage and class basis commencing as the related timing  
10 differences reverse (when book depreciation starts to exceed tax depreciation), over the  
11 remaining regulatory life of the asset. By way of contrast, the return of the unprotected  
12 excess deferred taxes to customers is unconstrained by the tax law and can be returned  
13 as parties see fit.

14 **Q. Does the refund of the Excess ADIT impact rate base?**

15 A. Yes. The Protected and Unprotected-plant related Excess ADIT balances were all  
16 included in the Company’s ADIT balance used to determine rate base in the 2018 base  
17 rate case. Plant-related ADIT is a reduction to the Company’s rate base and therefore  
18 lowered the Company’s return and revenue requirement.

19 As ADIT is a reduction in rate base, the Company is currently paying interest at its  
20 WACC on the plant-related Excess ADIT balance that has yet to be returned to  
21 customers. As a result, the parties to the 2018 base rate case agreed that the refund of  
22 any plant related Excess ADIT, which previously reduced rate base, would now result

1 in a corresponding increase in rate base and revenue requirement. The non-plant  
2 related Unprotected Excess ADIT balance is not a component of the Company's rate  
3 base and the parties to the 2018 base rate case agreed the Company would pay interest  
4 at WACC on the Unprotected Excess ADIT balance until the excess balance is fully  
5 refunded to customers. The return on the change in rate base and the interest on the  
6 Unprotected Excess ADIT balance are discussed in the direct testimony of Mr. Swetz.

7 **Q. How are excess deferred taxes returned to customers?**

8 A. The TACs were created in the 2018 base rate case as the means to refund the Excess  
9 ADIT as well as to capture subsequent changes to the Excess ADIT balances as  
10 described below. The TACs are dollar per kWh and dollar per therm credits for electric  
11 and gas, respectively. Please see the testimony and schedules of Mr. Swetz for the  
12 calculation of the revenue requirement and proposed 2022 rates for the TACs.

13 **Q. Are there other components besides Excess ADITs that are refunded to customers**  
14 **through the TACs?**

15 A. Yes. Besides the Excess ADITs described above, the TACs also include the following  
16 items, which will be described further below:

- 17 • The refund of the January through March 2018 over-collection of income tax  
18 expense, which occurred during the months of November and December 2018 as  
19 described above;
- 20 • The refund of the historic SHARE ADIT balance;
- 21 • The flow-back of the net current SHARE deduction ; and

- 1           • Any adjustments, such as, but not limited to: additional guidance issued by the US  
2           Department of Treasury, audit adjustments and updates to forecasted amounts.

3   **Q.     What is the SHARE deduction?**

4   A.     The SHARE deduction is an acronym for the repair deductions discussed below.

5   **Q.     What are repair deductions?**

6   A.     On September 12, 2011, the IRS released Revenue Procedure 2011-43, which was later  
7           modified in Revenue Procedure 2014-16, detailing a safe harbor method for  
8           determining repair deductions for electric utilities. Generally, for book and tax  
9           purposes, costs are either capitalized into the depreciable basis of an asset or currently  
10          expensed for book purposes and deducted for tax purposes. For tax purposes, costs  
11          associated with a unit of property are considered deductible repair expenses and not  
12          capitalized unless they are incurred for either a) betterment of the property, b)  
13          restoration of the property, or c) to adapt the unit of property to a new or different use.

14   **Q.     How do the repair deduction rules apply?**

15   A.     These rules apply to all vintages of property and permit immediate expensing of all  
16          costs associated with projects considered a deductible repair expense pursuant to IRC  
17          section 162, resulting in a tax reduction in the year incurred, but are capital assets for  
18          financial reporting and ratemaking purposes. PSE&G began claiming enhanced repair  
19          deductions in 2010 for both its electric and gas distribution operations (referred to as a  
20          SHARE deduction). SHARE deductions are considered unprotected and are thus not  
21          subject to ARAM.

**Q. How is the SHARE deduction returned to customers?**

A. The SHARE deduction is returned to customers in two ways: 1) amortization of the historic SHARE balance and 2) flow-back of the current net SHARE tax benefit. The historic SHARE represents tax benefits the Company has claimed through October 31, 2018. The historic SHARE was a component of the Company's ADIT in the 2018 base rate case and per the 2018 base rate case will be flowed-back to customers over a 10-year period, with 1/3 of the balance returned in the first five years and the 2/3 remaining balance returned in the remaining five years.

The current SHARE is calculated as the on-going, annual SHARE tax deduction less the book depreciation associated with SHARE deductions multiplied by the federal tax rate. It is contemporaneously flowed back to PSEG's customers.

**III. 2022 TAC REFUND**

**Balances**

**Q. What are the TAC balances at the ADIT level approved to be refunded in the 2018 base rate case?**

A. Please see the table below:

<b>2018 BASE RATE CASE</b>				
<b>Tax Flow-Through Balances</b>				
\$000				
	<b>Electric</b>	<b>Gas</b>	<b>Total</b>	<b>Amortization</b>
Excess deferred tax (EDT) flowback - Protected	424,259	326,618	750,877	ARAM
EDT flowback - Unprotected (Rate Base Related)	175,105	213,929	389,034	5 yr
EDT flowback - Unprotected (Non-Rate Base Related)	56,308	59,971	116,279	5 yr
Historic SHARE flowback	130,493	287,201	417,694	10 yr
<b>Total</b>	<b>786,165</b>	<b>887,719</b>	<b>1,673,884</b>	

1   **Q.    Are there any changes to these balances?**

2    A.    Yes. The balances for the Protected and Unprotected Excess ADIT changed for four  
3       reasons:

- 4       1)    A reclassification between the protected and unprotected balance,  
5       2)    An ADIT adjustment as a result of the 2017 federal and state return to accruals  
6           (RTA).  
7       3)    The result of the IRS ruling on the Company's PLR requests with regard to a  
8           change in Accounting method and the treatment of cost of removal  
9           expenditures, which is discussed in more detail below.  
10      4)    IRS audit settlements of tax years prior to 2018.

11       The first two adjustments were included in the Company's 2019 TAC filing and  
12       subsequently adjusted to reflect the immaterial impact of the federal benefit of state  
13       that resulted from the 2017 state return to accrual. The IRS guidance on the Company's  
14       PLR request was not available at the time of the Company's 2019 TAC filing as it was  
15       issued in April 2020. The Company incorporated the results of the PLR requests into  
16       the final approved TAC rates approved by the Board on July 16, 2020. There has been  
17       no change to the Company's historic SHARE balance. The Company has settled its  
18       2011 through 2016 tax return audit with the IRS and reflected any changes to the excess  
19       deferred taxes as a result of the settlement in the fourth quarter of 2020. These impacts  
20       are included in the 2021 TAC filing.

1 **Q. Do the first two adjustments (reclassification and 2017 RTA) approved in the 2019**  
2 **TAC filing affect the current filing?**

3 A. Yes. While the adjustments to the balances occurred in 2018, the relative amortization  
4 related to these adjustments are being amortized through 2023.

5 **Q. Please explain what are the Private Letter Ruling (“PLR”) reclassifications**  
6 **between protected and unprotected deferred income taxes?**

7 A. In compliance with the Company’s Base Rate Case Order, PSE&G sought a PLR  
8 from the IRS that would give guidance as to whether or not excess deferred income  
9 tax associated with accounting changes to repair deductions and mixed service costs  
10 are protected in nature and subject to normalization rules. In addition, PSE&G also  
11 required a PLR from the IRS in regards to its post-1981 cost or removal and whether  
12 amounts were subject to normalization rules and if it is to be treated as a separate  
13 temporary difference or part of the overall depreciation temporary difference.

14 **Q. Did PSE&G obtain those private letter rulings?**

15 A. Yes. In April 2020, the IRS issued a ruling to PSE&G that held both the deficient  
16 deferred taxes related to COR and the excess deferred taxes associated with  
17 accounting method changes related to repair deductions and the capitalization of  
18 mixed service costs are unprotected and not subject to the tax normalization rules.

19 **Q. What excess amounts will be amortized pursuant to those PLRs?**

20 A. Pursuant to the guidance in the PLR, PSE&G will flowback \$75 million in total net  
21 pre-tax credits to customers. Of that amount, approximately \$41 million and \$34  
22 million in excess deferred income taxes will be amortized to electric and gas  
23 customers, respectfully, through 2024.

1    **Q.    Are these amounts currently being amortized back to customers?**

2    A.    Yes. On July 16, 2020, the Board approved PSE&G's Updated 2019 TAC filing, BPU  
3           Docket Nos. ER19091302 & GR19091303, including the reclassification pursuant to  
4           the IRS guidance that these deficient deferred taxes related to COR and the excess  
5           deferred taxes are not subject to the tax normalization rules. As such, these amounts  
6           have been reclassified and are being amortized through the TAC effective July 16<sup>th</sup> as  
7           approved by the Board.

8    **Q.    Did the Board Order in the 2018 base rate case specify the timing for the refund**  
9           **or recovery of any reclassifications associated with the IRS guidance on the**  
10          **treatment of a change in accounting method?**

11   A.    Yes. As discussed in the testimony of Mr. Swetz, the 2018 base rate case order  
12          specified the timing of the refund and the Board approved the Company's amortization  
13          proposal in the 2019 TAC filing. The Company proposed and the Board approved a  
14          five-year amortization period from 2020 through 2024, with the gas flow-back being  
15          accelerated in 2020 in accordance with the 2019 TAC settlement.

16   **Q.    Did the Board Order in the 2018 base rate case specify the timing for the refund**  
17          **or recovery of any reclassifications associated with the IRS guidance on the**  
18          **treatment of cost of removal?**

19   A.    Yes. As discussed in the testimony of Mr. Swetz, the 2018 base rate case order  
20          specified the timing of the refund and the Board approved the Company's amortization  
21          proposal in the 2019 TAC filing. The Company proposed and the Board approved a

1 four year amortization period from 2020 through 2023 to align with the remainder of  
 2 the unprotected 5 year amortization period.

3 **Q. How much will be amortized to customers?**

4 The table below summarizes the annual amortizations by balance for electric, gas and  
 5 in total.

6

<b>PLR Balance Reclass</b>						
\$ (EDIT)						
<b>ED</b>	Total	2020	2021	2022	2023	2024
COR	(2,771)	(693)	(693)	(693)	(693)	-
Account Method Change	(38,370)	(7,674)	(7,674)	(7,674)	(7,674)	(7,674)
Net Impact	(41,141)	(8,367)	(8,367)	(8,367)	(8,367)	(7,674)
<b>GD</b>						
COR	12,356	3,089	3,089	3,089	3,089	-
Account Method Change	(46,257)	(17,000)	(7,314)	(7,314)	(7,314)	(7,314)
Net Impact	(33,900)	(13,911)	(4,225)	(4,225)	(4,225)	(7,314)
<b>Total</b>						
COR	9,585	2,396	2,396	2,396	2,396	-
Account Method Change	(84,626)	(24,674)	(14,988)	(14,988)	(14,988)	(14,988)
Net Impact	(75,042)	(22,278)	(12,592)	(12,592)	(12,592)	(14,988)

7

8 **Q. Have you calculated the new balances that have been or will be returned to**  
 9 **customers through the TAC?**

10 A. Yes. The new balances, including all previously discussed adjustments and the  
 11 reclassifications at the Excess ADIT level are summarized in the table below.



2022 TAC FILING				
Tax Flow-Through Balances				
\$000				
	Electric	Gas	Total	Amortization
Excess deferred tax (EDT) flowback - Protected	395,823	304,139	699,962	ARAM
EDT flowback - Unprotected (Rate Base Related)	219,252	245,460	464,712	5 yr
EDT flowback - Unprotected (Non-Rate Base Related)	60,174	59,909	120,083	5 yr
Historic SHARE flowback	130,493	287,201	417,694	10 yr
<b>Total</b>	<b>805,742</b>	<b>896,709</b>	<b>1,702,451</b>	

1

2 **Q. Have you provided the projected balance specific to the recovery period?**

3 A. Yes. Please see Schedule CP-TAC-2 for the actual balance as of June 30, 2022 and the  
 4 forecasted balance as of December 31, 2023 at both the Excess ADIT and grossed-up  
 5 revenue level. In addition, see Mr. Swetz's Schedule SS-TAC-2E/G for the monthly  
 6 balances by component.

7 **Amortizations**

8 **Q. What were the annual amortizations approved in the 2018 base rate case?**

9 A. The tables below summarize the annual amortizations by balance for electric, gas and  
 10 in total from the 2018 base rate case.

FROM 2018 BASE RATE CASE					
Electric Amortization from 2018 Rate Case					
\$000					
	Protected	Unprotected - Rate Base	Unprotected - Non-Rate Base	Historic SHARE	Total
2018	(1,145)	(4,415)	(1,420)	(1,403)	(8,383)
2019	(6,871)	(28,411)	(9,136)	(8,419)	(52,838)
2020	(6,871)	(31,089)	(9,997)	(8,419)	(56,377)
2021	(6,871)	(33,945)	(10,916)	(8,419)	(60,151)
2022	(6,871)	(36,992)	(11,895)	(8,419)	(64,177)
2023	(6,871)	(40,252)	(12,944)	(8,419)	(68,487)
Post 2023	(388,757)	(0)	0	(86,995)	(475,752)
<b>Total</b>	<b>(424,259)</b>	<b>(175,105)</b>	<b>(56,308)</b>	<b>(130,493)</b>	<b>(786,165)</b>
Gas Amortization from 2018 Rate Case					
\$000					
	Protected	Unprotected - Rate Base	Unprotected - Non-Rate Base	Historic SHARE	Total
2018	(1,150)	(5,051)	(1,416)	(3,088)	(10,705)
2019	(6,899)	(34,024)	(9,538)	(18,529)	(68,991)
2020	(6,899)	(37,648)	(10,554)	(18,529)	(73,630)
2021	(6,899)	(41,509)	(11,636)	(18,529)	(78,573)
2022	(6,899)	(45,621)	(12,789)	(18,529)	(83,839)
2023	(6,899)	(50,076)	(14,038)	(18,529)	(89,542)
Post 2023	(290,972)	0	(0)	(191,467)	(482,439)
<b>Total</b>	<b>(326,618)</b>	<b>(213,929)</b>	<b>(59,971)</b>	<b>(287,201)</b>	<b>(887,719)</b>
Total E&G Amortization from 2018 Rate Case					
\$000					
	Protected	Unprotected - Rate Base	Unprotected - Non-Rate Base	Historic SHARE	Total
2018	(2,295)	(9,466)	(2,836)	(4,491)	(19,088)
2019	(13,771)	(62,436)	(18,674)	(26,948)	(121,829)
2020	(13,771)	(68,737)	(20,551)	(26,948)	(130,007)
2021	(13,771)	(75,454)	(22,552)	(26,948)	(138,725)
2022	(13,771)	(82,613)	(24,684)	(26,948)	(148,016)
2023	(13,771)	(90,328)	(26,982)	(26,948)	(158,029)
Post 2023	(679,729)	(0)	0	(278,463)	(958,191)
<b>Total</b>	<b>(750,877)</b>	<b>(389,034)</b>	<b>(116,279)</b>	<b>(417,694)</b>	<b>(1,673,884)</b>

1    **Q.    Have there been changes to the amortizations approved in the 2018 base rate case?**

2    A.    Yes. I will detail the reasons for the change for the protected and unprotected  
3    amortizations below. There has been no change to the historic SHARE.

4    **Q.    Why has the Excess ADIT – protected amortization changed?**

5    A.    As described above, the protected Excess ADIT balance must be refunded using the  
6    ARAM as required by the IRS. Due to the complexity of the calculation and the  
7    number of assets involved, the Company utilizes its PowerTax system to calculate the  
8    monthly ARAM amortization. The monthly amortization can change for reasons such  
9    as, but not limited to, the changes in the protected balance described above, the point  
10   in time for each individual asset when book depreciation exceeds tax depreciation, or  
11   retirements.

12   **Q.    Why has the Excess ADIT – Unprotected amortization (both rate base and non-**  
13   **rate base related) changed?**

14   A.    The amortization for the unprotected balance has changed as a result of the change in  
15   the unprotected balance to be refunded to customers as described above. The allocation  
16   between rate base related and non-rate base related Excess ADIT is based on the actual  
17   allocation of the deductions creating the unprotected balance.

18   **Q.    What are the revised amortizations based on the changes described above?**

19   A.    While Mr. Swetz provides the monthly amortization for each Excess ADIT category,  
20   the tables below provide the annual summary.

## REVISED AMORTIZATION FOR 2022 TAC FILING

Electric Amortization - 2022 TAC Filing					
\$000					
	Protected	Unprotected - Rate Base	Unprotected - Non-Rate Base	Historic SHARE	Total
2018	(1,826)	(4,415)	(1,420)	(1,403)	(9,064)
2019	(9,328)	(28,411)	(9,136)	(8,419)	(55,294)
2020	(11,303)	(39,455)	(10,854)	(8,419)	(70,031)
2021	(10,398)	(43,420)	(11,919)	(8,419)	(74,155)
2022	(10,169)	(46,361)	(12,899)	(8,419)	(77,848)
2023	(10,169)	(49,622)	(13,947)	(8,419)	(82,156)
Post 2023	(342,630)	(7,569)	0	(86,995)	(437,194)
<b>Total</b>	<b>(395,823)</b>	<b>(219,252)</b>	<b>(60,174)</b>	<b>(130,493)</b>	<b>(805,742)</b>

Gas Amortization - 2022 TAC Filing					
\$000					
	Protected	Unprotected - Rate Base	Unprotected - Non-Rate Base	Historic SHARE	Total
2018	(1,046)	(5,051)	(1,416)	(3,088)	(10,601)
2019	(5,287)	(34,025)	(9,538)	(18,529)	(67,379)
2020	(5,367)	(51,560)	(10,597)	(18,529)	(86,053)
2021	(4,583)	(45,539)	(11,531)	(18,529)	(80,182)
2022	(7,419)	(48,536)	(12,789)	(18,529)	(87,273)
2023	(7,418)	(53,771)	(14,038)	(18,529)	(93,756)
Post 2023	(273,019)	(6,978)	(0)	(191,467)	(471,465)
<b>Total</b>	<b>(304,139)</b>	<b>(245,460)</b>	<b>(59,909)</b>	<b>(287,201)</b>	<b>(896,709)</b>

Total E&G Amortization - 2022 TAC Filing					
\$000					
	Protected	Unprotected - Rate Base	Unprotected - Non-Rate Base	Historic SHARE	Total
2018	(2,872)	(9,466)	(2,836)	(4,491)	(19,665)
2019	(14,614)	(62,436)	(18,674)	(26,948)	(122,673)
2020	(16,670)	(91,015)	(21,451)	(26,948)	(156,084)
2021	(14,981)	(88,959)	(23,450)	(26,948)	(154,337)
2022	(17,588)	(94,897)	(25,688)	(26,948)	(165,121)
2023	(17,587)	(103,393)	(27,985)	(26,948)	(175,913)
Post 2023	(615,649)	(14,547)	0	(278,463)	(908,659)
<b>Total</b>	<b>(699,962)</b>	<b>(464,712)</b>	<b>(120,083)</b>	<b>(417,694)</b>	<b>(1,702,451)</b>

1 **Q. Have you provided the actual and projected amortizations specific to the recovery**  
2 **period?**

3 A. Yes. Please see Schedule CP-TAC-2 for the actual balance as of June 30, 2022 and the  
4 forecasted balance as of December 31, 2023 at both the Excess ADIT and grossed-up  
5 revenue level. In addition, see Schedule SS-TAC-2E/G for the monthly balances by  
6 component.

7 ***Current SHARE***

8 **Q. What was the current SHARE forecast approved in the 2018 base rate case?**

9 A. The initial TAC rates approved in the 2018 base rate case assumed an annual tax benefit  
10 to be flowed back to customers of \$35.7 million (\$3.4 million for electric and \$32.3  
11 million for gas). This was based on an assumed Federal tax deduction of \$227.7 million  
12 (\$45.4 million for electric and \$182.3 million for gas) less associated book depreciation  
13 of \$57.7 million (\$29.0 million for electric and \$28.7 million for gas) multiplied by the  
14 Federal income tax rate of 21%. The \$35.7 million annual tax benefit was divided by  
15 12 to determine a monthly amount, which was held constant from November 2018  
16 through the end of the TAC.

17 **Q. Have there been any changes in the actuals and forecasted current SHARE**  
18 **compared to what was approved in the 2018 base rate case?**

19 A. Yes. The current SHARE is based on the amount of assets placed in service and the  
20 actual work that was performed on those assets in any given year. Thus the forecasted  
21 amount is subject to change. Further, the amount of current SHARE flowed back to  
22 customers represents the net current SHARE tax deduction less the associated book  
23 depreciation deduction. Changes in the associated book depreciation will cause

1 changes to the amounts reflected in the 2018 base rate case and can be caused by a  
 2 variety of items such as: changes in the overall book depreciation expense, retirements,  
 3 and allocation of the book depreciation expense over all vintages and class types.

4 Any changes to the amounts that were reflected in the approved 2018 base rate  
 5 case will be captured in the TAC.

6 **Q. What is the revised current SHARE forecast included in the filing?**

7 **A.** Based on the Company's latest forecast for 2022 and 2023, please see the tables below.

<b>Electric</b>			
Jan 1, 2022 - December 31, 2022			
	Book		
	Tax Deduction	depreciation	Net
Per Stipulation	9,532,108	(6,097,236)	3,434,872
Actual	12,189,804	(4,459,692)	7,730,112
Difference	(2,657,696)	(1,637,544)	(4,295,240)

8 *Actuals through June 2022, Forecast through December 2022*

<b>Gas</b>			
Jan 1, 2022 - December 31, 2022			
	Book		
	Tax Deduction	depreciation	Net
Per Stipulation	38,291,778	(6,022,036)	32,269,742
Actual	33,248,101	(8,658,522)	24,589,579
Difference	5,043,676	2,636,486	7,680,163

9 *Actuals through June 2022, Forecast through December 2022*

<b>Electric</b>			
Forecasted January 1, 2023 - December 31, 2023			
Book			
	Tax Deduction	depreciation	Net
Per Stipulation	9,532,108	(6,097,236)	3,434,872
Actual	17,677,857	(4,629,342)	13,048,516
Difference	(8,145,749)	(1,467,894)	(9,613,644)
<b>Gas</b>			
Forecasted January 1, 2023 - December 31, 2023			
	Tax Deduction	depreciation	Net
Per Stipulation	38,291,778	(6,022,036)	32,269,742
Actual	68,917,049	(9,252,495)	59,664,554
Difference	(30,625,271)	3,230,458	(27,394,812)

4 **Q. Do you have any workpapers or schedules supporting your current SHARE**  
5 **forecast?**

6 A. Yes. See Schedule CP-TAC-3 for the calculation, including a comparison to the latest  
7 filed tax return.

8 **Q. Are there any other Excess ADIT balances that are not currently being refunded**  
9 **to customers through the TAC?**

10 A. No. All balances are currently being refunded to customers.

11 **Q. Does this conclude your testimony?**

12 A. Yes it does.

**CREDENTIALS  
OF  
CLIFFORD PARDO  
VICE-PRESIDENT OF TAX AND ASSISTANT CONTROLLER  
PSEG SERVICES COMPANY**

**EDUCATIONAL BACKGROUND**

In 1987, I graduated from Pace University with a Bachelors of Arts degree in Accounting.

In 1992, I earned a Master of Science degree in Taxation from Baruch College. I am also a licensed Certified Public Accountant in the State of Maryland.

**WORK EXPERIENCE**

From 1995 through 1999, I was employed by J.M. Huber as Director of Tax and Treasury Services. In that position, I was responsible for the world-wide tax and treasury functions. I commenced employment with Public Service Enterprise Group Inc. ("PSEG") in 2000, excluding a two year break in service between 2007 and 2009, where I am currently employed. From 2000 through 2007, I was the Director of Tax Planning (International Division). My responsibilities as the Director of Tax Planning centered on U.S. and international tax aspects of the Global International Division. In 2010, I rejoined PSEG as the Tax Director and was subsequently promoted to Senior Tax Director. During this time my responsibilities included overseeing the tax research and planning, tax accounting and tax forecasting groups. In January 1, 2018 was promoted to my current position of Vice President of Tax and Assistant Controller and am responsible for all tax matters for the consolidated PSEG organization.

For completeness, between 2007 and 2008 I was employed by John Wiley & Sons, Inc., as Tax Director where I was responsible for all tax matters, and from 2008 through 2009, I was



**ATTACHMENT 1**  
**SCHEDULE CP-TAC-1**  
**Page 2 of 2**

1 employed at AES Corporation, as Managing Director – International Tax Planning where I  
2 oversaw the international tax group.

3 I have prepared testimony and supporting data for PSE&G's 2018 electric and gas base  
4 rate case filing, filed January 12, 2018, addressing tax aspects of that proceeding as well as many  
5 other of PSE&G's filings such as the Solar 4All filings.

6 I am also an active participant in Edison Electric Institute Taxation Committee.

Protected Excess Deferred Taxes (EDT)  
Rate Base Related Unprotected EDT  
Non-Rate Base Related Unprotected EDT  
Historic SHARE balance Deferred Taxes  
Total

Protected Excess Deferred Taxes (EDT)  
Rate Base Related Unprotected EDT  
Non-Rate Base Related Unprotected EDT  
Historic SHARE balance Deferred Taxes  
Total

Protected Excess Deferred Taxes (EDT)  
Rate Base Related Unprotected EDT  
Non-Rate Base Related Unprotected EDT  
Historic SHARE balance Deferred Taxes  
Total

EDIT BALANCES										
Actual November 1, 2018 - June 30, 2022								Forecast July 1, 2022 - December 31, 2023		
Beginning Balance 10/31/18 (Per Stipulation)	Flow-back (Per Stipulation)	Adjustments to Stipulation Flow-back	Balance Reclass	2017 Federal Return to Accrual Balance Adjustment	2020 Private Letter Ruling	IRS Audit Settlement	Ending Balance June 30, 2022	Flow-back Per Stipulation	Adjustments to Stipulation Flow-back	Estimated Ending December 31, 2023 Balance
ELECTRIC										
424,259	(25,195)	(12,745)	(4,239)	16,685	(41,141)	259	357,882	(10,307)	(4,946)	342,630
175,105	(116,356)	(22,524)	4,239	191	41,141	(1,424)	80,372	(58,748)	(14,054)	7,569
56,308	(37,417)	(2,361)	-	3,172	-	694	20,396	(18,892)	(1,505)	(0)
130,493	(30,869)	0	-	-	-	-	99,624	(12,628)	-	86,995
786,165	(209,837)	(37,630)	-	20,048	-	(471)	558,274	(100,575)	(20,505)	437,194
GAS										
326,618	(25,297)	5,305	(493)	9,851	(33,900)	2,063	284,148	(10,349)	(779)	273,020
213,929	(141,043)	(19,400)	493	(1,272)	33,900	(1,591)	85,017	(72,887)	(5,152)	6,978
59,971	(39,539)	62	-	(62)	-	-	20,432	(20,432)	-	0
287,201	(67,940)	(0)	-	-	-	-	219,261	(27,794)	-	191,467
887,720	(273,818)	(14,033)	-	8,517	-	473	608,858	(131,461)	(5,931)	471,466
TOTAL										
750,877	(50,492)	(7,440)	(4,732)	26,536	(75,042)	2,322	642,030	(20,656)	(5,725)	615,649
389,034	(257,399)	(41,924)	4,732	(1,080)	75,042	(3,015)	165,389	(131,635)	(19,206)	14,548
116,279	(76,955)	(2,299)	-	3,110	-	694	40,829	(39,324)	(1,505)	(0)
417,694	(98,809)	0	-	-	-	-	318,885	(40,422)	-	278,463
1,673,884	(483,656)	(51,663)	-	28,565	-	2	1,167,132	(232,037)	(26,436)	908,660

Protected Excess Deferred Taxes (EDT)  
Rate Base Related Unprotected EDT  
Non-Rate Base Related Unprotected EDT  
Historic SHARE balance Deferred Taxes  
Total

Protected Excess Deferred Taxes (EDT)  
Rate Base Related Unprotected EDT  
Non-Rate Base Related Unprotected EDT  
Historic SHARE balance Deferred Taxes  
Total

Protected Excess Deferred Taxes (EDT)  
Rate Base Related Unprotected EDT  
Non-Rate Base Related Unprotected EDT  
Historic SHARE balance Deferred Taxes  
Total

REVENUE GROSS-UP AT 28.11%										
Actual November 1, 2018 - June 30, 2022								Forecast July 1, 2022 - December 31, 2023		
Beginning Balance 10/31/18 (Per Stipulation)	Flow-back (Per Stipulation)	Adjustments to Stipulation Flow-back	Balance Reclass	2017 Federal Return to Accrual Balance Adjustment	2020 Private Letter Ruling	IRS Audit Settlement	Ending Balance June 30, 2022	Flow-back Per Stipulation	Adjustments to Stipulation Flow-back	Estimated Ending December 31, 2023 Balance
ELECTRIC										
590,150	(35,047)	(17,728)	(5,896)	23,208	(57,228)	360	497,820	(14,337)	(6,880)	476,603
243,573	(161,853)	(31,332)	5,896	266	57,228	(1,981)	111,798	(81,719)	(19,550)	10,529
78,326	(52,047)	(3,285)	-	4,412	-	966	28,372	(26,279)	(2,093)	(0)
181,518	(42,940)	0	-	-	-	-	138,578	(17,566)	-	121,012
1,093,566	(291,887)	(52,344)	-	27,887	-	(655)	776,567	(139,902)	(28,522)	608,143
GAS										
454,331	(35,189)	7,379	(686)	13,703	(47,156)	2,870	395,253	(14,395)	(1,083)	379,775
297,579	(196,192)	(26,986)	686	(1,769)	47,156	(2,213)	118,260	(101,386)	(7,167)	9,707
83,420	(54,999)	87	-	(87)	-	-	28,422	(28,422)	-	0
399,501	(94,506)	(0)	-	-	-	-	304,995	(38,661)	-	266,334
1,234,831	(380,885)	(19,520)	-	11,848	-	657	846,930	(182,865)	(8,250)	655,815
TOTAL										
1,044,481	(70,235)	(10,349)	(6,582)	36,912	(104,384)	3,230	893,073	(28,733)	(7,963)	856,377
541,152	(358,045)	(58,318)	6,582	(1,503)	104,384	(4,194)	230,058	(183,106)	(26,716)	20,236
161,746	(107,046)	(3,198)	-	4,325	-	966	56,793	(54,700)	(2,093)	(0)
581,018	(137,445)	0	-	-	-	-	443,573	(56,228)	-	387,345
2,328,397	(672,772)	(71,865)	-	39,735	-	2	1,623,497	(322,766)	(36,772)	1,263,959

\$ (Tax Effected)

## Current SHARE Actuals

## Current SHARE Forecasted

## ELECTRIC DISTRIBUTION

	Actual November 1, 2018 - June 30, 2022			Forecasted July 1, 2022 - December 31, 2023		
	Tax Deduction	Book depreciation	Net	Tax Deduction	Book depreciation	Net
Per Stipulation	34,951,063	(22,356,532)	12,594,531	14,298,162	(9,145,854)	5,152,308
Actual	41,190,434	(14,171,212)	27,019,222	23,772,759	(6,859,188)	16,913,571
Difference	(6,239,370)	(8,185,320)	(14,424,691)	(9,474,597)	(2,286,666)	(11,761,263)

## GAS DISTRIBUTION

	Actual November 1, 2018 - June 30, 2022			Forecasted July 1, 2022 - December 31, 2023		
	Tax Deduction	Book depreciation	Net	Tax Deduction	Book depreciation	Net
Per Stipulation	140,403,185	(22,080,799)	118,322,386	57,437,667	(9,033,054)	48,404,612
Actual	106,441,406	(26,379,348)	80,062,058	85,541,099	(13,581,756)	71,959,344
Difference	33,961,779	4,298,549	38,260,328	(28,103,433)	4,548,702	(23,554,731)

	2020	ELECTRIC 2021	2022		2020	GAS 2021	2022
	Tax Return	Tax Return	Estimate		Tax Return	Tax Return	Estimate
Tax Deduction	53,351,160	45,312,263	58,046,685	Tax Deduction	141,372,307	109,312,322	158,324,293
Book Depreciation	(16,350,372)	(16,070,669)	(21,236,629)	Book Depreciation	(26,588,079)	(32,291,982)	(41,231,059)
Net	37,000,788	29,241,593	36,810,055	Net	114,784,228	77,020,340	117,093,233
Tax Effected	7,770,165	6,140,735	7,730,112	Tax Effected	24,104,688	16,174,271	24,589,579

Alexander Zakupowsky  
Partner  
(202) 626-5950  
Azakupowsky@milchev.com

**For New Jersey Board of Public Utilities Review and Comments**  
**As of May 29, 2019**

**VIA HAND DELIVERY**

Associate Chief Counsel  
Passthroughs & Special Industries  
Courier's Desk  
Internal Revenue Service  
Attn: CC:PA:LPD:DRU, Room 5336  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

**Re: Ruling Request for Public Service Electric and Gas Company (EIN# 22-1212800)**

Dear Sir or Madam:

Rulings are respectfully requested on behalf of Public Service Electric and Gas Company (“PSE&G” or “Taxpayer”) regarding the application of the depreciation normalization rules of §168(i)(9) of the Internal Revenue Code of 1986, as amended (“Code”) and Treas. Reg. §1.167(l)-1 (together, the “Normalization Rules”) to certain New Jersey state regulatory procedures which are described in detail hereafter.

**STATEMENT OF FACTS**

**Taxpayer**

Taxpayer (EIN #22-1212800) is an investor-owned regulated utility incorporated under the laws of New Jersey. Its address is 80 Park Plaza, Newark New Jersey 07101. Its telephone number is 973-430-7000. Taxpayer is an accrual basis taxpayer and reports on a calendar year basis.

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Taxpayer is wholly owned by Public Service Enterprise Group Incorporated (“PSEG”) (EIN #22-2625848). PSEG is a New Jersey corporation having its principal place of business located at 80 Park Plaza, Newark, New Jersey 07101. Its telephone number is 973-430-7000. Taxpayer is included in a consolidated federal income tax return of which PSEG is the common parent. This return is filed with the Internal Revenue Service Center in Ogden, Utah and is under the audit jurisdiction of the Large Business and International Division of the Internal Revenue Service (“Service”).

**Taxpayer’s Businesses**

Taxpayer is a regulated utility engaged principally in the purchase, transmission, distribution and sale of electric energy and the purchase, distribution and sale of natural gas in New Jersey. It provides service to approximately 2.2 million electric customers and 1.8 million gas customers. Taxpayer is subject to regulation as to rates and conditions of service by the New Jersey Board of Public Utilities (“BPU”) as well as by FERC. Both these regulators establish Taxpayer's rates based on its costs, including a provision for a return on the capital employed by Taxpayer in its regulated businesses.

The subject of this ruling request relates to Taxpayer's New Jersey jurisdictional operations (both gas and electric).

**Taxpayer’s Treatment of Accumulated Deferred Federal Income Taxes (“ADFIT”)**

Taxpayer has claimed accelerated depreciation on all of its public utility property (both electric and gas) to the full extent those deductions have been available under the Code. Taxpayer has normalized the federal income taxes deferred as a result of its claiming these deductions in accordance with the Normalization Rules. As a consequence, Taxpayer has a substantial balance of ADFIT that is attributable to accelerated depreciation reflected on its regulated books of account for both divisions. In accordance with New Jersey ratemaking practice, Taxpayer has reduced its rate base by its ADFIT balance.

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**Cost of Removal (“COR”)**

The Federal Energy Regulatory Commission (“FERC”) has, by regulation, established Uniform Systems of Accounts (“USOAs”) for both jurisdictional electric and gas companies.<sup>1</sup> These USOAs prescribe the accounting rules which are used by most large investor-owned electric and gas companies and are employed by Taxpayer’s electric and gas divisions. The applicable FERC regulations contain several definitions relevant to Taxpayer’s inquiry. These definitions are the same in both the electric and gas USOAs. Specifically, the USOAs define COR as:

...the cost of demolishing, dismantling, tearing down or otherwise removing electric or gas plant, including the cost of transportation and handling incidental thereto. (definition 10 in both USOAs)

“salvage value” as:

...the amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale... (definition 34 and 35 for electric and gas, respectively)

“net salvage value” as:

...the salvage of property retired less the cost of removal. (definition 19 and 23 for electric and gas, respectively)

“service value” as:

...the difference between original cost and net salvage value of electric plant (definition 35 and 36 for electric and gas, respectively)

and “depreciation” as:

...the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and

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<sup>1</sup> Title 18 CFR Part 101 and Part 201 for electric and gas, respectively.

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against which the utility is not protected by insurance (definition 12 and 12.B. for electric and gas respectively).

Thus, in general, for purposes of regulatory (*i.e.*, book) reporting, the net positive value or net cost of disposing of an asset at the end of its life is incorporated into the annual depreciation charge. COR is, therefore, most often (but not always) a component of establishing the applicable depreciation rate. For example, if an asset having an original cost of \$1,000 has a ten-year life, has a \$100 salvage value and no COR, the applicable annual depreciation rate would be 9% and the utility would recover \$900 over the ten-year life of the asset. If that same asset has a \$200 COR (*i.e.*, a \$100 net negative salvage value), the applicable annual depreciation rate would be 11%. In Taxpayer's case, due to the amount of COR it anticipates, in almost all instances its assets have negative net salvage values so that its book depreciation rate is higher than it would be were salvage value not considered. In effect, the annual depreciation charge creates a reserve for COR over the operating life of the asset. In the second example above, at the end of ten years, \$1,100 will have been charged to depreciation, \$100 more than the original cost of the asset. This \$100 excess plus the \$100 of salvage proceeds will fund the \$200 COR incurred at the end of the asset's life. Since book depreciation expense is included Taxpayer's cost of service used for establishing its rates, customers pay for the COR as book depreciation is factored into their rates. This COR reserve is reflected as an addition to Taxpayer's accumulated depreciation account. When the COR is incurred, the amount expended is debited to that same account, thereby reducing the balance.

For tax purposes, COR is deductible only when actually incurred. Taxpayer, therefore, reports its customer collections that fund the COR reserve as taxable income over the operating life of an asset, claiming an offsetting tax deduction only at the end of the life of that asset. Taxpayer has normalized COR since the 1981 tax year. All references below to COR related deferred tax accounting relate only to COR associated with assets placed in service after 1980. Since COR is normalized, in setting rates, customers are provided a tax benefit commensurate



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with their funding of COR. In other words, they are provided the COR tax benefit as they fund the COR reserve - prior to the time Taxpayer actually claims that benefit on its tax return.

The tax effect of the COR funding as described above creates a deferred tax asset (“DTA”). This represents the future benefit to be derived from the eventual COR tax deduction. The COR-related DTA is included in Taxpayer’s Account 282 – plant-related ADFIT and thereby reduces Taxpayer’s ADFIT balance.

COR can (and does) impact ADFIT balances in an additional way. The COR included in depreciation expense (*i.e.*, the accrual) is an estimate prepared for an entire class of assets contained in a FERC account. It is likely that any COR estimate will be too high or too low with respect to any individual asset with the ultimate answer remaining unknown until all vintages of each asset class are retired and removed. Any running variance from the estimate is recorded on Taxpayer’s balance sheet. Where the accrual exceeds the actual COR, it creates a net credit to the accumulated depreciation account. Where the actual COR exceeds the accrual, it creates a net debit to that account. This treatment means that Taxpayer will recover under-accruals from customers and refund over-accruals to customers through future rate adjustments. These future rate adjustments will give rise to future increases or decreases in taxable income. Under applicable accounting principles, Taxpayer must record the deferred tax consequences of these future events. An over-accrual produces a DTA (the tax benefit of a future deduction due to the refund of the excess collection) while an under-accrual produces a DTL (the tax cost of future taxable income due to the collection of the shortfall).

For the electric distribution division (“Electric Distribution”), the COR book/regulatory accrual has always been included in the development of the book depreciation rate. Customers are provided the COR tax benefit as they fund the COR reserve - prior to the time Taxpayer actually claims that benefit on its tax return. This produces a DTA as described above. In addition, as of 12/31/17, Taxpayer has, in total, incurred more COR than it has recovered from customers and, thus, is under-accrued for COR. This has produced a DTL, also as described

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above. Both the DTA and the DTL are included in Taxpayer's Account 282 – plant-related ADFIT.

Prior to November 2006, the gas distribution division ("Gas Distribution") accrued and collected COR as a component of the book depreciation rate. However, pursuant to order of the BPU, that collection practice was modified in 2006. Beginning in November 2006, the gas-only COR regulatory accrual was removed from the book depreciation rate. Rather, Taxpayer was allowed to record and recover annually (through a fixed dollar depreciation charge incremental to the normal depreciation computed via application of the depreciation rate) an amount representing an estimate of the annual COR that would be incurred in that year. At the time of this modification, the cumulative COR accrued exceeded COR actually incurred (*i.e.*, Taxpayer was over-accrued). At that time, Taxpayer had recorded a net DTA (to reflect the tax benefit of the future reduction in rates associated with refunding the excess to customers).

Since converting to this methodology in 2006, COR actually incurred has significantly exceeded COR accrued and recovered, resulting in a DTL (the tax cost of recovering the under-accrual in the future). As of 12/31/17 the two components (pre-November 2006 and post-October) combined represented a net DTL.

Effective November 1, 2018, pursuant to an Order issued by the BPU, gas COR regulatory recovery has reverted back to a component of the book depreciation rate. The fixed dollar accrual which began in 2006 has been eliminated.

Since 2012, Taxpayer's tax fixed asset system, PowerTax, has separately identified the portion of Taxpayer's book depreciation expense that relates to COR since that date. As a consequence, the system distinguishes between COR book/tax differences and depreciation method/life differences even though they are both derived from Taxpayer's book depreciation. Though the PowerTax system has the capability of tracking the reversals of these differences

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separately, in order to set it up to do this, a significant amount of work and data manipulation would be required. It is not currently configured in a manner that would allow this.

In years prior to 2018, Taxpayer paid income tax at a 35% rate on the recovery of the COR portion of book depreciation (and provided its customers a tax benefit at that tax rate). However, as a result of the tax rate reduction enacted as part of the Tax Cuts and Jobs Act<sup>2</sup> (“TCJA”), Taxpayer will only receive a 21% benefit when the COR deduction is claimed or when any over-accrual is refunded and will pay only a 21% tax on the recovery of any COR under-accrual. In other words, in the case of COR, the tax rate reduction enacted as part of the TCJA has produced both a deferred tax shortfall as well as an excess tax reserve. Because Taxpayer will not recover the 14% “excess” tax it paid on its recovery of the COR component of book depreciation from the government when it claims its COR deduction, it must recover it from its customers. Conversely, because Taxpayer will not pay the 14% “excess” deferred tax it accrued on its obligation to refund over-accrued COR, it must restore the amount to its customers (*i.e.*, it also has COR-related excess deferred taxes).

#### **Taxpayer’s Changes in Accounting Method for Mixed Service Costs and Repairs**

Prior to Taxpayer’s 2010 tax year, in capitalizing its indirect overhead costs – including its mixed service costs - Taxpayer followed the same methodology for both book and tax purposes.<sup>3</sup> Effective for its 2010 tax year, Taxpayer filed an Application for Change in Accounting Method (Form 3115) in which it requested permission to depart from its book method for tax purposes. The result of the change was to recharacterize a substantial quantity of mixed service costs that Taxpayer had previously capitalized into depreciable assets as deductible costs (including additions to cost of goods sold). This resulted in Taxpayer claiming a negative adjustment under Code §481(a) (that is, a deduction) to remove from the tax basis of its

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<sup>2</sup> P.L. 115-120.

<sup>3</sup> In 2000, Taxpayer had adopted an alternative method of capitalizing indirect overhead costs but went off that method in 2005 pursuant to IRS instructions.

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existing assets all such recharacterized costs to the extent Taxpayer had not previously depreciated them (“Section 481 Adjustment”).

Also prior to Taxpayer’s 2010 tax year, in identifying deductible repairs, Taxpayer followed the same methodology for both book and tax purposes. Effective for its 2010 tax year, Taxpayer filed an Application for Change in Accounting Method (Form 3115) in which it requested permission to depart from its book method for tax purposes. In general, under its new tax method, Taxpayer elected to use larger units of property than used for book purposes. The result of the change was to characterize many projects that were capitalized for book purposes as deductible repairs for tax purposes. This resulted in Taxpayer claiming a negative Section 481 Adjustment to remove from the tax basis of its existing assets all such recharacterized costs to the extent Taxpayer had not previously depreciated them.

Adjustments (additions) were made to Taxpayer’s ADFIT accounts, which already reflected the deferred tax consequences of having claimed accelerated depreciation on both types of costs after they were capitalized for tax purposes for the additional deferred taxes produced by the Section 481 Adjustments.

**Taxpayer’s Recent BPU Proceedings**

On January 12, 2018, Taxpayer filed with the BPU to adjust both its electric and its gas rates (Docket Nos. ER18010029 and GR18010030). The parties to the proceeding reached an agreement and, on or about October 2, 2018, Taxpayer submitted a Stipulation to the BPU for its approval. The BPU approved the Stipulation on October 29, 2018.

The Stipulation provides that:

1. The Company will seek a private letter ruling to determine if excess deferred taxes associated with excess tax over book depreciation that is subsequently reversed by accounting method changes relating to repair deductions and the capitalization of

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mixed service costs are protected by the normalization rules and subject to reversal under the ARAM; and that

2. The Company will seek a private letter ruling from the IRS to determine whether post-1981 cost of removal is protected by the normalization rules and, if so, whether it is to be treated as a separate temporary difference or part of the overall depreciation temporary difference for purposes of ARAM amortization.

This ruling request seeks guidance with respect to these questions.

#### **RULINGS REQUESTED**

Taxpayer respectfully requests the following guidance:

1. *Under the circumstances described above, is Taxpayer's Electric Distribution COR-related net DTL "protected" by the Normalization Rules?*
2. *If Taxpayer's Electric Distribution COR-related deferred tax is "protected," should that shortfall be treated as a discrete "protected" item or as part of the "protected" method/life difference?*
3. *Under the circumstances described above, is Taxpayer's Gas Distribution COR-related net DTA accumulated through the depreciation rate prior to November of 2006 "protected" by the Normalization Rules?*
4. *If Taxpayer's Gas Distribution COR-related deferred tax accumulated through the depreciation rate prior to November of 2006 is "protected," should that shortfall be treated as a discrete "protected" item or as part of the "protected" method/life difference?*
5. *Under the circumstances described above, is Taxpayer's Gas Distribution COR-related net DTL accumulated through the fixed estimated cash recovery after to November of 2006 "protected" by the Normalization Rules?*

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6. *If Taxpayer's Gas Distribution COR-related net DTL accumulated through the fixed estimated cash recovery after to November of 2006 is "protected," should that shortfall be treated as a discrete "protected" item or as part of the "protected" method/life difference?*
7. *If Taxpayer's COR-related deferred tax shortfall is "protected," do the Normalization Rules permit Taxpayer to collect a shortfall any more rapidly than using the ARAM?*
8. *Do Taxpayer's depreciation related ADFIT balances created pursuant to the Normalization Rules that are attributable to costs that were capitalized into the basis of depreciable assets prior to Taxpayer changing its method of accounting for those costs remain subject to the Normalization Rules after the change in method of accounting pursuant to which such costs were reclassified as current deductions?*

#### **STATEMENT OF LAW**

Code §162 allows for deductions of ordinary and necessary business expenses. Among these expenses are cost of removal.

Code §167 allows for a depreciation deduction for a reasonable allowance for exhaustion, wear and tear of property used in a trade or business.

Code §168 establishes the modified accelerated cost recovery system ("MACRS").

Code §168(f)(2) provides that MACRS depreciation does not apply to any public utility property if the taxpayer fails to use a normalization method of accounting.

Code §168(i)(9) describes the requirements necessary to conform to a normalization method of accounting.

Code §263A(f) requires that certain interest attributable to production activities must be capitalized for tax purpose.

Code §481(a) provides that, where a taxpayer changes a method of accounting, it must make an adjustment to take into account the omission or duplication of any item.

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Treas. Reg. §1.263(a)-3(k)(1)(iii) provides that certain amounts expended to restore damage to a unit of property for which a taxpayer claimed a casualty loss must be capitalized.

Notice 87-82 (1987-2 CB 389) addressed various issues associated with the receipt of contributions in aid of construction (“CIAC”), including the associated consequences under the Normalization Rules.

In private letter ruling (“PLR”) 201447007 (November 21, 2014), the Service ruled, *inter alia*, that costs included in a Section 481 Adjustment retained the character of the underlying item.

In PLR 8920025 (January 14, 1986), the Service ruled that excess deferred federal income taxes (“EDFIT”) associated with deregulated telephone plant remained subject to the Normalization Rules.

In PLR 9309010 (November 30, 1992), the Service ruled that the transfer of a utility’s excess tax reserve to a non-operating income account would not contravene the limitation established by section 203(e) of the Tax Reform Act of 1986 (“TRA ‘86”).<sup>4</sup>

In PLR 8846003 (August 3, 1988), the Service ruled that nuclear decommissioning costs were not subject to the Normalization Rules whether or not they were included in book depreciation.

In PLR 8616018 (January 14, 1986), the Service ruled that the use of net salvage to calculate regulated tax expense while using gross salvage to compute the adjustment to a reserve required under the Normalization Rules would violate those Rules.

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<sup>4</sup> P.L. 99-514.

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## **DISCUSSION AND ANALYSIS**

### **Requested Rulings #1 through #7**

#### **General**

Code §168(f)(2) provides that MACRS depreciation does not apply to any public utility property if the taxpayer fails to use a normalization method of accounting. Code §168(i)(9) describes the requirements necessary to conform to such a method. Specifically, Code §168(i)(9)(A) states that, in order to use a normalization method of accounting:

(ii) if the amount allowable as a deduction under this section with respect to such property (respecting all elections made by the taxpayer under this section) differs from the amount that would be allowable as a deduction under section 167 using the method (including the period, first and last year convention, *and salvage value*) used to compute regulated tax expense under clause (i), the taxpayer must make adjustments to a reserve *to reflect the deferral of taxes* resulting from such difference. [Emphasis added.]

This language is significant in two regards. First, it requires an adjustment to a tax reserve to reflect “the deferral of taxes.” Second, it references salvage value as a difference between the book method and tax method which is subject to the Normalization Rules. While there is no direct mention of COR in the statute, “salvage value” can be construed to mean either gross salvage (without regard to COR) or net salvage (considering salvage).

As described above, there are two aspects of COR to address under the Normalization Rules: (1) the deferred tax effect of the timing difference between the tax and regulatory treatment of COR and (2) the deferred tax effect of the mis-estimation of COR.

#### **The COR Timing Difference**

The timing difference between the book and tax treatment of COR does not produce a tax deferral. On the contrary, it produces an acceleration of tax. This situation would not appear to be covered by the statutory language which refers to a “deferral of taxes.” As a threshold matter,



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it is difficult to fathom how the purpose of the Normalization Rules – the retention of the cash produced by claiming accelerated depreciation – is served by imposing a restriction on the recovery from customers of an accelerated tax.

In general, there are three requirements imposed by the Normalization Rules: (1) they mandate that the protected tax benefit (the tax benefit of accelerated depreciation) not be flowed through to customers as a reduction in the tax expense element of cost of service, (2) they limit the quantity of depreciation-related ADFIT by which rate base may be reduced and (3) for purposes of ratemaking and regulatory accounting, they limit the reduction in the excess tax reserve (“ETR”) to the amount allowed by the average rate assumption method (“ARAM”). The ARAM reverses the ETR at the average tax rate at which deferred taxes were provided as the underlying timing differences reverse.

The TCJA’s income tax rate reduction rendered some portion of all utilities’ ADFIT balances “excess.” The portion of this EDFIT that is attributable to ADFIT that was subject to the Normalization Rules, the ETR, is “protected” in that it can be relieved no more rapidly than under the ARAM. Thus, the ARAM is a limitation on the flow through of ETR to customers. It is permissible to flow ETR through to customers less rapidly than permitted – or not at all.<sup>5</sup> If the ARAM applies to the DTA produced by a tax-accelerating item, then, it imposes a limitation on the recovery of the deferred tax shortfall. Further, since the Service has held it permissible not to flow back any ETR at all, the “protection” of a DTA may, by analogy, suggest that it would be permissible for a regulator not to allow recovery of the tax shortfall. Again, this is counterintuitive.

Having said this, the Service has, on a few occasions, concluded or, at least, suggested that the Normalization Rules can apply to an accelerated tax.

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<sup>5</sup> See PLR 9309010.

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In Notice 87-82 (“Notice”) the Service addressed various issues associated with the change in law as part of TRA ‘86 which rendered CIACs taxable – also a situation which produces an acceleration, rather than a deferral, of tax. One of the issues the Notice addressed was the normalization consequences of the receipt of a taxable CIAC. The Notice provides that, in general, the “negative deferral” resulting from the receipt of a taxable CIAC is subject to the Normalization Rules. No authority is cited and there is no discussion of the relevant statutory language.

However, having concluded that a taxable CIAC is subject to the Normalization Rules, the Notice makes an exception where the contributor is charged an additional amount to indemnify the utility for the acceleration of tax produced by the receipt of the CIAC.<sup>6</sup> This means that, even if the Normalization Rules prohibits a utility from flowing through in its cost of service (*i.e.*, recover from its universe of customers contemporaneously) the tax detriment produced by the accelerated tax attributable to the receipt of a CIAC, it can recover that same tax detriment from the CIAC contributor. The logic of permitting the former but not the latter is not obvious. What the Service did not do was explain either what the application of the Normalization Rules means in the context of a CIAC or how the fundamental purpose of the Normalization Rules (the protection of the benefits of accelerated depreciation) would be compromised by permitting the flow through of the CIAC-related tax detriment in all cases.

In PLR 8616018, the Service appears to have concluded that the flow through of COR would violate the Normalization Rules. However, the PLR does not indicate whether net salvage is positive or negative. Moreover, the Service reached its conclusion based on an inconsistency between the salvage method used for purposes of determining tax expense (net salvage) and the salvage method used for adjusting the ADFIT reserve (gross salvage).

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<sup>6</sup> Under the “noninculcation method” addressed by the Notice, the receipt of a CIAC is not recognized for book purposes but constitutes taxable income. The asset funded by the CIAC has no book basis and is not depreciated for book purposes but is depreciated for tax purposes.

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Finally, in PLR 8846003, the Service discussed the status of nuclear decommissioning costs under the Normalization Rules. Under the situation addressed, the collection of those costs from customers preceded the taxpayer's ability to claim a tax deduction. Therefore, the taxpayer recorded a DTA for the resultant tax acceleration. Notwithstanding that the Service concluded that such costs were not subject to the Normalization Rules, its discussion indicated that "excess prepaid taxes" could be protected under the Normalization Rules and, where that was the case, that the immediate flowthrough of such taxes would violate those Rules.

The Normalization Rules apply to the benefits of accelerated depreciation – that is, deductions authorized by Code §§167 and 168. Insofar as the Normalization Rules are concerned, the conceptual difficulty in dealing with COR is that, while on the one hand it may be a component of book depreciation, it is a deduction claimed under Code §162 and has nothing to do with accelerated tax depreciation. Of the methods included in the statutory parenthetical of Code §168(i)(9)(A) (the period, first and last year convention, and salvage value), only COR represents a deduction that is not authorized by either of those Code sections.

In order to apply the Normalization Rules, the Service has, on at least one occasion, taken substantial liberties with an item having nothing to do with depreciation in order to apply those Rules. Specifically, in Notice 87-82 (referenced previously), the Service reconstructed the regulatory treatment of a CIAC for this purpose. In that Notice, the Service stated:

For regulatory accounting purposes, utilities typically disregard the receipt of CIACs on their regulated books of account and do not include CIACs or CIAC property in income, cost of service, or rate base. This method of accounting (the "noninclusion method") is equivalent to including a CIAC in income in the year of receipt and depreciating the related CIAC property in its entirety in the same year. Accordingly, a utility using the noninclusion method of accounting for a CIAC will be treated for purposes of the normalization rules as if it computed its regulated tax expense by depreciating the related CIAC property in its entirety in the year in which the CIAC is received. The Internal Revenue Service believes that this treatment is consistent with the noninclusion method of accounting and is necessary in order to carry out the purposes of the normalization rules.

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In this case the Service transmuted the regulatory disregard of the receipt of a CIAC into the receipt of income offset by depreciation of the asset in its entirety in the same year. This created book depreciation to go along with the tax depreciation available to the CIAC-funded asset in order to fit the paradigm for application of the Normalization Rules.

However, this was the recharacterization of a regulatory treatment, not a tax treatment. So far as Taxpayer is aware, the Service has never taken such liberties with tax items so as to apply the Normalization Rules to a deduction under any Code section other than §§167 or 168. In PLR 8846003, in concluding that the DTA attributable to decommissioning was not subject to the Normalization Rules, the Service stated:

Decommissioning costs should not be construed as being included under section 168 of the Code under any circumstance, even if the regulatory commission accounted for such costs as a component of depreciation (negative salvage value).

Code §168(i)(9)(A)'s reference to salvage value was added by Section 201 of the Economic Tax Recovery Act of 1981.<sup>7</sup> The Senate Committee Report<sup>8</sup> states:

For this purpose, averaging conventions and salvage value limitations are considered part of the ratemaking depreciation method.<sup>9</sup>

...

The committee bill also requires that the statutory "half year" convention and salvage rules of ACRS be normalized. Therefore, if for purposes of determining the ratemaking allowance for depreciation, a salvage value limitation rule or a rule relating to first-year depreciation is used, those rules will be used in determining the amount of deferred taxes that result from using ACRS.<sup>10</sup>

Under ACRS, salvage value was not a factor in computing tax depreciation. This remains the case under MACRS. However, net salvage value was (and remains) a factor for computing

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<sup>7</sup> P.L. 97-34.

<sup>8</sup> Senate Report No. 97-144, 81-2 CB 412.

<sup>9</sup> 81-2 CB at 429.

<sup>10</sup> 81-2 CB at 430.

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regulatory depreciation. The legislative history excerpted above twice refers to a “salvage value limitation” as the target for the normalization requirement. There are no other references to salvage value. The only limitation imposed by book salvage value conventions were (and are) that an asset may not be depreciated below net positive salvage value. Net positive salvage value reduces the annual book depreciation charge. Since salvage does not affect tax depreciation, this book convention which decreases book depreciation increases the excess of tax over book depreciation. In short, it creates an additional tax deferral. Code §168(i)(9)(A) requires that this additional tax deferral be normalized. This result fits into the structure of the Normalization Rules rather comfortably. The statute does not seem to align nearly so well where net negative net salvage is concerned. It may well not have been contemplated by the drafters.

Finally, it should be noted that, although accounting for COR as a component of a utility’s depreciation rate for book purposes as prescribed by the FERC USOAs is the predominate practice for ratemaking as well, it is not universal. COR is, in fact, not always treated as a component of a utility’s book depreciation rate in ratemaking. Section 6.05[5] of *Accounting for Public Utilities*<sup>11</sup> recognizes:

While many consider it good ratemaking to include salvage and cost of removal in depreciation rates, considerable discretion exists regarding the extent of their inclusion. Some regulators treat salvage and cost of removal separately from depreciation rates.

In at least some jurisdictions, incurred COR amounts are amortized in arrears (*e.g.*, over the succeeding five years). It seems anomalous that COR should be subject to the Normalization Rules where it is included in the book depreciation rate but not where it is amortized in arrears. It is precisely the same cost in either event. The purpose of the Normalization Rules does not appear better served in the first instance than in the second.

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<sup>11</sup> Hahne and Aliff, LexisNexis.

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It must be noted that this issue may have repercussions that extend beyond COR. There are numerous instances in which the tax law requires all or part of the cost of particular item to be capitalized into the depreciable tax basis of an asset in excess of the amount of that item that must be capitalized for book purposes. One example is construction period interest. In general, the requirements of Code §263A(f) result in more interest being capitalized for tax purposes than for book purposes. This results in less interest being deductible for tax purposes than is expensed for book purposes. This acceleration of tax will be reversed as the higher tax basis in the asset is depreciated on future tax returns. Where the book/tax difference is normalized, the tax consequences of having a higher tax basis than book basis is recorded as a DTA. The application of the Normalization Rules to capitalized interest has never to Taxpayer's knowledge been addressed by the Service. Similar situations may be presented by capitalized benefits (pension, OPEBs, etc.) where amounts capitalized under the applicable tax rules may exceed book capitalized amounts, where repairs that are expensed for book purposes must be capitalized under the casualty loss rules of Treas. Reg. §1.263(a)-3(k)(1)(iii) and other similar situations. Each of these involves an acceleration, rather than a deferral, of tax, the creation of tax basis in excess of book basis and, consequently, the recordation of a DTA.

If DTA's can be "protected," in terms of the ADFIT shortfall, it makes more sense that the "protection" afforded is that the shortfall must be permitted to be recovered no more slowly than under the ARAM and that any unamortized balance must be included as an offset to the ADFIT balance treated as zero-cost capital. This would seem to somewhat align the purposes of the Normalization Rules with the Notice's treatment of CIACs and with other protected DTAs.

While depreciation method/life differences are created and reversed solely through depreciation, such is not the case with COR. While the COR timing difference may originate as a component of book depreciation, it reverses through the incurred COR expenditure. Only if the COR deduction is deemed additional tax depreciation can it be said that COR is a pure depreciation-related timing difference. And, as indicated above, the Service has not, to

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Taxpayer's knowledge, previously recharacterized a tax expense item as depreciation for purposes of the Normalization Rules.

COR Mis-Estimates

Treas. Reg. §1.167(l)-1(a) states, in pertinent part:

The normalization requirements of section 167(l) with respect to public utility property defined in section 167(l)(3)(A) 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 section 167 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.

As a threshold matter, any under- or over-collection associated with a mis-estimate of COR has nothing whatsoever to do with using a method of depreciation for regulatory purposes that differs from the method used for tax purposes. That, in and of itself, brings the application of the Normalization Rules into doubt. Further, the variation between the accrual of COR and the actual expenditure does not give rise to a depreciable asset that is recognized for tax purposes. Any under- or over-collection might be sensibly viewed as a regulatory asset or liability (*i.e.*, a regulatory promise to allow collection or to require a refund at some time in the future) – items to which the Normalization Rules generally do not apply. Finally, even if under- or over-collections of COR were, somehow, to be viewed as items potentially subject to the Normalization Rules, they should be treated as book/tax basis differences and, as such, outside of the purview of those rules.<sup>12</sup>

COR – Part of Method/Life or a Separate Difference

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<sup>12</sup> Treas. Reg. §167(l)-1(a) states: Regulations under section 167(l) do not pertain to other book-tax timing differences with respect to State income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

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If the Service concludes that COR is subject to the Normalization Rules, then Taxpayer requests guidance regarding how the ETR - both the component related to the tax deferral due to depreciation method/life differences and the component related to the tax acceleration due to COR accruals (as part of book depreciation) - should be returned to ratepayers consistent with these rules. Specifically, Taxpayer seeks clarification as to whether the two components constitute a single, aggregated protected item, (the “Unified Approach”) which unwinds based on the total book depreciation activities and COR expenditures incurred in a given year or whether, instead, they constitute two distinct protected items which reverse based on differing events (the “Disaggregated Approach”).

Under the Disaggregated Approach, the ETR associated with the method/life differences (a DTL or an “excess”) is flowed back as the depreciation timing differences (without considering the COR component of book depreciation) reverse while ETR associated with the COR difference (a DTA or a tax shortfall) is recovered only in the year the COR expenditure is deducted (*i.e.*, when the COR timing difference reverses). Under this method, the portion of book depreciation that represents an accrual for future COR expenditures has no impact on the ARAM calculation. Such book accruals merely generate “new” timing differences (tax accelerations) which will be tax effected at 21% and which will reverse at that same tax rate when the COR costs are actually incurred in the future.

By contrast, under the Unified Approach, the net of the method/life DTL and the COR-related DTA begins being flowed through immediately upon the reversal of the method/life difference based on total book depreciation (including the portion attributable to COR). Thus, under the Unified Approach, the aggregate ETR flows back more rapidly than it does under the Disaggregated Approach. The bottom three rows of the attached worksheet illustrate this impact.

If one of the alternatives complies with the Normalization Rules, it is at least possible that the other does not.



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**Requested Ruling #8**

Prior to Taxpayer changing its accounting methods, certain mixed service and repair costs became part of the tax basis of depreciable assets. Taxpayer depreciated that basis and, in compliance with the Normalization Rules, made adjustments to a reserve to reflect the taxes deferred as a result of claiming accelerated depreciation. When a taxpayer changes its method of accounting, income for the taxable year preceding the year of change must be determined under the method of accounting that was then employed and income for the year of change and the following taxable years must be determined under the new method of accounting as if the taxpayer had always been on the accounting method to which it has changed. Had Taxpayer always used its new accounting method for treatment of mixed service costs and repairs, its tax basis in its depreciable assets at the end of the year immediately preceding the year of the method changes would have been less than it was. Thus, in the year of change and thereafter, its depreciation would be lower than it would have been without the change. This would result in the permanent omission from the computation of taxable income of an amount of depreciation equal to the difference between what its tax basis would have been without the change and what it was as a result of the change. Code §481(a) provides that an adjustment to prevent such an omission “shall be taken into account.” Accordingly, in each of the two years of change, as required by Code §481(a), Taxpayer claimed a substantial negative adjustment (a deduction) to eliminate the permanent omission. Taxpayer adjusted a reserve (*i.e.*, it provided deferred taxes) to reflect the tax deferred by these deductions (since the method change was only effective for tax purposes, there were no corresponding book deductions).

In PLR 201447007, the Service addressed the issue of whether a Section 481 Adjustment possesses the character and treatment of the underlying item. In that PLR, the taxpayer had changed its method of accounting for repairs and claimed a negative Section 481 Adjustment for costs it had previously capitalized but which would, under its new method, have been deducted. The issue was whether the costs included in the Section 481 Adjustment

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attributable to removal costs that would qualify as nuclear decommissioning costs under the new method of accounting took on that character such that they might be eligible for the extended net operating loss carryback rules of Code §172(f). The Service ruled that they did take on the character of nuclear decommissioning costs. These tax deductions Taxpayer claimed pursuant to Code §481(a) were not claimed pursuant to Code §§167 or 168 and, therefore, the provision of deferred taxes should not be mandated by the Normalization Rules. Consequently, any EDFIT associated with the Section §481 Adjustments are not subject to those rules. They are “unprotected.”

But PLR 201447007 does not address the character of the portion of the costs that were previously depreciated pursuant to the Normalization Rules and which were, therefore, not incorporated into the Section 481 Adjustment.

Essentially, the tax treatment of these costs was not disturbed by the changes in accounting method. They were capitalized and depreciated for both book and tax purposes and Taxpayer was required to make an adjustment to its deferred tax reserve to reflect the deferral of taxes resulting from the use of accelerated tax depreciation. The method changes did not change this aspect of what has occurred previously. This is true even though, had the original costs been characterized under the new accounting methods, the tax deferrals would not have been subject to the Normalization Rules.

While Taxpayer has discovered no authority directly on point, PLR 8920025 does contain some relevant statements. In that PLR, a telephone company having EDFIT created under TRA '86 transferred certain utility assets from its regulated books of account to its nonregulated books of account. The Service addressed whether or not the proposed treatment of the EDFIT associated with the deregulated assets complied with the Normalization Rules. The Service stated:

Section 203(e) of the Act does not redefine a normalization method of accounting. It does, however, provide that amounts which were originally deferred pursuant to

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a normalization method of accounting remain subject to the normalization rules of sections 167(1) and 168(i)(9) of the Code. Accordingly, all amounts previously deferred under corporate tax rates at 46 percent are part of a “reserve to reflect the deferral of taxes” as described in sections 167(1)(2)(G)(ii) and 168(i)(9)(A)(ii), and become inseparable from the assets which initially gave rise to the deferral.

In the PLR, nothing changed with respect to the depreciable assets other than their regulatory status. Their tax status remained the same. By contrast, Taxpayer’s context involves the recharacterization of expenditures as costs which, under the new characterization, would never have been subject to the Normalization Rules. Thus, the broad principle enunciated in the PLR does not necessarily apply to Taxpayer’s situation.

### **CONCLUSION**

For the reasons set forth above, we respectfully request the Service provide the requested guidance.

### **PROCEDURAL MATTERS**

#### **A. Statements required by Rev. Proc. 2018-1:**

1. Section 7.01(4) – To the best of the knowledge of both Taxpayer and Taxpayer’s representative, the issue that is the subject of this requested letter ruling is not addressed in any return of Taxpayer, a related taxpayer within the meaning of §267, or of a member of an affiliated group of which Taxpayer is also a member within the meaning of §1504 that is currently or was previously under examination, before Appeals, or before a Federal court.

2. Section 7.01(5)(a) – Taxpayer, a related party taxpayer within the meaning of §267, or a member of an affiliated group of which Taxpayer is also a member has not, to the best of the knowledge of both Taxpayer and Taxpayer’s representative, received a ruling on the issue that is the subject of this requested letter ruling.

3. Section 7.01(5)(b) – To the best of the knowledge of Taxpayer and Taxpayer’s representative, neither Taxpayer, a related taxpayer, a predecessor, nor any

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representatives previously submitted a request involving the same or a similar issue to the Service but with respect to which no letter ruling or determination letter was issued.

4. Section 7.01(5)(c) – To the best of the knowledge of Taxpayer and Taxpayer’s representative, neither Taxpayer, a related taxpayer, nor a predecessor, previously submitted a request (including an application for change in method of accounting) involving the same or a similar issue that is currently pending with the Service.

5. Section 7.01(5)(d) – To the best of the knowledge of Taxpayer and Taxpayer’s representative, neither Taxpayer nor a related taxpayer are presently submitting additional requests involving the same or a similar issue.

6. Section 7.01(5)(e) – To the best of the knowledge of Taxpayer and Taxpayer’s representative, neither Taxpayer nor a related taxpayer had, or has, scheduled a pre-submission conference involving the same or a similar issue.

7. Section 7.01(9 and (10) – Taxpayer has included all supportive and contrary authorities of which it is aware. The law in connection with this request is uncertain and the issue is not adequately addressed by relevant authorities.

8. Section 7.01(11) – Taxpayer is unaware of any pending legislation that may affect the proposed transaction.

9. Section 7.02(5) – Taxpayer hereby requests that a copy of the ruling and any written requests for additional information be sent by facsimile transmission (in addition to being mailed) and hereby waives any disclosure violation resulting from such facsimile transmission. Please fax the ruling and any written requests to Alexander Zakupowsky at (202) 626-5801 with a copy to Clifford Pardo, Assistant Controller –Tax ; PSEG at (201) 242-4082.

10. Section 7.02(6) – Taxpayer respectfully requests a conference on the issues involved in this ruling request in the event the Service reaches a tentatively adverse conclusion.

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11. The Staff of the BPU has reviewed the request and believes that the request is adequate and complete. Taxpayer will permit the BPU to participate in any Associate office conference concerning this ruling request.

**B. Administrative**

1. The deletion statement and checklist required by Rev. Proc. 2018-1 are enclosed.
2. A [Pay.gov](#) receipt for the electronic payment of the required user fee of \$28,300 is enclosed along with the appropriate application form.
3. A Form 2848 Power of Attorney granting Taxpayer's representative the right to represent Taxpayer is enclosed.

If you have any questions or need additional information regarding this ruling request, pursuant to the enclosed Power of Attorney, please contact Alexander Zakupowsky at (202) 626-5950.

Respectfully submitted,

Alexander Zakupowsky  
Miller & Chevalier Chartered  
Attorney for Public Service Electric and Gas Company

Associate Chief Counsel  
Internal Revenue Service  
May 29, 2019  
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**PENALTIES OF PERJURY STATEMENT**

Public Service Electric and Gas Company

Under penalties of perjury, I declare that I have examined this request, including accompanying documents, and, to the best of my knowledge and belief, the request contains all the relevant facts relating to the request, and such facts are true, correct, and complete.

Public Service Electric and Gas Company

BY: \_\_\_\_\_

DATE: \_\_\_\_\_

Associate Chief Counsel  
Internal Revenue Service  
May 29, 2019  
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**PENALTIES OF PERJURY STATEMENT**

Public Service Enterprise Group Incorporated

Under penalties of perjury, I declare that I have examined this request, including accompanying documents, and, to the best of my knowledge and belief, the request contains all the relevant facts relating to the request, and such facts are true, correct, and complete.

Public Service Enterprise Group Incorporated

BY: \_\_\_\_\_

DATE: \_\_\_\_\_

**DELETION STATEMENT**

For purposes of Section 6110(c)(1) of the Internal Revenue Code of 1986, as amended, Taxpayer requests the deletion of all names, addresses, EINs, locations, dates, amounts, regulatory bodies and other taxpayer identifying information contained in the attached request for private letter ruling.

Taxpayer reserves the right to review, prior to disclosure to the public, any information related to this request for private letter ruling and to provide redacted copies of any documents to be released to the public.

Date: \_\_\_\_\_

\_\_\_\_\_  
Alexander Zakupowsky  
Miller & Chevalier Chartered  
Attorney for Public Service Electric and Gas  
Company



## Request for Comments on Necessary Clarifications to Normalization Requirements for Excess Tax Reserves Resulting from the Corporate Tax Rate Decrease

Notice 2019-33

### SECTION 1. PURPOSE

This notice announces that the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) intend to issue guidance under § 168 of the Internal Revenue Code to clarify the normalization requirements for excess tax reserves resulting from the corporate tax rate decrease in the Tax Cuts and Jobs Act (TCJA), Pub. L. 115-97 (131 Stat 2054). This notice requests comments about ratemaking issues that have arisen or are anticipated due to the corporate tax rate decrease and the requirements of section 13001(d) of the TCJA.

### SECTION 2. BACKGROUND

In general, normalization is a system of accounting used by regulated public utilities to reconcile the tax treatment of accelerated depreciation of public utility assets with their regulatory treatment. Under normalization, a utility receives the tax benefit of accelerated depreciation in the early years of an asset's regulatory useful life and passes that benefit through to ratepayers ratably over the regulatory useful life of the asset in the form of reduced rates.

Section 168 of the Code generally allows taxpayers to compute their depreciation deduction for federal income tax purposes under the accelerated cost recovery system. 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. Section 168(i)(9) describes what constitutes a “normalization method of accounting.”

In order to use a normalization method of accounting, § 168(i)(9)(A)(i) requires a taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account (regulated tax expense), to use a method of depreciation for property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for establishing its cost of service for ratemaking purposes. Under § 168(i)(9)(A)(ii), if the amount allowable as a deduction under § 168 differs from the amount that would be allowable as a deduction under § 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under § 168(i)(9)(A)(i), then the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Former § 167(l) generally contained the requirements discussed above regarding permitting public utilities to use accelerated methods for calculating depreciation only if they used a “normalization method of accounting.” The requirements for establishing and adjusting the reserve required by § 168(i)(9)(A)(ii) are contained in § 1.167(l)-1 of the Income Tax Regulations.

Section 1.168(i)-3, finalized in 2008 (2008 regulations), provides rules on the treatment of excess deferred income tax reserve upon disposition of deregulated public utility property.

Section 1.168(i)-3(a)(1) generally provides rules for the application of section

203(e) of the Tax Reform Act of 1986 (1986 Act), Public Law 99–514 (100 Stat. 2146), to a taxpayer with respect to public utility property (within the meaning of § 168(i)(10)) that ceases, whether by disposition, deregulation, or otherwise, to be public utility property with respect to the taxpayer and that is not described in § 1.168(i)-3(a)(2) (deregulated public utility property).

Section 1.168(i)-3(b) provides that if a public utility property of a taxpayer becomes deregulated public utility property to which this section applies, the reduction in the taxpayer's excess tax reserve permitted under section 203(e) of the 1986 Act is equal to the amount by which the reserve could be reduced under that provision if all such property had remained public utility property of the taxpayer and the taxpayer had continued use of its normalization method of accounting with respect to such property.

### SECTION 3: TAX CUTS AND JOBS ACT

The TCJA, enacted on December 22, 2017, generally reduced the corporate tax rate under § 11 of the Code from 35 percent to 21 percent for taxable years beginning after December 31, 2017. Section 13001(a).

Section 13001(d) of the TCJA includes accompanying but uncodified normalization requirements. Section 13001(d)(1) provides that a normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of §§ 167 or 168 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method (ARAM).

Section 13001(d)(2) provides an alternative method for certain taxpayers. If, as of the first day of the taxable year that includes the date of enactment of the TCJA, the taxpayer was required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method, and the taxpayer's books and underlying records did not contain the vintage account data necessary to apply ARAM, the taxpayer will be treated as using a normalization method of accounting if, with respect to such jurisdiction, the taxpayer uses the alternative method for public utility property that is subject to the regulatory authority of that jurisdiction.

Section 13001(d)(3) provides definitions for purposes of section 13001(d). Section 13001(d)(3)(A) defines an "excess tax reserve" to mean the excess of the reserve for deferred taxes (as described in § 168(i)(9)(A)(ii)) as of the day before the corporate rate reductions provided in the amendments made by section 13001(a) take effect, over the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate tax rate reductions provided in the TCJA were in effect for all prior periods.

Section 13001(d)(3)(B) defines ARAM as the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in the taxpayer's regulated books of account which gave rise to the reserve for deferred taxes. Under such method, during the time period in which the timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of

the period in question, by the amount of the timing differences which reverse during such period.

Section 13001(d)(3)(C) defines the “alternative method” as the method in which the taxpayer computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and reduces the excess tax reserve ratably over the remaining regulatory life of the property.

Section 13001(d)(4) provides that, for any taxable year ending after the date of the enactment of the TCJA, if the taxpayer does not use a normalization method of accounting for the corporate rate reductions provided in the amendments made by section 13001, then the taxpayer's tax for the taxable year shall be increased by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting, and such taxpayer shall not be treated as using a normalization method of accounting for purposes of § 168(f)(2) and (i)(9)(C).

The Joint Explanatory Text of the Committee of Conference, H. Rept. 115-466 (Conference Report), adds more clarification about the normalization rules in section 13001(d) of the TCJA. The Conference Report states that the excess tax reserve is the reserve for deferred taxes as of the day before the corporate rate reduction takes effect over what the reserve for deferred taxes would be if the corporate rate reduction had been in effect for all prior periods. Conference Report, at 343. If an excess tax reserve is reduced more rapidly or to a greater extent than such reserve would be reduced

under ARAM<sup>1</sup>, the taxpayer will not be treated as using a normalization method with respect to the corporate rate reduction. If the taxpayer does not use a normalization method of accounting for the corporate rate reduction, the taxpayer's tax for the taxable year shall be increased by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting and the taxpayer will not be treated as using a normalization method of accounting for purposes of § 168(f)(2) and (i)(9)(C).

The Conference Report also explains in greater detail the application of ARAM. According to the Conference Report, ARAM reduces the excess tax reserve over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes during the years in which the deferred tax reserve related to such property is reversing. Id. Under this method, the excess tax reserve is reduced as the timing differences reverse over the remaining life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a taxable year is multiplied by the ratio of (1) the aggregate deferred taxes as of the beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question.

<sup>1</sup> Section 13001(d)(2) provides that certain taxpayers may use the alternative method to calculate the reduction of their excess tax reserve and such taxpayers will be treated as using a normalization method of accounting.

#### SECTION 4: THE TAX REFORM ACT OF 1986 AND REV. PROC. 88-12

For taxable years beginning on or after July 1, 1987, section 601 of the 1986 Act reduced the maximum federal income tax applicable for corporations from 46 percent to 34 percent.

Similar to section 13001(d) of the TCJA, section 203(e) of the 1986 Act provided rules for reducing the excess tax reserve resulting both from that reduction and from the smaller reduction in rates for tax years starting before and ending after July 1, 1987. Section 203(e)(2)(B) of the 1986 Act defined ARAM as the method under which the excess tax reserve is reduced over the remaining lives of the property (as used in a public utility's regulated books of account) that gave rise to the reserve for deferred taxes. Some taxpayers, however, did not necessarily have adequate data to apply ARAM because they were required by regulatory agencies to depreciate property for regulatory purposes using a weighted average life or composite rate, and such a method focuses on the entire plan and does not account for property by vintage accounts. The 1986 Act, however, did not provide taxpayers an alternative method to ARAM.

Rev. Proc. 88-12, 1988-1 C.B. 637, provides an alternative method sometimes referred to as the Reverse South Georgia Method (RSGM). Under section 4.01 of Rev. Proc. 88-12, a taxpayer uses the RSGM if it computed the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and reduced the excess tax reserve ratably over the remaining regulatory life of the

property. Section 5.01 of Rev. Proc. 88-12 provides generally that for eligible taxpayers the RSGM satisfied the requirements of section 203(e) of the 1986 Act.

In summary, section 13001(d)(1) of the TCJA provides ARAM as the regular method in the same manner as that provided in section 203(e)(2)(B) of the 1986 Act. Section 13001(d)(2) of the TCJA provides an alternative method that, while not specifically referred to as the RSGM, is nevertheless the same as the RSGM as originally provided in Rev. Proc. 88-12.

## SECTION 5. REQUEST FOR COMMENTS

The Treasury Department and the IRS request comments on issues that should be addressed in proposed guidance to clarify the normalization requirements for excess tax reserves resulting from the corporate tax rate decrease in the TCJA and the requirements of section 13001(d) of the TCJA as well as comments regarding what form of guidance would be most useful. Specifically, the Treasury Department and the IRS request comments that address the following:

- (1) Situations where taxpayers may have vintage account data in their underlying books and records in some form but such data is not necessarily useful for ARAM without significant additional analysis and expense. More specifically, comments on whether some sort of “reasonable” test should be provided, under which the use of the alternative method by a taxpayer is permissible if the cost to the taxpayer of assembling the data contained in the underlying books and records in a way necessary to apply ARAM exceeds a reasonable amount, based on a percentage of rate base or some other factor.



- (2) Other fact patterns where taxpayers may use the alternative method instead of ARAM including but not limited to comments on when the RSGM is a taxpayer's current normalization method of accounting for excess deferred taxes, regardless of the availability of vintage or class information for the accumulated deferred income taxes (ADIT) that had been accrued after the 1986 Act.
- (3) Net operating loss (NOL) issues including but not limited to comments on the significance of a depreciation-related NOL carryforward in the context of excess deferred taxes, and comments on whether a depreciation-related NOL as of December 31, 2017, must be analyzed for normalization purposes based on the underlying loss year.
- (4) By their terms, the 2008 regulations apply only to section 203(e) of the 1986 Act, but the Treasury Department and the IRS believe it may be appropriate to extend their application to section 13001(d) of the TCJA. Comments on the ongoing relevance of the 2008 regulations including but not limited to comments on the treatment of book-only retirements and tax dispositions in regard to significant transactions (such as sales of power plants) versus day-to-day (ordinary or not significant) transactions as well as comments on transactions not addressed in the 2008 regulations such as like-kind exchanges or other dispositions of public utility property.
- (5) The implementation of interim rates to reflect the TCJA's decrease in the corporate tax rate including but not limited to comments about the meaning of the phrase "reduces the excess tax reserve more rapidly or to

a greater extent than such reserve would be reduced under ARAM.”

- (6) Whether the proration formula required by § 1.167(l)-1(h)(6)(ii) must be applied to excess deferred tax activity related to reversals (refunds) of excess deferred taxes if the company uses a future test period or a part-historical, part-future test period.
- (7) Methodology of reversing protected (by the normalization rules) versus unprotected ADIT after the 2017 rate changes.

## SECTION 6. ADDRESS TO SEND COMMENTS

Any comments must be received by July 29, 2019. Taxpayers may submit comments electronically via the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov) (indicate IRS and Notice 2019-33). Alternatively, taxpayers may submit hard copy submissions to:

CC:PA:LPD:PR (Notice 2019-33), Room 5203, Internal Revenue Service

P.O. Box 7604

Ben Franklin Station

Washington, D.C., 20044

Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to:

CC:PA:LPD:PR (Notice 2019-33), Courier's Desk, Internal Revenue Service

1111 Constitution Avenue, N.W.

Washington, D.C. 20224

Attn: CC:PA:LPD:PR

All comments received will be available for public inspection on [www.regulations.gov](http://www.regulations.gov).

## SECTION 7. DRAFTING INFORMATION

The principal author of this notice is Martha M. Garcia of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this notice contact Ms. Garcia at (202) 317-6853 (not a toll-free call).



July 26, 2019

Via Hand Delivery and Electronic Mail

CC:P:LPD:PR (Notice 2019-33), Couriers Desk,  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224  
Attn: CC:PA:LPD:PR

The Honorable David Kautter  
Assistant Secretary (Tax Policy)  
United States Department of the Treasury  
1500 Pennsylvania Avenue, N.W.  
Washington D.C. 20220

The Honorable Charles Rettig  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

The Honorable Michael J. Desmond  
Chief Counsel  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

Dear Messrs. Kautter, Rettig and Desmond:

The Edison Electric Institute and the American Gas Association want to express our gratitude for the careful thought and attention that went into the development of Notice 2019-33 requesting comments to clarify the normalization requirements included in section 13001(d) of the Tax Cuts and Jobs Act ("TCJA"), Pub. L. 115-97 (131 Stat 2054) for the excess tax reserves ("ETR") resulting from the corporate tax rate decrease provided by the TCJA. We agree that several issues have arisen or are anticipated to arise as regulated public utilities and regulators take the effects of the corporate rate reduction into account in the ratemaking process. We support the issuance of guidance to provide certainty to taxpayers and regulators on these issues. Your guidance on these matters is extremely important to regulated public utilities and regulators because of the significant tax costs imposed in the event a taxpayer is found not to have used a normalization method of accounting in regulatory reporting or ratemaking for its ETR.

You have requested comments on seven specific issues, which we will address in Section 1 of this letter. In Section 2, we will discuss comments on transition rules, which we consider

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important to allow the orderly implementation of your guidance. Finally, in Section 3, we will address the forms of the guidance, the need for your guidance as soon as practicable, and our suggestions for a process by which the timeliness of guidance may be accelerated.

### Section 1. Specific Issues Raised and Comments

- (1) *Situations where taxpayers may have vintage account data in their underlying books and records in some form but such data is not necessarily useful for ARAM without significant additional analysis and expense. More specifically, comments on whether some sort of “reasonable” test should be provided, under which the use of the alternative method by a taxpayer is permissible if the cost to the taxpayer of assembling the data contained in the underlying books and records in a way necessary to apply ARAM exceeds a reasonable amount, based on a percentage of rate base or some other factor.*

The general normalization rule of section 13001(d)(1) of the TCJA provides that a regulated public utility is not permitted to reduce its ETR “more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method” (“ARAM”). A limited exception is provided to this general rule by section 13001(d)(2) of the TCJA. Under section 13001(d)(2) of the TCJA, certain taxpayers are permitted to use an alternative method in lieu of the ARAM, if on the first day of their taxable year that includes December 22, 2017 (the date of enactment of the TCJA): (i) they are required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method, and (ii) their books and underlying records did not contain the vintage account data necessary to apply the ARAM.

It is important that taxpayers have clear guidance to determine if they do not have “books and underlying records” that “contain the vintage account data necessary to apply the average rate assumption method” in order to use the alternative method without the risk of a normalization violation. In response to one specific question raised in this Issue 1 of Notice 2019-33, we do not believe that consideration of the reasonableness of the cost of assembling the data contained in the underlying books and records in a way necessary to apply the ARAM resolves this issue, particularly if the costs were measured as a percentage of rate base. This is so because the rate base of a regulated public utility is a significant amount, and any material percentage would be a significant cost. In contrast, the use of an immaterial percentage of rate

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base could produce an arbitrary cost threshold that would be an unreliable measure of whether the cost exceeds a “reasonable amount.” Furthermore, a taxpayer would be faced with the challenge of determining and proving the cost of assembling the needed data contained in the underlying books and records in a way necessary to apply the ARAM in the absence of actually having incurred such costs. This challenge could lead to serious uncertainty and controversy.

In our view, the issue is best addressed by focusing on the intent of the statute and not the cost of compliance, although we do not object to consideration of the cost of compliance as a general matter in the sound administration of our federal income tax system. The statute makes the required use of the ARAM dependent upon the taxpayer having books and underlying records that contain the vintage account data necessary to apply the ARAM. It does not require the taxpayer to create the books and underlying records that contain the vintage account data. In other words, unless the books, which contain the financial and tax accounts of the regulated utility, are already based upon the vintage account data that is required for the ARAM, use of the ARAM should not be required. A taxpayer should not be required to construct, restore or estimate vintage account data to determine the ARAM if such data is not already in use in the taxpayer’s books. Such an expansive reading would change the second requirement of the statute to require a taxpayer to show that it could not produce or re-construct the vintage account data needed to apply the ARAM. In our view, that was not the intent of Congress. The statute does not require a taxpayer to show that it could not produce or construct the vintage account data needed to apply the ARAM. Rather the statute focuses on the data’s existence. In our view, the intent of Congress, was to require the ARAM only when the taxpayer already has the books and underlying records that contain the vintage account data.

Thus, in the absence of a taxpayer reflecting sufficient vintage account data in regulatory filings, financial reports, or management reports, the taxpayer would not have the books and underlying records that contain the vintage account data necessary to apply the ARAM. We also believe a safe harbor based upon this distinction is appropriate. Thus, pursuant to such a safe harbor, a taxpayer not reflecting sufficient vintage account data in regulatory filings, financial reports, or management reports would not be required to apply the ARAM because the taxpayer’s books lack vintage account data.

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In the absence of the application of the safe harbor, the question whether the taxpayer has vintage account data in its books and records to use the ARAM would be based on all the facts and circumstances.

In determining whether the taxpayer qualifies for the alternative method either by applying the safe harbor or based on its facts and circumstances, the guidance should provide that the taxpayer is not required to cure deficiencies in its books and records by the creation, recreation, or restoration of books or records, including through the use of estimates, statistical sampling, or the accessing of data through the use of computer systems not currently in use for its financial processes. This would eliminate the arguments that sufficient data exists to use the ARAM simply because vintage account data can be determined by reconstruction from underlying primary records or the use of estimates and statistical sampling.

In the absence of guidance to date, some regulated public utilities have used estimates, statistical sampling, or accessed data from computer systems no longer in use to cure deficiencies in their books and records to timely provide benefits of the TCJA to customers under the ARAM. While we are asking that such creation, recreation or restoration of books and records not be required, we believe that taxpayers that have created, recreated or restored books or records to cure deficiencies in data, by the time your guidance is issued in order to use the ARAM, should be permitted to do so. The ARAM is favored by section 13001(d)(1) of the TCJA and its use should be encouraged. In support of the use of the ARAM, we ask that your guidance provide that a regulated utility that uses the ARAM is presumed to have sufficient vintage account data to use the ARAM.

Consistent with Rev. Proc. 88-12, 1988-1 C.B. 637, your guidance should provide that if a taxpayer is subject to the jurisdiction of more than one regulatory body, the determination of the adequacy of the vintage account data for each asset or group of assets is determined on a jurisdiction-by-jurisdiction basis.

Our final comment on this first issue is that vintage account data has improved over time for some regulated public utilities. In the case of a single regulated public utility business with the absence of vintage account data for some, but not all vintages, the taxpayer should not be

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required to use the ARAM or the alternative method on a vintage-by-vintage basis depending on the existence of the vintage account data for each vintage. Instead the alternative method should be available for all vintages unless a significant amount of the taxpayer's ETR is attributable to vintages for which the taxpayer has vintage account data. For purposes of this rule, we suggest you define the term "significant" to mean that the taxpayer has 50 percent or more of its ETR in vintages for which it has vintage account data. A taxpayer with 50 percent or more of its ETR in vintages for which it has vintage account data needed to use the ARAM should be required to use the ARAM for vintages for which it has the required data available, and the alternative method for the balance of its ETR for which it does not have the required vintage account data available. A regulated public utility with less than 50 percent of its ETR in vintages for which it has vintage account data to use ARAM, could either: (i) use the alternative method to account for all its ETR, or (ii) use ARAM for those vintages for which it has vintage account data and the alternative method for the balance of its ETR. Once adopted, a taxpayer should be required to use ARAM or the alternative method consistently from year to year with respect to ETR resulting from the TCJA. Again, we suggest that a regulated public utility is presumed to have sufficient vintage account data to use the ARAM, if it uses the ARAM.

- (2) *Other fact patterns where taxpayers may use the alternative method instead of ARAM including but not limited to comments on when the RSGM is a taxpayer's current normalization method of accounting for excess deferred taxes, regardless of the availability of vintage or class information for the accumulated deferred income taxes (ADIT) that had been accrued after the 1986 Act.*

In our view, the ARAM and the alternative method are not tax methods of accounting under section 446 of the Internal Revenue Code of 1986, as amended ("Code"). While we recognize the need for consistency with respect to the application of the normalization rules from year to year as stated in our comments to Issue 1, above, section 203(e) of the Tax Reform Act of 1986, and section 13001(d) of the TCJA are separate statutory provisions, each of which identifies the ETR to which it relates separately. Furthermore, section 203(e) of the Tax Reform Act of 1986 did not contain an alternative to the ARAM, whereas section 13001(d) of the TCJA does contain an alternative method. More importantly, the alternative method provided under Rev. Proc. 88-12, *supra*, was based on the taxpayer's books and underlying records as of the first



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day of the taxable year that included July 1, 1987, and the alternative method provided under section 13001(d) of the TCJA is based on the taxpayer's books and underlying records as of the first day of the taxable year that included December 22, 2017. In the case of the same calendar year taxpayer these dates are three decades apart. The fact that a taxpayer did not have vintage account data in 1987 does not mean that the taxpayer did not have vintage account data in 2017, nor is there any indication that Congress intended the taxpayer's method of accounting for the ETR under the Tax Reform Act of 1986 to carry over to the ETR created by the TCJA.

We also recognize that Treasury Regulation section 1.167(l)-1(h)(5) requires taxpayers to notify the IRS upon a taxpayer's "change in method of regulated accounting." This provision however, does not bind the taxpayer to any specific method of accounting for the ETR resulting from the TCJA.

In our view, a regulated public utility that has the books and vintage account data needed to apply the ARAM, should be required to use the ARAM under section 13001(d) of the TCJA for the ETR resulting from the corporate rate reduction in the TCJA without regard to whether the taxpayer used the alternative method permitted by Rev. Proc. 88-12, *supra*, for the ETR resulting from the corporate rate reduction in the Tax Reform Act of 1986.

- (3) *Net operating loss (NOL) issues including but not limited to comments on the significance of a depreciation-related NOL carryforward in the context of excess deferred taxes, and comments on whether a depreciation-related NOL as of December 31, 2017, must be analyzed for normalization purposes based on the underlying loss year.*

To the extent a regulated public utility has a depreciation-related net operating loss ("NOL"), the normalization rules require it to include a deferred tax asset ("DTA") in its rate base in an amount equal to the depreciation-related deferred tax liability ("DTL"). In the absence of a depreciation-related NOL, the DTL represents the cash tax benefit the regulated public utility received from accelerated depreciation, which was not realized as a reduction of its current tax expense included in its cost of service used in setting its rates. For regulatory accounting purposes, this tax benefit, which is a deferral of tax, is akin to a loan from the government that the regulated public utility will pay back to the government over the period when its book depreciation exceeds its tax depreciation. Since the government's "loan" to the

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regulated public utility is interest free, the regulated public utility treats the DTL as zero cost capital or reduces its rate base on which customers pay the regulated public utility a return. This reduction in rate base benefits customers. However, when the regulated public utility has a depreciation-related NOL, it receives no current cash tax benefit from the depreciation deductions and therefore it has no interest-free loan. The DTA recorded in the case of a depreciation-related NOL represents an amount that the regulated public utility will collect from the government in future years if the NOL is utilized, assuming there is no change in corporate tax rate. In the interim, the DTA offsets the DTL impact on rate base reflecting the fact that the utility is not receiving the benefit of zero-cost capital and thus has no such benefit to share with its customers as cost-free capital or a reduction in rate base.

When the corporate tax rate was reduced and the regulated public utility had a depreciation-related NOL carryover that was recorded at the pre-TCJA corporate tax rate, both the regulated public utility's DTL and DTA were overstated. The overstatement of the DTL is the ETR, the accounting for which is controlled by section 13001(d) of the TCJA. Under section 13001(d), the regulated public utility is not permitted to reduce the ETR more rapidly or to a greater extent than such reserve would be reduced under the ARAM, or in certain cases the alternative method. With respect to the DTA, the overstatement, or excess tax asset ("ETA"), will not be collected from the government because the corporate tax rate has been reduced, but it continues its purpose as an offset to the ETR, which will be reduced over time. The treatment of the ETA presents some issues that deserve clarification.

First, we believe that guidance should recognize that a regulated utility's reduction of the ETA by recovery in rates under the same method (the ARAM or the alternative method) as the ETR is a normalization method of accounting under the TCJA. Such treatment is consistent with the rationale for establishing and maintaining a DTL and DTA in the case of a depreciation-related NOL.

Second, the guidance should recognize that while the regulated public utility will not collect the ETA from the government, its reversal of the ETA more rapidly or to a greater extent than the reversal of the ETR under the ARAM, or for certain taxpayers the alternative method,

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should be considered a normalization method of accounting under the TCJA as long as the reversal of the ETA is taken into account in setting rates (e.g., the utility collects additional revenue). In the case of an ETA, which was established to recognize that the regulated public utility did not receive the cash benefit from the depreciation-related NOL, it is appropriate to allow the regulated public utility to reduce the ETA as it receives the benefit in rates. In other words, a normalization method of accounting is a limitation on the provision of tax benefits to the customers of a regulated public utility. The normalization rules of the TCJA are not a mechanism to limit a regulated public utility's ability to receive benefits in rates.

Issue 3 of Notice 2019-33 asks for comments on whether a depreciation-related NOL as of December 31, 2017, must be analyzed for normalization purposes based on the underlying loss year. We understand that most utilities do not track each year's depreciation-related NOL by accelerated depreciation vintages, and that such tracking would be impracticable and burdensome. We ask that guidance permit taxpayers to allocate the depreciation-related NOL to accelerated depreciation vintages using any reasonable method as long as the method is consistently applied. We ask that this include, but not be limited to, allowing a regulated public utility to increase customer revenue for the ETA attributable to the depreciation-related NOL carryover no less rapidly or to no lesser extent than such ETA would be reduced under the ARAM, or an alternative method for certain taxpayers, based upon the accelerated depreciation vintages of the property taken into account in the last depreciation-related NOL year before its first taxable year beginning after December 31, 2017.

- (4) *By their terms, the 2008 regulations apply only to section 203(e) of the 1986 Act, but the Treasury Department and the IRS believe it may be appropriate to extend their application to section 13001(d) of the TCJA. Comments on the ongoing relevance of the 2008 regulations including but not limited to comments on the treatment of book-only retirements and tax dispositions in regard to significant transactions (such as sales of power plants) versus day-to-day (ordinary or not significant) transactions as well as comments on transactions not addressed in the 2008 regulations such as like-kind exchanges or other dispositions of public utility property.*

We believe that Treasury Regulation section 1.168(i)-3 should be extended to apply to section 13001(d) of the TCJA, with certain modifications to clarify subparagraph (b). Subparagraph (b) provides:

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(b) Amount of reduction. If public utility property of a taxpayer becomes deregulated public utility property to which this section applies, the reduction in the taxpayer's excess tax reserve permitted under section 203(e) of the Tax Reform Act of 1986 is equal to the amount by which the reserve could be reduced under that provision if all such property had remained public utility property of the taxpayer and the taxpayer had continued use of its normalization method of accounting with respect to such property.

In addition to referencing section 13001(d) of the TCJA, we ask that this provision be clarified to deal with two instances: (i) when the regulated public utility's regulator allows the regulated public utility to recover unrecovered costs of property that becomes deregulated, and (ii) when the regulated public utility's regulator does not allow the regulated public utility to recover the unrecovered cost of property that becomes deregulated. For this purpose, we understand property becomes deregulated when it ceases to be public utility property in the hands of the taxpayer by sale, disposition, casualty loss, or otherwise.

To the extent the regulated public utility's regulator allows the regulated public utility to recover the unrecovered cost of the property that becomes deregulated, the same proportionate amount of the ETR related to that property should be returned to customers over the same period and under the same pattern as the regulator has permitted the recovery of the costs. This rule does not change the principle that the customers are entitled to the benefits of the ETR on the property after its disposal, but synchronizes that enjoyment of benefits over the same period and under the same pattern as the recovery of the costs from customers. The deferred taxes are established to assure that the regulated public utility, and not the customer, receives the benefit of the tax deferral provided by accelerated depreciation over the life of the asset. Section 203(e) of the Tax Reform Act of 1986, and section 13001(d) of the TCJA are intended to provide the regulated public utility the same benefit over the life of the asset. To the extent that the regulated public utility has disposed of the asset, and the regulated public utility has recovered its costs, the regulated public utility no longer requires the ETR benefit to support the capital cost of the asset.

To the extent the regulated utility's regulator does not allow the regulated utility to recover the unrecovered cost of the property that becomes deregulated, the regulated utility

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should not be permitted to return that same proportion of the ETR to customers, and should flow-through that ETR to shareholders immediately. In this circumstance, the regulated public utility has not recovered all its costs and the ratepayers have not paid the full cost of the asset through ratemaking depreciation or otherwise. In considering this issue with respect to the accumulated deferred investment tax credit the IRS and the Treasury Department recognized that Congress did not intend for ratepayers to share in benefits attributable to costs that they do not bear. See Preamble to Treasury Regulation section 1.46-6 and Treasury Regulation section 1.168(i)-3, T.D. 9387 (Mar. 20, 2008), which rejects the suggestion of commenters that the regulations permit flow-through of accumulated deferred investment tax credit reserves even in cases in which ratepayers do not bear the cost of the asset giving rise to the credit.

Treasury Regulation section 1.168(i)-3 deals with the complex issue of accounting for retirements when applying the normalization rules to the return of the ETR to customers. We suggest you consider a major simplification of the rules by permitting a regulated public utility to elect to reduce its ETR under the ARAM based on a computation which schedules the amortization of its ETR without making any adjustments to that amortization schedule over the life of the assets, related to any tax disposition for which ETR is required to be returned to customers. Additionally, we believe such an election to be essential for taxpayers that use the alternative method, since vintage account data does not exist to determine the amount of the ETR associated with the retirement of an asset or group of assets. A taxpayer would make this election and computation based on the facts as they exist at a specified date within a reasonable period of time after you issue guidance. This election should also allow a taxpayer a separate election to reduce its ETA over any period as long as it is no longer or less rapid than the amortization of the ETR. This “set it and forget it” election is supported by a significant number of regulated public utilities and would represent a major simplification. This simplification is wholly consistent with the intent of the TCJA normalization principle of limiting the return of the ETR to customers at the rate that was anticipated immediately before the effective date of the corporate tax rate reduction.

- (5) *The implementation of interim rates to reflect the TCJA's decrease in the corporate tax rate including but not limited to comments about the meaning of the phrase "reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under ARAM."*

The rates charged by regulated public utilities to their customers are based on their cost of providing service, including a return on their capital investment. Federal income taxes are one of a regulated public utility's costs. The corporate rate reduction provided by the TCJA provided a substantial reduction in the federal income taxes that will be provided by regulated public utilities to their customers. Regulators, understandably, have been anxious to pass these federal income tax cost reductions on to ratepayers in the form of lower rates as soon as practicable. There are two elements of this benefit to customers. The first is that regulated public utilities had been collecting deferred federal income tax expense from customers at the pre-rate reduction rate. These deferred tax collections are a consequence of the normalization method of accounting. Since the regulated public utilities now expect to pay these deferred taxes to the government in the future at the reduced rate, the ETR can be returned to customers subject to the limitations of section 13001(d) of the TCJA. The second federal tax cost reduction is with respect to the expected current federal income tax expense imbedded in current rates. Regulated public utilities estimate expenses, including federal income taxes, for purposes of determining rates, based on either a historic or a future test period. In either case, prior to the enactment of the TCJA, regulated public utilities did not anticipate the rate reduction and therefore their rates include current federal income tax expense at the higher pre-rate reduction amount. Most regulators have either encouraged or required regulated public utilities to adjust their rates quickly as interim rate adjustments to account solely for the reduction in the corporate tax rate. These interim rate adjustments differ from rate adjustments made through general rate case proceedings, which consider all costs of service, including capital returns. These interim rate reductions, which have occurred in many ways, raise two principal areas of concern. The first relates to the application of section 13001(d) of the TCJA to the return of the ETR. The second relates to the consistency rules that are generally applicable to a normalization method of accounting.

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As an initial matter, we believe it is important for your guidance to recognize that the consistency rules of section 168 of the Code apply to the ETR and that the interim rate adjustments to reflect the reduction in the corporate tax rate are consistent with a normalization method of accounting. Specifically, interim rate adjustments the regulated utility makes to reflect the reduction in the corporate tax rate will comply with a normalization method of accounting if there is consistency in the treatment of (i) adjustments made to ADFIT and ETR, and (ii) such adjusted reserves are used in determining the limitation on rate base reduction for the ADFIT and ETR in the computation of the regulated utility's rate base.

For example, assume a calendar year regulated public utility set rates in 2016, based on a 2015 historic test period, which assumed a 35 percent corporate tax rate, and these rates were put into effect in 2017. Further assume that the regulated public utility adjusted its rates for 2018 by changing the estimated 35 percent corporate tax rate to the reduced 21 percent corporate tax rate (the rate applicable to 2018), computed its change in ADFIT based on the reduced rate, and recorded an ETR for this change in rate. Alternatively, assume the same fact pattern above, but the utility also began to reduce its ETR, which resulted from the corporate tax rate reduction, consistent with the ARAM or the alternative method, and adjusted rate base, for its ETR consistent with the revised reserve balances. In either case, the regulated public utility did not update its gross rate base (rate base before deferred tax balances), its depreciation deductions or other elements of cost of service including its weighted average cost of capital. Thus, the gross rate base and the depreciation deduction are based on the 2015 historic test period, and the tax expense, the ADFIT and the ETR are based on the 2018 tax rate. The consequences of these adjustments resulted in lower current and deferred federal income tax costs, and an adjustment to the regulated public utility's earnings on capital as a result of the adjustments made to the ADFIT and the ETR, which offset rate base. Your guidance should conclude that these methodologies are normalization methods of accounting.

We believe it is important that any guidance clarify that the computation of the ARAM, or in certain cases the alternative method, provides a limitation on how fast and to what extent the ETR can be taken into account as a benefit to customers. As a consequence of this "Limitation Principle," the guidance should recognize that a normalization method of accounting permits

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the regulated public utility: (i) to not take into account the ETR, or any portion of it, as a benefit to customers, and (ii) to the extent an amount could have been taken into account as a benefit to customers in a prior period, but was not taken into account, the regulated public utility is permitted to take the amount into account to “catch up” at any time, but is not permitted to exceed the cumulative limitation. We believe the guidance should specifically state that the limitation is cumulative, and not determined on an annual or other alternative basis.

We believe that the Limitation Principle is consistent with the meaning of the phrase “reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under ARAM.” This phrase read in the context of the statute, which reads: “A normalization method of accounting shall not be treated as being used . . . if the taxpayer . . . reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method,” does not prescribe the ARAM, or in certain cases the alternative method, as the amount by which the ETR must be reduced to be treated as a normalization method of accounting. Rather, the statute provides a comparison between the taxpayer’s reduction of its ETR and the reduction under the ARAM, or alternative method, and prohibits the reduction of the ETR either “more rapidly or to a greater extent than such reserve would be reduced under the [ARAM]” or in certain cases the alternative method.

(6) *Whether the proration formula required by § 1.167(l)-1(h)(6)(ii) must be applied to excess deferred tax activity related to reversals (refunds) of excess deferred taxes if the company uses a future test period or a part-historical, part-future test period.*

When using a future test period, the ADFIT is prorated to determine the period during which the taxpayer will be treated as having received amounts credited or charged to the reserve account which is treated as zero-cost capital or an offset to rate base. See Treasury Regulation section 1.167(l)-1(a)(1). We believe that proration is applicable to the ETR, when a future test period is used, in the same manner and for the same reason as it applies to the ADFIT.



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(7) *Methodology of reversing protected (by the normalization rules) versus unprotected ADIT after the 2017 rate changes.*

A regulated public utility's ADFIT and ETR are attributable to timing differences between the methods of accounting in its regulated books of account and in preparing its tax return. As liabilities, these accounts represent tax expense that has been accounted for in rates, but which has not been paid to the government. As assets, these accounts represent tax paid to the government that has not been collected in rates. As discussed above, in the case of NOLs, the DTA is established to offset the ADFIT in recognition that the depreciation deducted for tax purposes did not give rise to a tax benefit. The ADFIT represents the amount the regulated public utility expects to pay to the government, and the ETR represents the amount the regulated utility does not expect to pay to the government, but does expect to return to customers because it collected it from customers in the past. Normalization "protects" a regulated public utility's ADFIT and ETR that are attributable to different: (i) depreciation methods, including the time and manner in which salvage value is taken into account, and (ii) depreciation useful lives. The ADFIT and the ETR include items other than depreciation. Depreciation-related ADFIT and ETR are protected and other items are not protected. However, a normalization method of accounting may be used for all items, both protected and not protected.

Your guidance should clarify the scope of the protected depreciation-related ETR consistent with the treatment of the ADFIT. In this regard, your guidance should state that (i) deferred tax differences attributable to differences in regulatory and tax depreciation life and rate are protected, but deferred tax differences attributable to differences in regulatory and tax basis of assets are not protected; (ii) salvage value taken into account for regulatory purposes over the life of the asset, but only taken into account at the end of the life of an asset for tax purposes, is taken into account under the tax normalization rules and is thus protected; (iii) the cost of removing an asset (cost of removal or "COR") at the end of its operating life, which is taken into account for regulatory purposes over the regulatory life of the asset, but deducted for tax

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purposes at the end of the asset's operating life, is generally not subject to the tax normalization rules because the deduction is allowed under section 162 of the Code and not section 168 of the Code; and (iv) for regulated public utilities using the ARAM, the minimum period of time over which the utility may return the protected ETR to customers begins after the effective date of the corporate tax rate reduction and the timing difference begins to reverse, and ends with the end of the regulatory life of the asset. It is also important to recognize that in some instances the commingling of reserves present particular circumstances to normalize amounts that would not be normalized if accounted for separately. These principles may be illustrated by examples.

**Example 1 – Repair Deductions.** The difference in the treatment of repairs is a good example of basis differences that do not produce protected deferred taxes. Assume for federal income tax purposes, a regulated public utility is allowed a tax deduction of \$1,000 for the cost to replace an asset, which is treated as the repair of a unit of property deductible under section 162 of the Code, but for regulatory accounting purposes the regulated public utility capitalizes the replacement cost of the asset. While this provides the regulated public utility a tax benefit in the first year and it recovers the cost of the replacement from customers over the regulatory life of the asset, there is no depreciation deduction under section 168 of the Code, and therefore the normalization rules do not protect the ADFIT or ETR attributable to this different treatment. Your guidance should recognize that a taxpayer using the alternative method with commingled protected depreciation-ETR and cost basis adjustments attributable to repairs may identify the repairs-ETR by calculating its gross repairs deduction, net of book depreciation, and separately treat the protected depreciation-ETR in a manner that is compliant with the normalization provisions.

**Example 2 – Contributions in Aid of Construction.** Assume for federal income tax purposes, a regulated public utility is required to report as taxable income the receipt of a contribution in aid of construction from a customer and depreciate the cost of the asset constructed, but for regulatory purposes the regulated public utility neither reports the amount as income nor capitalizes the asset. In the absence of the regulated public utility charging the customer a gross-up for the detrimental tax effect, this difference in treatment results in the regulated public utility creating a DTA. In this case, the IRS has recognized that there is a

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depreciation deduction under section 168 of the Code and the regulatory treatment is effectively a full depreciation expense in the year the asset is acquired, and thus there is no basis difference, but rather a life difference. Consequently, the DTA is subject to the tax normalization rules and the utility is required by these rules to collect the DTA from customers.

Example 3 – Salvage Value. Assume a regulated public utility acquires an asset at a cost of \$1,000, which has a ten-year regulatory life, and a \$100 salvage value. The applicable regulatory annual depreciation rate would be 10 percent and the salvage rate would be negative 1 percent, thereby producing a combined rate (“Life Rate”) of 9 percent. The utility would recover \$900 over the ten-year life of the asset and any ETR attributable to the asset would be returned to customers over the period of time that begins when the depreciation timing difference reverses after the effective date of the corporate rate reduction and ends at the conclusion of the asset’s 10-year life. This is so because both the life / rate difference between book depreciation and tax depreciation, including the different treatment of salvage value, is subject to the tax normalization rules. The fact that the 9 percent Life Rate suggests a life of 11 years ( $100\% / 9\%$ ) does not extend the life of the asset or the period over which the ETR is returned to customers beyond 10 years.

Example 4 – Salvage Value and Cost of Removal Separately Identified. Whether COR is separately identified or not has a bearing on the regulatory life used for calculating the timing of the ARAM deferred tax reserve reversal. Section 13001(d) of the TCJA defines ARAM as the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Many utilities compute a Life Rate taking into account both salvage value and COR, and it is common that COR exceeds salvage value, resulting in negative net salvage value. To the extent that salvage and COR are stated separately in the computation of regulated depreciation expense in a year in which the timing differences for the property reverse, the adjustment to the ETA reserve should use depreciation expense calculated on the book life. In other words, if COR is separate, it is not taken into account in computing ARAM for the depreciation-related ETR.

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Assume the same facts as in Example 3 (the \$1,000 asset having a ten-year life and a \$100 salvage value), but that the asset also has a \$200 COR. In this Example 4, the applicable annual depreciation rate would be 10 percent, the salvage rate would be a negative 1 percent, and the COR rate would be 2 percent producing a Life Rate of 11 percent (10% less 1%, plus 2%). In this case the Life Rate is higher than it would be were salvage value not considered. In effect, the annual depreciation charge creates a reserve for COR net of salvage over the operating life of the asset. At the end of 10 years, \$1,000 will have been charged to the accumulated depreciation reserve, \$200 charged to the accumulated COR reserve, and \$100 charged to the accumulated salvage reserve. The net result is that \$1,100 is expensed (\$1,000 depreciation plus \$200 COR less of \$100 of salvage amount) and both the COR and salvage value are realized for tax purposes at the end of the asset's life.

Since book depreciation expense is included in the regulated public utility's cost of service used for establishing its rates, customers pay for the COR as book depreciation is factored into their rates. However, for tax purposes, COR is deductible only when actually incurred. Therefore, for tax purposes, the regulated public utility reports its customer collections that fund the COR reserve as taxable income over the operating life of the asset, claiming an offsetting tax deduction only at the end of the life of that asset. Since COR is normalized in setting rates, customers are provided a tax benefit commensurate with their funding of COR. In other words, they are provided the COR tax benefit as they fund the COR reserve prior to the time the regulated public utility actually claims the deduction (and receives the benefit) on its tax return.

Accounting Standards Codification ("ASC") 980-740-25-2, which is commonly followed by regulated public utilities, provides that if, as a result of an action by a regulator, it is probable that the future increase or decrease in taxes would be recovered from or returned to customers through future rates, an asset or liability shall be recognized for that probable future revenue or reduction in future revenue. Moreover, that asset or liability also is accounted for as a temporary difference for which a deferred tax liability or asset is recognized. This accounting principle requires the regulated public utility that is recovering COR through rates before it claims the

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associated tax deduction to create a DTA, which represents the future benefit the regulated public utility will derive from the eventual COR tax deduction.

If subsequent to the TCJA enactment, the regulated public utility is able to separately identify the portion of its accumulated book depreciation reserve that relates to the COR accrual balance by distinguishing between COR differences and depreciation method/life differences, including salvage value, even though both differences are derived from the book depreciation rates and expense, the regulated utility's system can track the reversals of these differences separately. Since depreciation, including salvage, can be identified separate from COR, and the COR is deducted under section 162, the COR-related ETA is not subject to the tax normalization rules and may be recovered by the regulated public utility as rapidly as permitted by its regulator independent of its depreciation-related ETR. As in Example 3, the fact that the 11 percent Life Rate suggests a life of 9 years ( $100\% / 11\%$ ) does not reduce the life of the asset from 10 years for purposes of returning the ETR to customers. Your guidance should provide that a regulated public utility that accounts for its COR-related ETA separate from its depreciation-related ETR is not required to use a normalization method of accounting for its COR-related ETA.

**Example 5 - Salvage Value and Cost of Removal Not Separately Identified.** In some cases, regulated public utilities do not separately identify COR-related ETR. If salvage value and COR are not separately stated in the computation of regulated depreciation expense in a year in which the timing differences for the property reverses, the amount of the adjustment to the ETA reserve using the depreciation expense should be calculated on the combined rate (including COR).

Assume the same facts as in Example 4, but the regulated public utility does not identify COR-related ETA separate from its protected depreciation-related ETR. Under the facts of this Example 5, the total ETR related to depreciation, salvage, and COR must be protected under the normalization rules, because, without protecting the total, it is uncertain whether a normalization method of accounting is being applied to the protected depreciation-related ETR. Furthermore, even if cost of removal were protected, the accounting for cost of removal

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produces a DTA and ETA, and under the Limitation Principle, a normalization method of accounting does not preclude the more rapid collection from customers of a pre-paid tax. Your guidance should provide that a regulated public utility that does not account for its COR-related ETA separately from its depreciation-related ETR must take both its COR-related ETA and its depreciation-related ETR into account in determining its normalization method of accounting. Since the tax deduction for COR occurs at the end of the life of the asset and the regulatory reserve is included in the ETR, a normalization method of accounting must include, in addition to book depreciation, depreciation for COR recovery and COR costs incurred.

Example 6 – Interest Capitalization. Regulated public utilities capitalize interest in different amounts and under different rules for regulatory accounting and tax purposes. Assume a regulated public utility capitalizes an allowance for funds used during construction (“AFUDC”) of utility plant additions for regulatory purposes in accordance with generally accepted accounting principles (“GAAP”). Without regard to the capitalization of AFUDC interest for book purposes, the regulated public utility is required under uniform capitalization (“UNICAP”) rules of section 263A(f) of the Code to capitalize interest for federal income tax purposes. These are two distinct interest capitalization provisions, the first of which, AFUDC, is a regulatory and GAAP convention, and the second of which, UNICAP, is a tax provision. As two distinct provisions, they produce two basis adjustments, and as basis adjustments they are not protected by normalization. Unlike two different depreciation systems that result in a difference in the timing of depreciation, but do not result in a difference in the total amount of depreciation over the life of the asset, these two interest provisions result in significant differences in the amount of interest that is capitalized, which in turn results in differences between the total book and total tax amount of depreciation over the life of the asset.

## Section 2. Transitional Rules

The uncertainties in the proper application of section 13001(d) of the TCJA are evidenced by the Treasury Department and the IRS request for comments in Notice 2019-33. In addition to providing guidance on the issues discussed above, we ask that your guidance provide a path by which a regulated public utility can correct any mistakes it may have made in

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the implementation of 13001(d) of the TCJA. As indicated above, in many cases regulators have not or will not allow regulated public utilities to defer providing customers the benefits from the ETR that was created by the TCJA until after guidance is issued. In fact, most regulated public utilities have already been required to adjust rates for effects of the TCJA. We suggest that your guidance provide regulated public utilities a reasonable time after the issuance of the guidance to determine the proper application of that guidance to their individual facts and circumstances, and take any corrective actions that may be necessary. Any such corrective action will require the taxpayer to consult with its regulator and obtain its regulator's consent to the change. We also ask that your guidance provide relief from any potential violation of section 13001(d) of the TCJA for any regulated public utility that follows a prescribed transitional path to correct potential normalization violations on a prospective basis and that these violations be forgiven.

We suggest a two-step transitional process. The first step is a period for the taxpayer to identify whether it is complying with the normalization rules as required by section 13001(d) of the TCJA, as clarified by your guidance. The second step is to take any corrective action that may be necessary.

A taxpayer should be given a reasonable period after the issuance of guidance to evaluate its compliance with a view toward making a disclosure in its next filed federal income tax return of any potential normalization violation it intends to correct. To provide a reasonable period to properly consider its circumstances, the return on which any disclosure is made would be the original return for the first year that ends after the issuance of the guidance. For example, if your guidance is issued before January 1, 2020, a calendar year taxpayer would have until the time it files its 2019 tax return to determine its compliance with section 13001(d) of the TCJA, which would be no later than October 15, 2020.

We believe that Rev. Proc. 2017-47, 2017-38 I.R.B. 233, provides a template for how a regulated public utility would be expected to take corrective action. However, there are two important differences that need to be considered. The first is that taxpayers may need to take corrective action with respect to a practice or procedure that was not inadvertently adopted, as

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provided in Rev. Proc. 2017-47, because of the specificity with which interim rate adjustments have been made. Second, since some regulators have used special procedures to implement interim rates, they should be required to use similar procedures, if they are available, to approve corrective actions, and not be permitted to wait until the next regular rate proceeding. For each failure to comply with the normalization rules that a taxpayer identifies and discloses, the taxpayer would be required to change its Inconsistent Practice or Procedure (as defined in section 4.06 of Rev. Proc. 2017-47) to a Consistent Practice or Procedure (as defined in section 4.05 of Rev. Proc. 2017-47) at the Next Available Opportunity (as defined in section 4.07 of Rev. Proc. 2017-47 with the modification discussed above), provided the Taxpayer's Regulator (as defined in section 4.01 of Rev. Proc. 2017-47) adopts or approves the change.

### Section 3. Form of Guidance

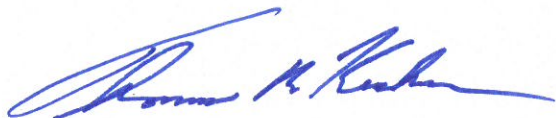
We appreciate that the Treasury Department and the IRS are under tremendous pressures to implement the TCJA. Regulated public utilities are also under significant pressure to take the customer positive effects of the TCJA into consideration in their rates. Regulated public utilities expect to provide billions of dollars of excess deferred income tax benefits resulting from the TCJA to customers. We recommend that the Treasury Department and the IRS identify the appropriate stakeholders in the implementation of section 13001(d) of the TCJA, and involve them in drafting the implementation of the guidance to expedite its release and assure it deals with the issues properly. For many of the issues identified above, revenue rulings or revenue procedures would seem more appropriate than Treasury Regulations because of the specialized nature of the issues, the limited number of taxpayers, and the ability of the affected taxpayers to bring consensus resolutions of the issues to the Treasury Department and the IRS on a timely basis.



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We appreciate your consideration of these comments and are available to answer any questions. If you have any questions or need further clarifications, please contact Alex Zakupowsky of Miller & Chevalier at 202-626-5950.

Sincerely,



Thomas R. Kuhn  
President  
Edison Electric Institute



Karen Alderman Harbert  
President  
American Gas Association

**FAX COVER SHEET****OFFICE OF CHIEF COUNSEL, IRS****Date Sent: April 01, 2020****Pages Sent: 12****Deliver To: Alex Zakupowsky, Jr****Fax Number: 1-202-626-5801****Organization: Miller & Chevalier Chartered****Phone Number:****Sender: Staton April L****Fax Number:****Office: Office of Chief Counsel****Phone Number:(202) 317-3100****Sent By: April.L.Staton@irscounsel.treas.gov****THIS DOCUMENT IS INTENDED ONLY FOR THE NAMED ADDRESSEE.**

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**COMMENTS:**

**Internal Revenue Service****Department of the Treasury**

Washington, DC 20224

Index Number: 168.24-01

Third Party Communication: None

Date of Communication: Not Applicable

Clifford Pardo, Assistant Controller – Tax  
Public Service Enterprise Group Inc.  
80 Park Plaza  
Newark, NJ 07102  
In Re: Public Service Electric and Gas  
Company

Person To Contact:

**Martha M. Garcia, ID No. 0630922**

Telephone Number:

**(202) 317-6853**

Refer Reply To:

**CC:PSI:B06****PLR-122510-19**

Date: March 26, 2020

**LEGEND:**

Taxpayer	=	Public Service Electric and Gas Company EIN: 22-1212800
Parent	=	Public Service Enterprise Group Incorporated EIN: 22-2625848
State A	=	New Jersey
Commission A	=	New Jersey Board of Public Utilities
Commission B	=	Federal Energy Regulatory Commission
Date 1	=	December 31, 2017
Date 2	=	November 1, 2018
Date 3	=	January 12, 2018
Date 4	=	October 2, 2018
Date 5	=	October 29, 2018
Month 1	=	November
Month 2	=	October
Year 1	=	1981
Year 2	=	1980

PLR-122510-19

2

Year 3 = 2006

Year 4 = 2012

Year 5 = 2018

Year 6 = 2010

Dear Mr. Pardo:

This letter responds to a request for a private letter ruling dated September 26, 2019, and submitted on behalf of Taxpayer regarding the application of the depreciation normalization rules under § 168(i)(9) of the Internal Revenue Code and § 1.167(l)-1 of the Income Tax Regulations (together, the "Normalization Rules") to certain State A state regulatory procedures which are described in this letter. The relevant facts as represented in your submission are set forth below.

#### FACTS

Taxpayer is an investor-owned regulated utility incorporated under the laws of State A. Taxpayer is an accrual basis taxpayer and reports on a calendar year basis.

Taxpayer is wholly owned by Parent. Parent is a State A corporation. Taxpayer is included in a consolidated federal income tax return of which Parent is the common parent.

Taxpayer is a regulated utility engaged principally in the purchase, transmission, distribution, and sale of electric energy and the purchase, distribution, and sale of natural gas in State A. Taxpayer is subject to regulation as to rates and conditions of service by Commission A as well as Commission B. Both these regulators establish Taxpayer's rates based on its costs, including a provision for a return on the capital employed by Taxpayer in its regulated businesses.

Taxpayer has claimed accelerated depreciation on all of its public utility property (both electric and gas) to the full extent those deductions have been available. Taxpayer has normalized the federal income taxes deferred as a result of its claiming these deductions in accordance with the Normalization Rules. As a consequence, Taxpayer has a substantial balance of accumulated deferred federal income taxes (ADFIT) that is attributable to accelerated depreciation reflected on its regulated books of account for each of its divisions. In accordance with State A ratemaking practice, Taxpayer has reduced its rate base by its ADFIT balance.

Commission B has established a system to track accounts for both jurisdictional electric and gas companies. These accounts prescribe the accounting rules which are

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used by most large investor-owned electric and gas companies and are employed by Taxpayer's electric and gas divisions. The applicable regulations contain several definitions relevant to Taxpayer's inquiry including definitions for cost of removal (COR), salvage value, net salvage value, service value, and depreciation.

In general, based on these definitions, for purposes of regulatory reporting, the net positive value or net cost of disposing of an asset at the end of its life is incorporated into the annual depreciation charge. COR is, therefore, most often (but not always) a component of establishing the applicable depreciation rate. In Taxpayer's case, due to the amount of COR it anticipates, in almost all instances its assets have negative net salvage values so that its book depreciation rate is higher than it would be were salvage value not considered. In effect, the annual depreciation charge creates a reserve for COR over the operating life of the asset. Since book depreciation expense is included in Taxpayer's cost of service used for establishing its rates, customers pay for the COR as book depreciation is factored into their rates. This COR reserve is reflected as an addition to Taxpayer's accumulated depreciation account. When the COR is actually incurred, the amount expended is debited to that same account, thereby reducing the balance.

For tax purposes, COR is deductible only when actually incurred. Taxpayer, therefore, reports its customer collections that fund the COR reserve as taxable income over the operating life of an asset, claiming an offsetting tax deduction only at the end of the life of that asset. Taxpayer has normalized COR since the Year 1 tax year. All references below to COR-related deferred tax accounting relate only to COR associated with assets placed in service after Year 2. Since COR is normalized in setting rates, customers are provided a tax benefit commensurate with their funding of COR. In other words, they are provided the COR tax benefit as they fund the COR reserve – prior to the time Taxpayer actually claims that benefit on its tax return.

The tax effect of the COR funding as described creates a deferred tax asset ("DTA"). This represents the future benefit to be derived from the eventual COR tax deduction. The COR-related DTA is included in Taxpayer's overall plant-related ADFIT account that reduces Taxpayer's ADFIT balance.

COR can (and does) impact ADFIT balances in an additional way. The COR included in depreciation expense (that is, the accrual) is an estimate prepared for an entire class of assets contained in a Commission B account. It is likely that any COR estimate will be too high or too low with respect to any individual asset with the ultimate answer remaining unknown until all vintages of each asset class are retired and removed. Any running variance from the estimate is recorded on Taxpayer's balance sheet. Where the accrual exceeds the actual COR, it creates a net credit to the accumulated depreciation account. Where the actual COR exceeds the accrual, it creates a net debit to that account. This treatment means that Taxpayer will recover under-accruals from customers and refund over-accruals to customers through future rate adjustments. These future rate adjustments will give rise to future increases or

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decreases in taxable income. Under applicable accounting principles, Taxpayer must record the deferred tax consequences of these future events. An over-accrual produces a DTA (the tax benefit of a future deduction due to the refund of the excess collection) while an under-accrual produces a deferred tax liability "DTL" (the tax cost of future taxable income due to the collection of the shortfall).

For the electric distribution division, the COR book/regulatory accrual has always been included in the development of the book depreciation rate. Thus, instead of waiting for the Taxpayer to incur the tax benefit of COR, its' Customers are provided the COR tax benefit as they fund the COR reserve – prior to the time Taxpayer actually claims that benefit on its tax return. This produces a DTA as described. In addition, as of Date 1, Taxpayer has, in total, incurred more COR than it has recovered from customers and, thus, is under-accrued for COR. This has produced a DTL, also as described. Both the DTA and DTL are included within Taxpayer's overall plant-related ADFIT Account.

Prior to Month 1 Year 3, the gas distribution division accrued and collected COR as a component of the book depreciation rate. However, pursuant to order of Commission A, that collection practice was modified in Year 3. Beginning in Month 1 Year 3, the gas-only COR regulatory accrual was removed from the book depreciation rate. Rather, Taxpayer was allowed to record and recover annually (through a fixed dollar depreciation charge incremental to the normal depreciation computed via application of the depreciation rate) an amount representing an estimate of the annual COR that would be incurred in that year. At the time of this modification, the cumulative COR accrued exceeded COR actually incurred (that is, Taxpayer was over-accrued). At that time, Taxpayer had recorded a net DTA (to reflect the tax benefit of the future reduction in rates associated with refunding the excess to customers).

Since converting to this methodology in Year 3, COR actually incurred has significantly exceeded COR accrued and recovered, resulting in a DTL (the tax cost of recovering the under-accrual in the future). As of Date 1, the two components (pre-Month 1 Year 3 and post-Month 2 Year 3) combined represented a net DTL.

Effective Date 2, pursuant to an Order issued by Commission A, gas COR regulatory recovery has reverted back to a component of the book depreciation rate. The fixed dollar accrual which began in Year 3 has been eliminated.

Since Year 4, Taxpayer's tax fixed asset system has separately identified the portion of Taxpayer's book depreciation expense that relates to COR since that date. As a consequence, the system distinguishes between COR book/tax differences and depreciation method/life differences even though they are both derived from Taxpayer's book depreciation. Though the system has the capability of tracking the reversals of these differences separately, in order to set it up to do this, a significant amount of work and data manipulation would be required. It is not currently configured in a manner that would allow this.

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In years prior to Year 5, Taxpayer paid income tax at a 35% rate on the recovery of the COR portion of book depreciation (and provided its customers a tax benefit at that tax rate). However, as a result of the tax rate reduction enacted as part of the Tax Cuts and Jobs Act ("TCJA"), Taxpayer will only receive a 21% benefit when the COR deduction is claimed or when any over-accrual is refunded and will pay only a 21% tax on the recovery of any COR under-accrual. In other words, in the case of COR, the tax rate reduction enacted as part of the TCJA has produced both a deferred tax shortfall as well as an excess tax reserve. Because Taxpayer will not recover the 14% "excess" tax it paid on its recovery of the COR component of book depreciation from the government when it claims its COR deduction, it must recover it from its customers. Conversely, because Taxpayer will not pay the 14% "excess" deferred tax it accrued on its obligation to refund over-accrued COR, it must restore the amount to its customers (that is, it also has COR-related excess deferred taxes).

#### Taxpayer's Changes in Accounting Method for Mixed Service Costs and Repairs

Prior to Taxpayer's Year 6 tax year, in capitalizing its indirect overhead costs – including its mixed service costs – Taxpayer followed the same methodology for both book and tax purposes. Effective for its Year 6 tax year, Taxpayer filed with the Internal Revenue Service an Application for Change in Accounting Method (Form 3115) in which it requested permission to depart from its book method for tax purposes. The result of the change was to recharacterize a substantial quantity of mixed service costs that Taxpayer had previously capitalized into depreciable assets as deductible costs (including additions to cost of goods sold). This resulted in Taxpayer claiming a negative adjustment under § 481(a) (that is, a deduction) to remove from the tax basis of its existing assets all such recharacterized costs to the extent Taxpayer had not previously depreciated them ("Section 481 Adjustment").

Also, prior to Taxpayer's Year 6 tax year, in identifying deductible repairs, Taxpayer followed the same methodology for both book and tax purposes. Effective for its Year 6 tax year, Taxpayer filed an Application for Change in Accounting Method (Form 3115) in which it requested permission to depart from its book method for tax purposes. In general, under its new tax method, Taxpayer elected to use larger units of property than used for book purposes. The result of the change was to characterize many projects that were capitalized for book purposes as deductible repairs for tax purposes. This resulted in Taxpayer claiming a negative § 481 Adjustment to remove from the tax basis of its existing assets all such recharacterized costs to the extent Taxpayer had not previously depreciated them.

Adjustments (additions) were made to Taxpayer's ADFIT accounts, which already reflected the deferred tax consequences of having claimed accelerated depreciation on both types of costs after they were capitalized for tax purposes for the additional deferred taxes produced by the § 481 Adjustments.

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Taxpayer's Recent Commission A Proceedings

On Date 3, Taxpayer filed with Commission A to adjust both its electric and its gas rates. The parties to the proceeding reached an agreement and, on or about Date 4, Taxpayer submitted a stipulation to Commission A for its approval. Commission A approved the stipulation on Date 5.

The stipulation provides that:

- 1) Taxpayer will seek a private letter ruling to determine if excess deferred taxes associated with excess tax over book depreciation that is subsequently reversed by accounting method changes relating to repair deductions and the capitalization of mixed service costs are protected by the normalization rules and subject to reversal under the ARAM; and that
- 2) Taxpayer will seek a private letter ruling from the IRS to determine whether post-Year 1 cost of removal is protected by the normalization rules and, if so, whether it is to be treated as a separate temporary difference or part of the overall depreciation temporary difference for purposes of ARAM amortization.

#### RULINGS REQUESTED

Taxpayer requests the following guidance:

- 1) Under the circumstances described above, is Taxpayer's electric distribution COR-related net DTL "protected" by the Normalization Rules?
- 2) If Taxpayer's electric distribution COR-related deferred tax is "protected," should that shortfall be treated as a discrete "protected" item or as part of the "protected" method/life difference?
- 3) Under the circumstances described above, is Taxpayer's gas distribution COR-related net DTA accumulated through the depreciation rate prior to Month 1 of Year 3 "protected" by the Normalization Rules?
- 4) If Taxpayer's gas distribution COR-related deferred tax accumulated through the depreciation rate prior to Month 1 of Year 3 is "protected," should that shortfall be treated as a discrete "protected" item or as part of the "protected" method/life difference?
- 5) Under the circumstances described above, is Taxpayer's gas distribution COR-related net DTL accumulated through the fixed estimated cash recovery after Month 1 of Year 3 "protected" by the Normalization Rules?



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6) If Taxpayer's gas distribution COR-related net DTL accumulated through the fixed estimated cash recovery after Month 1 of Year 3 is "protected," should that shortfall be treated as a discrete "protected" item or as part of the "protected" method/life difference?

7) If Taxpayer's COR-related deferred tax shortfall is "protected," do the Normalization Rules permit Taxpayer to collect a shortfall any more rapidly than using the ARAM?

8) Do Taxpayer's depreciation-related ADFIT balances created pursuant to the Normalization Rules that are attributable to costs that were capitalized into the basis of depreciable assets prior to Taxpayer changing its method of accounting for those costs remain subject to the Normalization Rules after the change in method of accounting pursuant to which such costs were reclassified as current deductions?

#### LAW AND ANALYSIS

Section 168(f)(2) provides that the depreciation deduction determined under § 168 shall not apply to any public utility property (within the meaning of § 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, § 168(i)(9)(A)(i) requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under § 168(i)(9)(A)(ii), if the amount allowable as a deduction under § 168 differs from the amount that would be allowable as a deduction under § 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under § 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Former § 167(l) generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former § 167(l)(3)(G) in a manner consistent with that found in § 168(i)(9)(A). Section 1.167(l)-1(a)(1) 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 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. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

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Section 481(a) requires those adjustments necessary to prevent amounts from being duplicated or omitted to be taken into account when a taxpayer's taxable income is computed under a method of accounting different from the method used to compute taxable income for the preceding taxable year. See also § 2.05(1) of Rev. Proc. 97-27, 97-27, 1997-1 C.B. 680 (the operative method change revenue procedure at the time Taxpayer filed its Form 3115, *Application for Change in Accounting Method*).

An adjustment under § 481(a) can include amounts attributable to taxable years that are closed by the period of limitation on assessment under § 6501(a). *Suzy's Zoo v. Commissioner*, 114 T.C. 1, 13 (2000), *aff'd*, 273 F.3d 875, 884 (9th Cir. 2001); *Superior Coach of Florida, Inc. v. Commissioner*, 80 T.C. 895, 912 (1983), *Weiss v. Commissioner*, 395 F.2d 500 (10th Cir. 1968), *Spang Industries, Inc. v. United States*, 6 Cl. Ct. 38, 46 (1984), *rev'd on other grounds* 791 F.2d 906 (Fed. Cir. 1986). See also *Mulholland v. United States*, 28 Fed. Cl. 320, 334 (1993) (concluding that a court has the authority to review the taxpayer's threshold selection of a method of accounting *de novo*, and must determine, *ab initio*, whether the taxpayer's reported income is clearly reflected).

Sections 481(c) and 1.481-4 provide that the adjustment required by § 481(a) may be taken into accounting in determining taxable income in the manner, and subject to the conditions, agreed to by the Service and a taxpayer. Section 1.446-1(e)(3)(i) authorizes the Service to prescribe administrative procedures setting forth the limitations, terms, and conditions deemed necessary to permit a taxpayer to obtain consent to change a method of accounting in accordance with § 446(e). See also § 5.02 of Rev. Proc. 97-27.

When there is a change in method of accounting to which § 481(a) is applied, § 2.05(1) of Rev. Proc. 97-27 provides that income for the taxable year preceding the year of change must be determined under the method of accounting that was then employed, and income for the year of change and the following taxable years must be determined under the new method of accounting as if the new method had always been used.

Because of their similarity, we address requests 1, 3, and 5 together. For all of the COR-related amounts at issue in these requests, the amounts are not protected by the Normalization Rules. Generally, § 168(i)(9)(A) does not refer to COR. Moreover, there is no reference to an acceleration of taxes but only to a deferral. While COR may be a component of the calculation of the amount treated as book depreciation, it is a deduction under § 162 and has nothing to do with actual accelerated tax depreciation. While depreciation method and life differences are created and reversed solely through depreciation, such is not the case with COR. While the COR timing differences may often originate as a component of book depreciation, it reverses through the incurred COR expenditure.

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Taxpayer's ruling request 8 pertains to the depreciation-related ADIT existing prior to the year of change (Year 6) for public utility property in service as of the end of the taxable year immediately preceding the year of change. Beginning with the year of change, the Year 6 Consent Agreement granted Taxpayer permission to change its (1) method of accounting for mixed service costs to recharacterize a substantial quantity of mixed service costs that Taxpayer had previously capitalized into depreciable assets as deductible costs (including additions to cost of goods sold) and (2) to depart from its book method for tax purposes electing to use for tax purposes larger units of property than used for book purposes which resulted in characterizing many projects that were capitalized for book purposes as deductible repairs for tax purposes.

When there is a change in method of accounting to which § 481(a) is applied, income for the taxable year preceding the year of change must be determined under the method of accounting that was then employed by Taxpayer, and income for the year of change and the following taxable years must be determined under Taxpayer's new method of accounting as if the new method had always been used. See § 481(a); § 1.481-1(a)(1); and § 2.05(1) of Rev. Proc. 97-27. In other words: (1) Taxpayer's new method of accounting is implemented beginning in the year of change; (2) Taxpayer's old method of accounting used in the taxable years preceding the year of change is not disturbed; and (3) Taxpayer takes into account a § 481(a) adjustment in computing taxable income to offset any consequent omissions or duplications.

Accordingly, for public utility property in service as of the end of the taxable year immediately preceding the year of change (Year 6), the depreciation-related ADIT existing prior to the year of change for the changes in methods of accounting subject to the Year 6 Consent Agreement does not remain subject to the normalization method of accounting within the meaning of § 168(i)(9) after implementation of the new tax methods of accounting in the year of change and subsequent taxable years.

Based on the foregoing, we conclude that:

- 1) Under the circumstances described above, Taxpayer's electric distribution COR-related net DTL is not "protected" by the Normalization Rules.
- 3) Under the circumstances described above, Taxpayer's gas distribution COR-related net DTA accumulated through the depreciation rate prior to Month 1 of Year 3 is not "protected" by the Normalization Rules.
- 5) Under the circumstances described above, Taxpayer's gas distribution COR-related net DTL accumulated through the fixed estimated cash recovery after Month 1 of Year 3 is not "protected" by the Normalization Rules.

Because these amounts in requests 1, 3, and 5 are not protected by the Normalization Rules, requests 2, 4, 6, and 7 are moot.

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8) Taxpayer's depreciation related ADFIT balances created pursuant to the Normalization Rules that are attributable to costs that were capitalized into the basis of depreciable assets prior to Taxpayer changing its method of accounting for those costs do not remain subject to the Normalization Rules after the change in method of accounting pursuant to which such costs were reclassified as current deductions.

Except as specifically set forth above, no opinion is expressed or implied concerning the federal income tax consequences of the above described facts under any other provision of the Code or regulations.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

This ruling is based upon information and representations submitted by Taxpayer and accompanied by penalty of perjury statements executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

*Patrick S. Kirwan*

Patrick S. Kirwan  
Chief, Branch 6  
Office of Associate Chief Counsel  
(Passthroughs & Special Industries)

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cc: Alexander Zakupowsky, Jr.  
Miller & Chevalier Chartered  
900 Sixteenth St., NW  
Washington, DC 20006

cc: Internal Revenue Service  
Attn: Director, Northeastern Compliance  
Large Business & International  
290 Broadway – Foley Square, 12th Floor  
New York, NY 10007

**STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES**

**In The Matter of the Petition of  
Public Service Electric and Gas Company  
for Approval of Changes in its Electric Tax Adjustment  
Credit and Gas Tax Adjustment Credit**

**“2022 TAC Filing”**

**BPU Docket Nos. \_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**STEPHEN SWETZ  
SR. DIRECTOR – CORPORATE RATES AND  
REVENUE REQUIREMENTS**

**October 31, 2022**

## ATTACHMENT 2

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY  
DIRECT TESTIMONY  
OF  
STEPHEN SWETZ  
SENIOR DIRECTOR – CORPORATE RATES AND REVENUE REQUIREMENTS**

**Q. Please state your name, affiliation and business address.**

A. My name is Stephen Swetz, and I am the Senior Director – Corporate Rates and Revenue Requirements for PSEG Services Corporation. My credentials are set forth in the attached Schedule SS-1.

**Q. Please describe your responsibilities as the Senior Director – Corporate Rates and Revenue Requirements for PSEG Services Corporation.**

A. As the Senior Director of Corporate Rates and Revenue Requirements, I plan, develop, and direct Public Service Electric and Gas Company's ("PSE&G", the "Company") electric and gas retail pricing strategies, retail rate design, embedded and marginal cost studies, and tariff provisions. I also direct the calculation of revenue requirements for PSE&G's base rates as well as all those for the Company's cost recovery clauses. Acting as a key regulatory resource to PSE&G on regulatory matters, strategies and policies, I have negotiated settlements on rate design, cost of service, recovery clauses including renewable and energy efficiency cost recovery, and base rates.

**Q. What is the purpose of your testimony in this proceeding?**

A. My testimony is to support the Company's proposed change to the Electric and Gas Tax Adjustment Credits ("ETAC" and "GTAC" respectively or collectively addressed as the "TACs") for 2023. PSE&G is making this filing consistent with the terms and conditions outlined in the Stipulation of Settlement (the "Stipulation") in PSE&G's

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1        2018 base rate case in BPU Docket Nos. ER18010029 and GR18010030 (“Rate Case  
2        Order”). The Stipulation requires that this filing is to be made no later than October  
3        31, 2022, with actual results through June 30, 2022, and PSE&G is seeking new rates  
4        effective January 1, 2023.

5                The TACs’ Revenue Requirements for these ETAC and GTAC filings are  
6        based upon twelve months of actual financial results from July 2021 through June  
7        2022 and an eighteen-month period of forecasted financial results from July 2022  
8        through December 2023.

9                This testimony provides an overview of the TACs cost recovery mechanism  
10       along with a description of the revenue requirements calculations and rate design  
11       mechanisms.

### 12       **COST RECOVERY MECHANISM**

13       **Q.       Please briefly describe PSE&G’s proposed cost recovery.**

14       A.       Per the Rate Case Order, the TACs are the mechanisms to refund or collect revenue  
15       requirements to or from customers on an annual basis. The revenue requirements are  
16       comprised of the following components:

- 17                • Excess Deferred Income Taxes (“EDIT”) that were accumulated from  
18                January – March 2018 and were flowed back to customers during  
19                November 2018 and December 2018, plus interest;
- 20                • Unprotected Excess Accumulated Deferred Income Taxes (“ADIT”)  
21                balance that are currently being flowed back over an approximately 5  
22                year period through December 31, 2023 with an additional amount



## ATTACHMENT 2

related to the IRS Private Letter Ruling (“PLR”) being flowed back through 2024;

- Protected Excess ADIT, which is flowed back pursuant to the Average Rate Assumption Method (“ARAM”) or any other method as required by the IRS;
- Historic Safe Harbor Adjusted Repair Expense (“SHARE”) balance as of October 31, 2018 over a 10 year period;
- Return on the cumulative change in rate base at the Company’s after-tax Weighted Average Cost of Capital (“WACC”);
- Interest to customers on the balance of non-rate base Unprotected Excess ADIT based upon the Company’s after-tax WACC;
- Flow-through of the estimated Current Period’s SHARE deduction;
- IRS and Other Adjustments; and
- A revenue gross-up of the net tax flow-through.

**Q. What are the forecasted annual electric and gas revenue requirements proposed for this TACs filing?**

A. For the ETAC, the Company proposes a refund from January 1, 2023 through December 31, 2023 of approximately \$108.8 million, which when added to the Company’s estimated under-collected balance with interest at December 31, 2022 of \$13.4 million, results in a total proposed refund to customers of approximately \$95.4 million. The proposed refund represents a decrease in the credit to electric customers of approximately \$16.5 million compared to the current ETAC.

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1 For the GTAC, the Company proposes a refund from January 1, 2023 through  
2 December 31, 2023 of approximately \$188.4 million, which when added to the  
3 Company's estimated under-collected balance with interest at December 31, 2022 of  
4 \$21.4 million, results in a total proposed refund to customers of approximately \$167.0  
5 million. The proposed refund represents an increase in the credit to gas customers of  
6 approximately \$69.5 million compared to the current GTAC.

7 Please see Schedule SS-TAC-1 for the calculation of the total target revenue  
8 and net decrease from current rates for the TACs.

9 **Q. How are the revenue requirements calculated?**

10 A. The ETAC and GTAC revenue requirements are calculated on a monthly basis and are  
11 expressed as follows:

12 *TACs Revenue Requirement = ((Excess Income Tax Refund + Interest On Excess*  
13 *Income Tax Balance) + Unprotected Excess ADIT Amortization + Protected Excess*  
14 *ADIT Amortization + Historic ESHARE/GSHARE Deduction Flow-Through +After-*  
15 *Tax Return on Cumulative Change in Rate Base + Interest On Unprotected Excess*  
16 *Non-Rate Base Average Ending Monthly Balances + Current ESHARE/GSHARE*  
17 *Deduction Flow-Through + IRS Audit Electric/Gas Adjustments + Other Major*  
18 *Electric/Gas Tax Adjustments) \* Electric/Gas Revenue Factor*

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### 1    **Excess Income Tax Refund and Interest on Excess Income Tax Balance**

2    **Q.     What is the EDIT component of the revenue requirements?**

3    A.     The EDIT refund was a one-time flow back to customers of the excess income tax of  
4           approximately \$5.6 million and \$21.8 million plus interest for the ETAC and GTAC,  
5           respectively that was collected in base rates from January 2018 through March 2018, a  
6           period where PSE&G's base rates incorporated a 35% statutory federal tax rate.  
7           However, during that three-month period the 2017 Tax Cuts and Jobs Act ("Tax Act")  
8           changed the Federal income tax rate to 21% effective January 1, 2018, which resulted  
9           in the EDIT over-collection. PSE&G returned these amounts to customers over the  
10          two-month period from November 1, 2018 to December 31, 2018 in compliance with  
11          the Rate Case Order.

### 12   **Unprotected Excess ADIT Amortization**

13   **Q.     What is the Unprotected Excess ADIT Amortization?**

14   A.     The Unprotected Excess ADIT Amortization is the flow back of the Unprotected  
15          Excess ADIT balance to customers over a 5-year period through 2024. The  
16          amortization of the Unprotected ADIT can be located in Column 8 of Schedules SS-  
17          TAC-2E and SS-TAC-2G. Please see the direct testimony of Mr. Clifford Pardo for  
18          additional information regarding Unprotected ADIT.

19   **Q.     Has the Unprotected ADIT Balances and Amortization been adjusted since your**  
20   **prior testimony submitted in the 2021 TAC filing?**

21   A.     No. Since my prior testimony, there have not been any adjustments to the Unprotected  
22          ADIT balances and accompanying amortizations.

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1 **Q. Did the Rate Case Order specify the timing for the refund or recovery of any**  
2 **reclassifications associated with the IRS guidance on the treatment of a change in**  
3 **accounting method and for the treatment of cost of removal?**

4 A. Yes. As specified in paragraph 16 of the 2018 base rate case settlement approved by  
5 the Board: “If the IRS determines these excess deferred taxes are not subject to the  
6 normalization rules and therefore are unprotected, the Company agrees to adjust the  
7 TACs to move the unamortized balance from protected to unprotected and thus flow  
8 back the remaining balance to customers.”

9 **Q. Has the guidance been provided, and if so, what was the guidance?**

10 A. Yes. The IRS guidance stated the excess deferred income tax associated with both the  
11 accounting method changes and post-1981 cost or removal were unprotected and not  
12 subject to the tax normalization rules. Please see the direct testimony of Mr. Clifford  
13 Pardo for additional information regarding the IRS guidance.

14 **Q. Has PSE&G began to amortize these amounts related to the PLR as described in**  
15 **the 2018 Rate Case Board Order?**

16 A. Yes. The final 2019 TAC rates approved by the Board, on July 16, 2020, incorporated  
17 the PLR amortization based upon the IRS guidance. The table below summarizes the  
18 annual PLR amortizations by balance for electric, gas, and in total that have been and  
19 will be amortized through the TAC.

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<b>PLR Give-back \$, 000 Pre-Tax</b>	2020	2021	2022	2023	2024
<b>Electric</b>					
COR	547	547	547	547	-
Account Method Change	(7,674)	(7,674)	(7,674)	(7,674)	(7,569)
Net Impact	(7,127)	(7,127)	(7,127)	(7,127)	(7,569)
<b>Gas</b>					
COR	3,297	3,297	3,297	3,297	-
Account Method Change	(17,000)	(7,314)	(7,314)	(7,314)	(6,978)
Net Impact	(13,703)	(4,017)	(4,017)	(4,017)	(6,978)
<b>Total</b>					
COR	3,844	3,844	3,844	3,844	-
Account Method Change	(24,674)	(14,988)	(14,988)	(14,988)	(14,547)
Net Impact	(20,830)	(11,144)	(11,144)	(11,144)	(14,547)

### Protected Excess ADIT Amortization

**Q. What is the Protected Excess ADIT Amortization?**

A. The Protected Excess ADIT Amortization is the flow back of the Protected Excess ADIT balance to customers pursuant to the ARAM. The amortization of the Protected ADIT can be located in Column 11 of Schedules SS-TAC-2E and SS-TAC-2G. Please see the direct testimony of Mr. Pardo for additional information regarding Protected ADIT.

**Q. Has the Protected Excess ADIT balance changed since the 2021 TAC filing?**

A. No. Since my prior testimony, there have not been any adjustments to the Protected ADIT balances and accompanying amortizations.

## ATTACHMENT 2

### 1 **Historic ESHARE/GSHARE Deduction Flow-Through**

2 **Q. What is the Historic ESHARE/GSHARE Deduction Flow-Through?**

3 A. The Historic ESHARE/GSHARE Deduction Flow-Through is the return to customers  
4 of federally deferred taxes associated with projects that claimed tax repair expense  
5 deductibility but are capital assets for financial reporting purposes. The amortization  
6 of the Protected ADIT can be located in Column 14 of Schedules SS-TAC-2E and SS-  
7 TAC-2G. Please see the testimony of Mr. Pardo for additional details regarding  
8 Historic SHARE.

9 **Q. Has there been any change in the Historic ESHARE/GSHARE Deduction Flow-Through from the Rate Case Order?**

10  
11 A. No. There is a 10 year amortization of the Historic ESHARE/GSHARE with one third  
12 of the balance refunded in the first five years and two thirds of the balance refunded  
13 over the remaining five years. The deduction remains unchanged from Attachment C  
14 in the Rate Case Order.

### 15 **After-Tax Return on Cumulative Change in Rate Base**

16 **Q. What is the Cumulative Change in Rate Base and its after-tax return?**

17 A. The cumulative change in rate base is attributable to the:

- 18 • Prorated amortization of the Protected Excess ADIT,  
19 • Amortization of the rate base related change in Unprotected Excess ADIT, and  
20 • Amortization of the Historic SHARE ADIT

21 As PSE&G flows back the aforementioned components to its customers, rate base  
22 increases as the Company's deferred taxes decrease. The Cumulative Change in Rate

## ATTACHMENT 2

1 Base is shown in Column 18 of Schedule SS-TAC-2E and Schedule SS-TAC-2G. Per  
2 the Stipulation, PSE&G's return on the increase in rate base is calculated at the  
3 Company's after-tax WACC.

4 **Q. Why does the Cumulative Change in Rate Base not include the Current Share**  
5 **Amortization?**

6 A. The Current SHARE deduction flow back to customers, which is discussed later in my  
7 testimony, does not result in a refund of Excess ADIT. In essence, PSE&G is returning  
8 the current period's tax deduction in excess of book depreciation to customers, resulting  
9 in no incremental changes to ADIT, and therefore no changes in rate base.

10 **Q. Why is the Company utilizing the proration methodology for the Protected Excess**  
11 **ADIT change in rate base?**

12 A. PSE&G is using the proration methodology in accordance with IRS regulations. The  
13 ADIT balance used in the calculation of Net Investment must be compliant with the  
14 IRS Normalization Rules. This entails applying a proration methodology to the  
15 forecasted changes in the ADIT balance for depreciable utility-owned plant recovered  
16 over a forecasted period.

17 **Q. How does the proration methodology work?**

18 A. During the forecasted rate period, which is proposed to be January 1 through December  
19 31, the monthly Federal deferred income tax balance associated with the Protected  
20 Excess ADIT Amortization is adjusted by a proration percentage. However, at the  
21 conclusion of each rate period the actual increase in rate base from Protected Excess  
22 ADIT Amortization is substituted for the prorated balance.

## ATTACHMENT 2

1   **Q.     How is the proration percentage calculated?**

2   A.     The proration percentage is calculated as a fraction, the numerator of which is the  
3           remaining days in the forecasted portion of the rate period at the end of each month  
4           and the denominator of which is the total number of days in the forecasted portion of  
5           the rate period.

6   **Q.     Does proration apply to the Unprotected Excess ADIT or Historic SHARE**  
7           **Amortizations?**

8   A.     No. The proration methodology only applies to depreciable property recovered over a  
9           forecasted time period. For tax purposes, the deductions associated with the  
10          Unprotected Non-Rate Base related balance and Historic SHARE are not considered  
11          depreciable property and thus proration does not apply.

12   **Q.     Do you show the calculation of the change in rate base?**

13   A.     Yes. The cumulative change in rate base calculations supporting Column 18 can be  
14          found in Worksheets “RateBase-E” and “RateBase-G” in “WP-SS-TAC-1.xlsx”.

15   **Q.     What is the After-Tax Return on the Increase in Rate Base?**

16   A.     The calculation of the After-Tax Return on the Cumulative Change in Rate Base can  
17          be located in Column 19 of Schedule SS-TAC-2E and Schedule SS-TAC-2G. The  
18          After-Tax Return on the Increase in Rate Base is the average ending monthly increase  
19          in rate base multiplied by the Company’s WACC.



## ATTACHMENT 2

1    **Q.     What is the WACC utilized in the calculation of the revenue requirement?**

2    A.     Per the Rate Case Order, the WACC utilized for the TACs is a weighted cost of 6.99%,  
3           or 6.48% on an after-tax basis, which is based on a Return on Equity of 9.60% and a  
4           long-term embedded cost of debt of 3.96%. For the components and the calculation of  
5           the WACC and after-tax WACC, see Schedule SS-TAC-4.

### 6    **Interest On Unprotected Excess Non-Rate Base Average Ending Monthly Balances**

7    **Q.     What is the interest rate applied on Unprotected Non-Rate Base ADIT Average**  
8           **Ending Monthly Balances?**

9    A.     Per the Rate Case Order, the Company must pay interest on the portion of the  
10          Unprotected Excess ADIT balance that is not currently in rate base until it is fully  
11          refunded to customers. The interest amounts credited to customers are based on  
12          PSE&G's WACC as described above. The Unprotected Excess Non-Rate Base  
13          Amortization can be located in Column 21 of Schedules SS-TAC-2E and SS-TAC-2G.  
14          The cumulative return on the related non-rate base Unprotected Excess ADIT to  
15          customers can be located in Column 23 of Schedules SS-TAC-2E and SS-TAC-2G.

### 16   **Current ESHARE/GSHARE Deduction Flow-Through**

17   **Q.     What is the return of the Current Period Share?**

18   A.     The amortization of the current SHARE to customers included in the filing is PSE&G's  
19          best annual estimate of the current period's federal SHARE deduction, intended to  
20          ensure customers receive the full flow through of the tax benefit. Please see the  
21          testimony of Mr. Pardo for additional details regarding the Current SHARE Tax  
22          Deduction.

## ATTACHMENT 2

1 **Q. How are customers ensured they will in fact receive the benefits of the Current**  
2 **Share when the Company is using an estimate for that component?**

3 A. While the amortization of the current SHARE to customers included in the filing is  
4 PSE&G's best annual estimate of the current period's federal SHARE deduction, as the  
5 Company updates the forecast with actual results, any updates would result in updated  
6 revenue requirements that are a component of the filing's (Over) / Under Recovered  
7 Balance.

### 8 **TAC Adjustments**

9 **Q. Are there any IRS Audit or Other Major Tax Adjustments?**

10 A. No, there are no additional adjustments since the settlement of the Company's 2011  
11 through 2016 tax return audit with the IRS in the fourth quarter of 2020 that were  
12 incorporated in PSE&G's TAC 2021 filing. Please see the direct testimony of Mr.  
13 Clifford Pardo for additional information regarding the 2011 - 2016 settlement.

### 14 **Electric/Gas Revenue Factor**

15 **Q. What is the Revenue Factor?**

16 A. The Revenue Factor adjusts the revenue requirement net of tax for federal and state  
17 income taxes and the costs associated with the BPU and Division of Rate Counsel (RC)  
18 Annual Assessments and Gas Revenue Uncollectable Rate. The BPU/RC Assessment  
19 Expenses consist of payments, based upon a percentage of revenues collected (updated  
20 annually), to the State based on the electric and gas intrastate operating revenues for  
21 the utility. The Company has utilized the respective BPU/RC assessment rates based  
22 on the 2022 fiscal year assessment, which are 0.25% and 0.05%, respectively, and the

## ATTACHMENT 2

1 Gas Revenue Uncollectible rate of 1.6%, which was set in the Company's last base rate  
2 case. See Schedule SS-TAC-5 for the calculation of the revenue factor.

### 3 **Over/Under Balance**

4 **Q. Does the Company have an Over/Under Balance?**

5 A. Yes. Schedules SS-TAC-3E and SS-TAC-3G show the monthly calculation of the  
6 over/under balance. The over or under-collection is calculated monthly as the  
7 difference between the revenue requirement, as calculated in Schedules SS-TAC-2E  
8 and SS-TAC-2G, and the actual credits to customers. Interest is accrued on any  
9 over/under collection based upon the Company's interest rate obtained on its  
10 commercial paper and/or bank credit lines utilized in the preceding month.

11 **Q. How does the Company ensure all flow-backs are returned to customers?**

12 A. As described above for the Current Share component of Revenue Requirements, the  
13 Company tracks the difference between the actual flow-backs to customers and the  
14 amounts refunded to customers in Schedules SS-TAC-3E and SS-TAC-3G. As shown  
15 in Schedule SS-TAC-1, the over or under-collection is included in the target revenue  
16 requirement for the next annual period, ensuring that customers will received the full  
17 refund of excess deferred taxes.

18 **Q. Have you provided the detailed calculations supporting the revenue**  
19 **requirements?**

20 A. Yes. The detailed calculations supporting the revenue requirement calculation  
21 described above are provided in electronic workpaper WP-SS-TAC-1.xlsx.

## ATTACHMENT 2

### 1    **TAC Mechanism**

2    **Q.     How are the ETAC and GTAC revenue requirements refunded to customers?**

3    A.     The electric and gas revenue requirements are allocated to each rate class based upon  
4           their respective percent share of overall gas or electric distribution revenue set by the  
5           Rate Case Order. This rate class revenue allocation will stay the same until the  
6           conclusion of the next base rate case (see Line 2 of Schedule SS-TAC-6E and SS-TAC-  
7           6G). The amount of allocated revenue requirement to each rate class is then divided  
8           by each class' most recent forecast of kilowatt-hour or therm sales for the  
9           corresponding recovery period.

10           The detailed calculations supporting the electric and gas rate designs are shown  
11           in Schedule SS-TAC-6E and Schedule SS-TAC-6G, respectively. These schedules  
12           contain the proposed ETAC and GTAC effective January 1, 2023.

13   **Q.     What are the annual rate impacts to the typical residential customer?**

14   A.     The annual impact of the proposed rates to the typical residential electric customer  
15           using 740 kWh in a summer month and 6,920 kWh annually would be an increase in  
16           the annual bill from \$1,295.28 to \$1,302.00, or \$6.72 or approximately 0.52% (based  
17           upon Delivery Rates and BGS-RSCP charges in effect October 1, 2022 and assuming  
18           that the customer receives BGS-RSCP service from PSE&G).

19           The annual impact of the proposed rates to the typical residential gas heating customers  
20           using 172 therms in a winter month and 1,040 therms annually would be a decrease in  
21           the annual bill from \$1,345.42 to \$1,309.92, or \$35.50 or approximately 2.64% (based  
22           upon Delivery Rates and BGSS-RSG charges in effect October 1, 2022, and assuming

## ATTACHMENT 2

1           that the customer receives BGSS service from PSE&G).

2           The residential customer bill impacts comparing the current and proposed ETAC and  
3           GTAC are included in Attachment 4 for the aforementioned typical customers as well  
4           as other typical customer usage patterns.

5   **Q.     Is the Company issuing a Public Notice in this proceeding?**

6   A.     Yes. PSE&G's electric customers will see an increase (i.e., a lower rate credit) and gas  
7           customers will see a decrease (i.e. higher rate credit), therefore the Company will issue  
8           a Public Notice.

9   **Q.     Does this conclude your testimony?**

10 A.     Yes, it does.

## ATTACHMENT 2

### **SCHEDULE INDEX**

Schedule SS-1	Credentials
Schedule SS-TAC-1	Target Revenue Summary
Schedule SS-TAC-2E	Electric Revenue Requirement Calculation
Schedule SS-TAC-2G	Gas Revenue Requirement Calculation
Schedule SS-TAC-3E	Monthly electric over/under balance worksheet
Schedule SS-TAC-3G	Monthly gas over/under balance worksheet
Schedule SS-TAC-4	Weighted Average Cost of Capital (WACC)
Schedule SS-TAC-5	Revenue Factor Calculation
Schedule SS-TAC-6E	Electric Credit Calculations
Schedule SS-TAC-6G	Gas Credit Calculations

### **ELECTRONIC WORKPAPER INDEX**

WP-SS-TAC-1.xlsx

**CREDENTIALS  
OF  
STEPHEN SWETZ  
SR. DIRECTOR-CORPORATE RATES AND REVENUE REQUIREMENTS**

My name is Stephen Swetz and I am employed by PSEG Services Corporation. I am the Sr. Director - Corporate Rates and Revenue Requirements where my main responsibility is to contribute to the development and implementation of electric and gas rates for Public Service Electric and Gas Company (PSE&G, the Company).

## WORK EXPERIENCE

I have over 30 years of experience in Rates, Financial Analysis and Operations for three Fortune 500 companies. Since 1991, I have worked in various positions within PSEG. I have spent most of my career contributing to the development and implementation of PSE&G electric and gas rates, revenue requirements, pricing and corporate planning with over 20 years of direct experience in Northeastern retail and wholesale electric and gas markets.

As Sr. Director of the Corporate Rates and Revenue Requirements department, I have submitted pre-filed direct cost recovery testimony as well as oral testimony to the New Jersey Board of Public Utilities and the New Jersey Office of Administrative Law for base rate cases, as well as a number of clauses including infrastructure investments, renewable energy, and energy efficiency programs. A list of my prior testimonies can be found on pages 3 and 4 of this document. I have also

1 contributed to other filings including unbundling electric rates and Off-Tariff Rate  
2 Agreements. I have had a leadership role in various economic analyses, asset valuations,  
3 rate design, pricing efforts and cost of service studies.

4 I am an active member of the American Gas Association's Rate and Strategic  
5 Issues Committee, the Edison Electric Institute's Rates and Regulatory Affairs Committee  
6 and the New Jersey Utility Association (NJUA) Finance and Regulatory Committee.

7 **EDUCATIONAL BACKGROUND**

8 I hold a B.S. in Mechanical Engineering from Worcester Polytechnic  
9 Institute and an MBA from Fairleigh Dickinson University.



## LIST OF PRIOR TESTIMONIES

Company	Utility	Docket	Testimony	Date	Case / Topic
Public Service Electric & Gas Company	E/G	-	written	Oct-22	Tax Adjustment Clauses (TACs)
Public Service Electric & Gas Company	E/G	EO18101113 and GO18101112	written	Sep-22	Clean Energy Future - Energy Efficiency Extension Program
Public Service Electric & Gas Company	E/G	ER22070413 and GR22070414	written	Jul-22	Green Programs Recovery Charge (GPRC)-Including CA, EEE, EEE Ext, EE17, CEF-EE, S4All, S4AEXT, S4AEXT II, SLII, SLIII, TREC, CSEP / Cost Recovery
Public Service Electric & Gas Company	E	ER22060408	written	Jul-22	SPRC 2022
Public Service Electric & Gas Company	G	GR22060409	written	Jun-22	Gas System Modernization Program II (GSMPII) - Seventh Roll-In
Public Service Electric & Gas Company	G	GR22060367	written	Jun-22	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	G	GR22060362	written	Jun-22	Conservation Incentive Program (GCIIP)
Public Service Electric & Gas Company	E/G	GR22030152	written	Mar-22	Remediation Adjustment Charge-RAC 29
Public Service Electric & Gas Company	E	ER22020035	written	Feb-22	Electric Conservation Incentive Program (ECIP)
Public Service Electric & Gas Company	G	GR21121256	written	Dec-21	Gas System Modernization Program II (GSMPII) - Sixth Roll-In
Public Service Electric & Gas Company	E	ER21121242	written	Dec-21	Solar Successor Incentive Program (SuSI)
Public Service Electric & Gas Company	E/G	EO21111211 & GO21111212	written	Nov-21	Infrastructure Advancement Program (IAP)
Public Service Electric & Gas Company	E/G	ER21111209 & GR21111210	written	Nov-21	The Second Energy Strong Program (Energy Strong II)
Public Service Electric & Gas Company	E/G	ER21101201 and GR21101202	written	Oct-21	Tax Adjustment Clauses (TACs)
Public Service Electric & Gas Company	E/G	ER21070965 & GR21070966	written	Jul-21	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, EE17, S4All, S4AEXT, S4AEXT II, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	G	ER21060952	written	Jun-21	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	G	GR21060949	written	Jun-21	Gas System Modernization Program II (GSMPII) - Fifth Roll-In
Public Service Electric & Gas Company	E	ER21060948	written	Jun-21	SPRC 2021
PSEG New Haven LLC	PSEG New Haven LLC	21-06-40	written	Jun-21	PSEG 2022 AFRR
Public Service Electric & Gas Company	G	GR21060882	written	Jun-21	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E	ER21050859	written	May-21	Community Solar Cost Recovery
Public Service Electric & Gas Company	G	GR20120771	written	Dec-20	Gas System Modernization Program II (GSMPII) - Forth Roll-In
Public Service Electric & Gas Company	E/G	GR20120763	written	Dec-20	Remediation Adjustment Charge-RAC 28
Public Service Electric & Gas Company	E	ER20120736	written	Nov-20	The Second Energy Strong Program (Energy Strong II)
Public Service Electric & Gas Company	E/G	ER20100685 & GR20100686	written	Oct-20	Tax Adjustment Clauses (TACs)
Public Service Electric & Gas Company	E	ER20100658	written	Oct-20	Non-Utility Generation Charge (NGC) / Cost Recovery
Public Service Electric & Gas Company	E/G	ER20060467 & GR20060468	written	Jun-20	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, EE17, S4All, S4AEXT, S4AEXT II, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	G	GR20060464	written	Jun-20	Gas System Modernization Program II (GSMPII) - Third Roll-In
Public Service Electric & Gas Company	E	ER20060454	written	Jun-20	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	G	GR20060470	written	Jun-20	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	G	GR20060384	written	Jun-20	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E	ER20040324	written	Apr-20	Transitional Renewable Energy Certificate Program (TREC)
Public Service Electric & Gas Company	E/G	GR20010073	written	Jan-20	Remediation Adjustment Charge-RAC 27
Public Service Electric & Gas Company	G	GR19120002	written	Dec-19	Gas System Modernization Program II (GSMPII) - Second Roll-In
Public Service Electric & Gas Company	E/G	ER19091302 & GR19091303	written	Aug-19	Tax Adjustment Clauses (TACs)
Public Service Electric & Gas Company	E/G	ER19070850	written	Jul-19	Societal Benefits Charge (SBC) / Cost Recovery
Public Service Electric & Gas Company	E/G	ER19060764 & GR19060765	written	Jun-19	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, S4All, S4AEXT, S4AEXT II, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	G	GR19060766	written	Jun-19	Gas System Modernization Program II (GSMPII) - First Roll-In
Public Service Electric & Gas Company	G	GR19060761	written	Jun-19	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	E	ER19060741	written	Jun-19	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	E/G	EO18060629 - GO18060630	oral	Jun-19	Energy Strong II / Revenue Requirements & Rate Design
Public Service Electric & Gas Company	G	GR19060698	written	May-19	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E	ER19040523	written	May-19	Non-Utility Generation Charge (NGC) / Cost Recovery
Public Service Electric & Gas Company	E/G	EO18101113 - GO18101112	oral	May-19	Clean Energy Future - Energy Efficiency Program Approval
Public Service Electric & Gas Company	E	ER19040530	written	Apr-19	Madison 4kV Substation Project (Madison & Marshall)
Public Service Electric & Gas Company	E/G	EO18101113 - GO18101112	written	Dec-18	Clean Energy Future - Energy Efficiency Program Approval
Public Service Electric & Gas Company	E/G	GR18121258	written	Nov-18	Remediation Adjustment Charge-RAC 26
Public Service Electric & Gas Company	E	EO18101115	written	Oct-18	Clean Energy Future - Energy Cloud Program (EC)
Public Service Electric & Gas Company	E	EO18101111	written	Oct-18	Clean Energy Future-Electric Vehicle And Energy Storage Programs (EVES)
Public Service Electric & Gas Company	G	GR18070831	written	Jul-18	Gas System Modernization Program (GSMP) - Third Roll-In
Public Service Electric & Gas Company	E/G	ER18070688 - GR18070689	written	Jun-18	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, S4All, S4AEXT, S4AEXT II, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	E	ER18060681	written	Jun-18	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	G	GR18060675	written	Jun-18	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	E/G	EO18060629 - GO18060630	written	Jun-18	Energy Strong II / Revenue Requirements & Rate Design
Public Service Electric & Gas Company	G	GR18060605	written	Jun-18	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E/G	ER18040358 - GR18040359	written	Mar-18	Energy Strong / Revenue Requirements & Rate Design - Eighth Roll-in
Public Service Electric & Gas Company	E/G	ER18030231	written	Mar-18	Tax Cuts and Job Acts of 2017
Public Service Electric & Gas Company	E/G	GR18020093	written	Feb-18	Remediation Adjustment Charge-RAC 25
Public Service Electric & Gas Company	E/G	ER18010029 and GR18010030	written	Jan-18	Base Rate Proceeding / Cost of Service & Rate Design
Public Service Electric & Gas Company	E	ER17101027	written	Sep-17	Energy Strong / Revenue Requirements & Rate Design - Seventh Roll-in
Public Service Electric & Gas Company	G	GR17070776	written	Jul-17	Gas System Modernization Program II (GSMP II)

## LIST OF PRIOR TESTIMONIES

Company	Utility	Docket	Testimony	Date	Case / Topic
Public Service Electric & Gas Company	G	GR17070775	written	Jul-17	Gas System Modernization Program (GSMP) - Second Roll-in
Public Service Electric & Gas Company	G	GR17060720	written	Jul-17	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	E/G	ER17070724 - GR17070725	written	Jul-17	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, S4All, S4AEXT, S4AEXT II, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	E	ER17070723	written	Jul-17	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	G	GR17060593	written	Jun-17	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E/G	ER17030324 - GR17030325	written	Mar-17	Energy Strong / Revenue Requirements & Rate Design - Sixth Roll-in
Public Service Electric & Gas Company	E/G	EO14080897	written	Mar-17	Energy Efficiency 2017 Program
Public Service Electric & Gas Company	E/G	ER17020136	written	Feb-17	Societal Benefits Charge (SBC) / Cost Recovery
Public Service Electric & Gas Company	E/G	GR16111064	written	Nov-16	Remediation Adjustment Charge-RAC 24
Public Service Electric & Gas Company	E	ER16090918	written	Sep-16	Energy Strong / Revenue Requirements & Rate Design - Fifth Roll-in
Public Service Electric & Gas Company	E	EO16080788	written	Aug-16	Construction of Mason St Substation
Public Service Electric & Gas Company	E	ER16080785	written	Aug-16	Non-Utility Generation Charge (NGC) / Cost Recovery
Public Service Electric & Gas Company	G	GR16070711	written	Jul-16	Gas System Modernization Program (GSMP) - First Roll-In
Public Service Electric & Gas Company	G	GR16070617	written	Jul-16	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	E/G	ER16070613 - GR16070614	written	Jul-16	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, S4All, S4AEXT, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	E	ER16070616	written	Jul-16	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	G	GR16060484	written	Jun-16	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E	EO16050412	written	May-16	Solar 4 All Extension II (S4AllExt II) / Revenue Requirements & Rate Design
Public Service Electric & Gas Company	E/G	ER16030272 - GR16030273	written	Mar-16	Energy Strong / Revenue Requirements & Rate Design - Fourth Roll-in
Public Service Electric & Gas Company	E/G	GR15111294	written	Nov-15	Remediation Adjustment Charge-RAC 23
Public Service Electric & Gas Company	E	ER15101180	written	Sep-15	Energy Strong / Revenue Requirements & Rate Design - Third Roll-in
Public Service Electric & Gas Company	E/G	ER15070757-GR15070758	written	Jul-15	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, S4All, S4AEXT, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	E	ER15060754	written	Jul-15	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	G	GR15060748	written	Jul-15	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	G	GR15060646	written	Jun-15	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E/G	ER15050558	written	May-15	Societal Benefits Charge (SBC) / Cost Recovery
Public Service Electric & Gas Company	E	ER15050558	written	May-15	Non-Utility Generation Charge (NGC) / Cost Recovery
Public Service Electric & Gas Company	E/G	ER15030389-GR15030390	written	Mar-15	Energy Strong / Revenue Requirements & Rate Design - Second Roll-in
Public Service Electric & Gas Company	G	GR15030272	written	Feb-15	Gas System Modernization Program (GSMP)
Public Service Electric & Gas Company	E/G	GR14121411	written	Dec-14	Remediation Adjustment Charge-RAC 22
Public Service Electric & Gas Company	E/G	ER14091074	written	Sep-14	Energy Strong / Revenue Requirements & Rate Design - First Roll-in
Public Service Electric & Gas Company	E/G	EO14080897	written	Aug-14	EEE Ext II
Public Service Electric & Gas Company	G	ER14070656	written	Jul-14	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	E/G	ER14070651-GR14070652	written	Jul-14	Green Programs Recovery Charge (GPRC)-Including CA, DR, EEE, EEE Ext, S4All, S4AEXT, SLII, SLIII / Cost Recovery
Public Service Electric & Gas Company	E	ER14070650	written	Jul-14	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	G	GR14050511	written	May-14	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E/G	GR14040375	written	Apr-14	Remediation Adjustment Charge-RAC 21
Public Service Electric & Gas Company	E/G	ER13070603-GR13070604	written	Jun-13	Green Programs Recovery Charge (GPRC)-Including DR, EEE, EEE Ext, CA, S4All, SLII / Cost Recovery
Public Service Electric & Gas Company	E	ER13070605	written	Jul-13	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	G	GR13070615	written	Jun-13	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	G	GR13060445	written	May-13	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	E/G	EO13020155-GO13020156	written/oral	Mar-13	Energy Strong / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	G	GO12030188	written/oral	Mar-13	Appliance Service / Tariff Support
Public Service Electric & Gas Company	E	ER12070599	written	Jul-12	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	E/G	ER12070606-GR12070605	written	Jul-12	RGGI Recovery Charges (RRC)-Including DR, EEE, EEE Ext, CA, S4All, SLII / Cost Recovery
Public Service Electric & Gas Company	E	EO12080721	written/oral	Jul-12	Solar Loan III (SLIII) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	E	EO12080721	written/oral	Jul-12	Solar 4 All Extension(S4AllExt) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	G	GR12060489	written	Jun-12	Margin Adjustment Charge (MAC) / Cost Recovery
Public Service Electric & Gas Company	G	GR12060583	written	Jun-12	Weather Normalization Charge / Cost Recovery
Public Service Electric & Gas Company	E/G	ER12030207	written	Mar-12	Societal Benefits Charge (SBC) / Cost Recovery
Public Service Electric & Gas Company	E	ER12030207	written	Mar-12	Non-Utility Generation Charge (NGC) / Cost Recovery
Public Service Electric & Gas Company	G	GR11060338	written	Jun-11	Margin Adjustment Charge (MAC) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	G	GR11060395	written	Jun-11	Weather Normalization Charge / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	E	EO11010030	written	Jan-11	Economic Energy Efficiency Extension (EEExt) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	E/G	ER10100737	written	Oct-10	RGGI Recovery Charges (RRC)-Including DR, EEE, CA, S4All, SLII / Cost Recovery
Public Service Electric & Gas Company	E/G	ER10080550	written	Aug-10	Societal Benefits Charge (SBC) / Cost Recovery
Public Service Electric & Gas Company	E	ER10080550	written	Aug-10	Non-Utility Generation Charge (NGC) / Cost Recovery
Public Service Electric & Gas Company	E/G	GR09050422	written/oral	Mar-10	Base Rate Proceeding / Cost of Service & Rate Design
Public Service Electric & Gas Company	E	ER10030220	written	Mar-10	Solar Pilot Recovery Charge (SPRC-Solar Loan I) / Cost Recovery
Public Service Electric & Gas Company	E	EO09030249	written	Mar-09	Solar Loan II(SLII) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	E/G	EO09010056	written	Feb-09	Economic Energy Efficiency(EEE) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	E	EO09020125	written	Feb-09	Solar 4 All (S4All) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	E	EO08080544	written	Aug-08	Demand Response (DR) / Revenue Requirements & Rate Design - Program Approval
Public Service Electric & Gas Company	E/G	ER10100737	written	Jun-08	Carbon Abatement (CA) / Revenue Requirements & Rate Design - Program Approval

# PSE&G 2022 Tax Adjustment Credit (TACs)

## Proposed Rate Calculations

Schedule SS-TAC-1

Actual results through 6/30/2022

(\$'s Unless Specified)

SUT Rate

6.625%

<u>Line</u>	<u>Date(s)</u>		<u>Electric</u>	<u>Gas</u>	<u>Total</u>	<u>Source/Description</u>
1	Jan23 - Dec23	Net Revenue Requirements	(108,844,322)	(188,417,315)	(297,261,637)	SS-2E/G, Col 30
2	Dec-22	(Over) / Under Recovered Balance	13,426,798	21,418,299	34,845,097	- SS-3E/G, Col 5
3	Dec-22	Cumulative Interest Exp / (Credit)	<u>8,013</u>	<u>22,685</u>	<u>30,698</u>	- SS-3E/G, Col 10
4	Jan23 - Dec23	Total Target Rate Revenue	(95,409,510)	(166,976,331)	(262,385,841)	ln 1 + ln 2 + ln 3
5	2022	Revenues at 2022 TAC rates	<u>(111,894,483)</u>	<u>(97,499,394)</u>	<u>(209,393,877)</u>	SS-6E/G, ln 7
6		Proposed TAC Increase / (Decrease)	16,484,973	(69,476,937)	(52,991,964)	Ln 4 - ln 5

ETAC Net Revenue Requirement  
\$000

Page 1 of 2

Current Excess Unprotected ADIT Balance	231,413
Deduction Storm/Other Regulatory Asset Offset	-
Net Historic Unprotected ADIT to Return to Customers	231,413

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	1. Return Excess Income Tax Expense						2. Return Historic ADIT								
							Unprotected Excess			Protected Excess			SHARE		
	Beginning Excess Income Tax Balance	Excess Income Tax	Excess Income Tax	Ending Excess Income Tax Balance	Short-Term Interest Rate	Interest On Excess Income Tax Balance	Beginning Balance	Amortization to Customers	Ending Balance	Beginning Balance	Amortization to Customers	Ending Balance	Beginning Balance	Amortization to Customers	Ending Balance
Jan-22	-	-	-	-	0.16%	-	130,398	(4,938)	125,459	362,967	(847)	362,120	103,833	(702)	103,132
Feb-22	-	-	-	-	0.16%	-	125,459	(4,938)	120,521	362,120	(847)	361,272	103,132	(702)	102,430
Mar-22	-	-	-	-	0.16%	-	120,521	(4,938)	115,583	361,272	(847)	360,425	102,430	(702)	101,728
Apr-22	-	-	-	-	0.16%	-	115,583	(4,938)	110,644	360,425	(847)	359,578	101,728	(702)	101,027
May-22	-	-	-	-	0.16%	-	110,644	(4,938)	105,706	359,578	(847)	358,730	101,027	(702)	100,325
Jun-22	-	-	-	-	0.16%	-	105,706	(4,938)	100,768	358,730	(848)	357,882	100,325	(702)	99,624
Jul-22	-	-	-	-	0.16%	-	100,768	(4,938)	95,830	357,882	(847)	357,035	99,624	(702)	98,922
Aug-22	-	-	-	-	0.16%	-	95,830	(4,938)	90,891	357,035	(847)	356,188	98,922	(702)	98,221
Sep-22	-	-	-	-	0.16%	-	90,891	(4,938)	85,953	356,188	(847)	355,340	98,221	(702)	97,519
Oct-22	-	-	-	-	0.16%	-	85,953	(4,938)	81,015	355,340	(847)	354,493	97,519	(702)	96,817
Nov-22	-	-	-	-	0.16%	-	81,015	(4,938)	76,076	354,493	(847)	353,646	96,817	(702)	96,116
Dec-22	-	-	-	-	0.16%	-	76,076	(4,938)	71,138	353,646	(847)	352,798	96,116	(702)	95,414
Jan-23	-	-	-	-	0.16%	-	71,138	(5,297)	65,841	352,798	(847)	351,951	95,414	(702)	94,713
Feb-23	-	-	-	-	0.16%	-	65,841	(5,297)	60,543	351,951	(847)	351,103	94,713	(702)	94,011
Mar-23	-	-	-	-	0.16%	-	60,543	(5,297)	55,246	351,103	(847)	350,256	94,011	(702)	93,310
Apr-23	-	-	-	-	0.16%	-	55,246	(5,297)	49,948	350,256	(847)	349,409	93,310	(702)	92,608
May-23	-	-	-	-	0.16%	-	49,948	(5,297)	44,651	349,409	(847)	348,561	92,608	(702)	91,906
Jun-23	-	-	-	-	0.16%	-	44,651	(5,297)	39,354	348,561	(847)	347,714	91,906	(702)	91,205
Jul-23	-	-	-	-	0.16%	-	39,354	(5,297)	34,056	347,714	(847)	346,866	91,205	(702)	90,503
Aug-23	-	-	-	-	0.16%	-	34,056	(5,297)	28,759	346,866	(847)	346,019	90,503	(702)	89,802
Sep-23	-	-	-	-	0.16%	-	28,759	(5,297)	23,461	346,019	(847)	345,172	89,802	(702)	89,100
Oct-23	-	-	-	-	0.16%	-	23,461	(5,297)	18,164	345,172	(847)	344,324	89,100	(702)	88,398
Nov-23	-	-	-	-	0.16%	-	18,164	(5,297)	12,867	344,324	(847)	343,477	88,398	(702)	87,697
Dec-23	-	-	-	-	0.16%	-	12,867	(5,297)	7,569	343,477	(847)	342,630	87,697	(702)	86,995
	= Prev Col 4	Input	Input	= Col 1 + Col 2 + Col 3	Input	= (Prev Col 4 + Col 4)/2 * Col 5 / 12	= Prev Col 9 + Col 1 & 2 of "Balances" Wkst	Input	= Col 7 + Col 8	= Prev Col 12 + Col 3 of "Balances" Wkst	Input	= Col 10 + Col 11	= Prev Col 15 + Col 4 of "Balances" Wkst	Input	= Col 13 + Col 14
Annual															
2018			(5,641)			(93)		(5,834)			(1,826)			(1,403)	
2019			-			-		(37,547)			(9,328)			(8,419)	
2020			-			-		(50,309)			(11,303)			(8,419)	
2021			-			-		(55,339)			(10,398)			(8,419)	
2022			-			-		(59,260)			(10,169)			(8,419)	
2023			-			-		(63,569)			(10,169)			(8,419)	

**PSE&G 2021 TAX ADJUSTMENT CREDIT**

ETAC Net Revenue Requirement  
\$000

Schedule SS-TAC-2E

Page 2 of 2

Monthly After Tax WACC = 0.540%					Monthly After Tax WACC = 0.540%				Federal Tax Rate = 21.00%			Revenue Factor = 1.3946			
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
2. Return Historic ADIT (cont.)					2a. Return Historic ADIT (cont.)				3. Current ESHARE Deducton			4. Other		29,850	
Return on Rate Base					Return on Non Rate Base										
Unprotected Excess ADIT Rate Base Related %	Rate Base Related Portion of Unprotected Excess ADIT Amortizaiton to Customers	Cumulative Change in Rate Base	After-Tax Return on Cumulative Change in Rate Base	Beginning Non-Rate Base Related Portion of Unprotected Excess	Non-Rate Base Related Portion of Unprotected Excess ADIT Amortizaiton to Customers	Ending Non-Rate Base Related Portion of Unprotected Excess	After-Tax Interest to Customers	Federal Tax SHARE Deduction	Book Depreciation Associated with SHARE Deduction	Actual SHARE Deduction Flow-Through	IRS ESHARE Deduction Audit Adjustments	Other Major Tax Adjustments	Net Tax Adjustment	Net Revenue Requirement	
Jan-22	78%	(3,863)	180,558	946	26,846	(1,075)	25,771	(142)	4,837	1,770	(644)	-	-	(6,328)	(8,829)
Feb-22	78%	(3,863)	185,836	990	25,771	(1,075)	24,696	(136)	4,837	1,770	(644)	-	-	(6,278)	(8,759)
Mar-22	78%	(3,863)	191,041	1,018	24,696	(1,075)	23,621	(131)	4,837	1,770	(644)	-	-	(6,244)	(8,712)
Apr-22	78%	(3,863)	196,177	1,046	23,621	(1,075)	22,546	(125)	4,837	1,770	(644)	-	-	(6,210)	(8,664)
May-22	78%	(3,863)	201,242	1,074	22,546	(1,075)	21,471	(119)	4,837	1,770	(644)	-	-	(6,177)	(8,618)
Jun-22	78%	(3,863)	206,236	1,101	21,471	(1,075)	20,396	(113)	4,837	1,770	(644)	-	-	(6,144)	(8,573)
Jul-22	78%	(3,863)	211,159	1,127	20,396	(1,075)	19,321	(107)	4,837	1,770	(644)	-	-	(6,111)	(8,526)
Aug-22	78%	(3,863)	216,009	1,154	19,321	(1,075)	18,247	(101)	4,837	1,770	(644)	-	-	(6,079)	(8,481)
Sep-22	78%	(3,863)	220,790	1,180	18,247	(1,075)	17,172	(96)	4,837	1,770	(644)	-	-	(6,047)	(8,437)
Oct-22	78%	(3,863)	225,499	1,206	17,172	(1,075)	16,097	(90)	4,837	1,770	(644)	-	-	(6,016)	(8,393)
Nov-22	78%	(3,863)	230,139	1,231	16,097	(1,075)	15,022	(84)	4,837	1,770	(644)	-	-	(5,985)	(8,350)
Dec-22	78%	(3,863)	234,706	1,256	15,022	(1,075)	13,947	(78)	4,837	1,770	(644)	-	-	(5,954)	(8,307)
Jan-23	78%	(4,135)	245,779	1,298	13,947	(1,162)	12,785	(72)	7,015	1,837	(1,087)	-	-	(6,708)	(9,359)
Feb-23	78%	(4,135)	251,328	1,343	12,785	(1,162)	11,623	(66)	7,015	1,837	(1,087)	-	-	(6,657)	(9,288)
Mar-23	78%	(4,135)	256,806	1,373	11,623	(1,162)	10,460	(60)	7,015	1,837	(1,087)	-	-	(6,621)	(9,237)
Apr-23	78%	(4,135)	262,213	1,402	10,460	(1,162)	9,298	(53)	7,015	1,837	(1,087)	-	-	(6,585)	(9,188)
May-23	78%	(4,135)	267,549	1,431	9,298	(1,162)	8,136	(47)	7,015	1,837	(1,087)	-	-	(6,550)	(9,138)
Jun-23	78%	(4,135)	272,815	1,460	8,136	(1,162)	6,974	(41)	7,015	1,837	(1,087)	-	-	(6,515)	(9,090)
Jul-23	78%	(4,135)	278,010	1,488	6,974	(1,162)	5,811	(35)	7,015	1,837	(1,087)	-	-	(6,480)	(9,041)
Aug-23	78%	(4,135)	283,132	1,516	5,811	(1,162)	4,649	(28)	7,015	1,837	(1,087)	-	-	(6,446)	(8,994)
Sep-23	78%	(4,135)	288,185	1,543	4,649	(1,162)	3,487	(22)	7,015	1,837	(1,087)	-	-	(6,412)	(8,947)
Oct-23	78%	(4,135)	293,165	1,570	3,487	(1,162)	2,325	(16)	7,015	1,837	(1,087)	-	-	(6,379)	(8,900)
Nov-23	78%	(4,135)	298,076	1,597	2,325	(1,162)	1,162	(9)	7,015	1,837	(1,087)	-	-	(6,346)	(8,854)
Dec-23	78%	(4,135)	302,915	1,623	1,162	(1,162)	0	(3)	7,015	1,837	(1,087)	-	-	(6,313)	(8,809)
	= Col 17 / Col 8	Input	See "RateBase-E", Col 8	= (Prev Col 18 + Col 18) / 2 * Monthly AT WACC	Previous Col 22	= (Prev Col 8 - Col 17)	= (Prev Col 20 - Col 21)	= (Prev Col 22 + Col 22) / 2 * Monthly AT WACC	Input	Input	= - (Col 24 - Col 25) * Fed Tax Rate	Input	Input	= Col 8 + Col 11 + Col 14 + Col 19 + Col 23 + Col 26+ Col 27+ Col 28	= Col 29 * Rev Fct + Col 3 + Col 6
Annual															
2018				34		(1,420)	(629)	8,398	2,507	(1,237)			(10,895)	(20,927)	
2019				1,885		(9,136)	(3,484)	74,964	17,783	(12,008)			(68,901)	(96,117)	
2020				5,112		(10,854)	(2,844)	47,117	16,814	(6,364)			(74,127)	(103,378)	
2021				9,192		(11,919)	(2,129)	36,642	19,759	(3,546)			(70,638)	(98,526)	
2022				13,327		(12,899)	(1,322)	58,047	21,237	(7,730)			(73,573)	(102,649)	
2023				17,644		(13,947)	(452)	84,180	22,044	(13,049)			(78,013)	(108,844)	

GTAC Net Revenue Requirement  
\$000

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Return Excess Income Tax Expense						2. Return Historic ADIT								
						Unprotected Excess ADIT			Protected Excess ADIT			SHARE		
Beginning Excess Income Tax Balance	Excess Income Tax	Excess Income Tax	Ending Excess Income Tax Balance	Short-Term Interest Rate	Interest On Excess Income Tax Balance	Beginning Balance	Amortization to Customers	Ending Balance	Beginning Balance	Amortization to Customers	Ending Balance	Beginning Balance	Amortization to Customers	Ending Balance
-	-	-	-	0.16%	-	136,112	(5,110)	131,001	287,858	(618)	287,239	228,526	(1,544)	226,981
-	-	-	-	0.16%	-	131,001	(5,110)	125,891	287,239	(618)	286,621	226,981	(1,544)	225,437
-	-	-	-	0.16%	-	125,891	(5,110)	120,781	286,621	(618)	286,003	225,437	(1,544)	223,893
-	-	-	-	0.16%	-	120,781	(5,110)	115,670	286,003	(618)	285,385	223,893	(1,544)	222,349
-	-	-	-	0.16%	-	115,670	(5,110)	110,560	285,385	(618)	284,767	222,349	(1,544)	220,805
-	-	-	-	0.16%	-	110,560	(5,110)	105,449	284,767	(619)	284,148	220,805	(1,544)	219,261
-	-	-	-	0.16%	-	105,449	(5,110)	100,339	284,148	(618)	283,529	219,261	(1,544)	217,717
-	-	-	-	0.16%	-	100,339	(5,110)	95,229	283,529	(618)	282,911	217,717	(1,544)	216,173
-	-	-	-	0.16%	-	95,229	(5,110)	90,118	282,911	(618)	282,293	216,173	(1,544)	214,629
-	-	-	-	0.16%	-	90,118	(5,110)	85,008	282,293	(618)	281,675	214,629	(1,544)	213,085
-	-	-	-	0.16%	-	85,008	(5,110)	79,897	281,675	(618)	281,057	213,085	(1,544)	211,541
-	-	-	-	0.16%	-	79,897	(5,110)	74,787	281,057	(618)	280,438	211,541	(1,544)	209,996
-	-	-	-	0.16%	-	74,787	(5,651)	69,136	280,438	(618)	279,820	209,996	(1,544)	208,452
-	-	-	-	0.16%	-	69,136	(5,651)	63,486	279,820	(618)	279,202	208,452	(1,544)	206,908
-	-	-	-	0.16%	-	63,486	(5,651)	57,835	279,202	(618)	278,584	206,908	(1,544)	205,364
-	-	-	-	0.16%	-	57,835	(5,651)	52,184	278,584	(618)	277,966	205,364	(1,544)	203,820
-	-	-	-	0.16%	-	52,184	(5,651)	46,534	277,966	(618)	277,347	203,820	(1,544)	202,276
-	-	-	-	0.16%	-	46,534	(5,651)	40,883	277,347	(618)	276,729	202,276	(1,544)	200,732
-	-	-	-	0.16%	-	40,883	(5,651)	35,232	276,729	(618)	276,111	200,732	(1,544)	199,188
-	-	-	-	0.16%	-	35,232	(5,651)	29,581	276,111	(618)	275,493	199,188	(1,544)	197,644
-	-	-	-	0.16%	-	29,581	(5,651)	23,931	275,493	(618)	274,875	197,644	(1,544)	196,100
-	-	-	-	0.16%	-	23,931	(5,651)	18,280	274,875	(618)	274,256	196,100	(1,544)	194,556
-	-	-	-	0.16%	-	18,280	(5,651)	12,629	274,256	(618)	273,638	194,556	(1,544)	193,011
-	-	-	-	0.16%	-	12,629	(5,651)	6,978	273,638	(618)	273,020	193,011	(1,544)	191,467
= Prev Col 4	Input	Input	= Col 1 + Col 2 + Col 3	Input	= (Prev Col 4 + Col 4)/2 * Col 5 / 12	= Prev Col 9	Input	= Col 7 + Col 8	= Prev Col 12	Input	= Col 10 + Col 11	= Prev Col 15	Input	= Col 13 + Col 14
		(21,789)			(363)		(6,467)			(1,046)			(3,088)	
		-			-		(43,563)			(5,287)			(18,529)	
		-			-		(62,157)			(5,367)			(18,529)	
		-			-		(57,070)			(4,583)			(18,529)	
		-			-		(61,325)			(7,419)			(18,529)	
		-			-		(67,809)			(7,418)			(18,529)	

**PSE&G 2021 TAX ADJUSTMENT CREDIT**

GTAC Net Revenue Requirement  
\$000

1.391014049  
0.7189

Schedule SS-TAC-2G

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Monthly After Tax WACC = 0.540%				Monthly After Tax WACC = 0.540%				Federal Tax Rate = 21.00%			Revenue Factor = 1.4173			
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
<b>2. Return Historic ADIT (cont.)</b>				<b>2a. Return Historic ADIT (cont.)</b>				<b>3. Current GSHARE Deduction</b>			<b>4. Other</b>			
<b>Return on Rate Base</b>				<b>Return on Non Rate Base</b>										
Unprotected Excess ADIT Rate Base Related %	Rate Base Related Portion of Unprotected Excess ADIT Amortization to Customers	Cumulative Change in Rate Base	After-Tax Return on Cumulative Change in Rate Base	Beginning Non-Rate Base Related Portion of Unprotected Excess	Non-Rate Base Related Portion of Unprotected Excess ADIT Amortization to Customers	Ending Non-Rate Base Related Portion of Unprotected Excess	After-Tax Interest to Customers	Federal Tax SHARE Deduction	Book Depreciation Associated with SHARE Deduction	Actual SHARE Deduction Flow-Through	IRS ESHARE Deduction Audit Adjustments	Other Major Tax Adjustments	Net Tax Adjustment	Revenue Requirement
79%	(4,045)	217,289	1,154	26,827	(1,066)	25,761	(142)	13,194	3,436	(2,049)	-	-	(8,310)	(11,783)
79%	(4,045)	223,398	1,190	25,761	(1,066)	24,695	(136)	13,194	3,436	(2,049)	-	-	(8,268)	(11,724)
79%	(4,045)	229,454	1,223	24,695	(1,066)	23,630	(131)	13,194	3,436	(2,049)	-	-	(8,229)	(11,669)
79%	(4,045)	235,459	1,256	23,630	(1,066)	22,564	(125)	13,194	3,436	(2,049)	-	-	(8,191)	(11,615)
79%	(4,045)	241,412	1,288	22,564	(1,066)	21,498	(119)	13,194	3,436	(2,049)	-	-	(8,153)	(11,561)
79%	(4,045)	247,315	1,320	21,498	(1,066)	20,432	(113)	13,194	3,436	(2,049)	-	-	(8,116)	(11,508)
79%	(4,045)	253,164	1,352	20,432	(1,066)	19,367	(108)	13,194	3,436	(2,049)	-	-	(8,077)	(11,454)
79%	(4,045)	258,961	1,383	19,367	(1,066)	18,301	(102)	13,194	3,436	(2,049)	-	-	(8,040)	(11,401)
79%	(4,045)	264,707	1,415	18,301	(1,066)	17,235	(96)	13,194	3,436	(2,049)	-	-	(8,003)	(11,349)
79%	(4,045)	270,401	1,445	17,235	(1,066)	16,169	(90)	13,194	3,436	(2,049)	-	-	(7,967)	(11,297)
79%	(4,045)	276,044	1,476	16,169	(1,066)	15,104	(84)	13,194	3,436	(2,049)	-	-	(7,930)	(11,245)
79%	(4,045)	281,635	1,506	15,104	(1,066)	14,038	(79)	13,194	3,436	(2,049)	-	-	(7,894)	(11,194)
79%	(4,481)	292,209	1,550	14,038	(1,170)	12,868	(73)	27,348	3,672	(4,972)	-	-	(11,308)	(16,034)
79%	(4,481)	298,754	1,596	12,868	(1,170)	11,698	(66)	27,348	3,672	(4,972)	-	-	(11,255)	(15,960)
79%	(4,481)	305,247	1,632	11,698	(1,170)	10,528	(60)	27,348	3,672	(4,972)	-	-	(11,214)	(15,901)
79%	(4,481)	311,688	1,666	10,528	(1,170)	9,359	(54)	27,348	3,672	(4,972)	-	-	(11,172)	(15,842)
79%	(4,481)	318,077	1,701	9,359	(1,170)	8,189	(47)	27,348	3,672	(4,972)	-	-	(11,131)	(15,784)
79%	(4,481)	324,416	1,736	8,189	(1,170)	7,019	(41)	27,348	3,672	(4,972)	-	-	(11,091)	(15,727)
79%	(4,481)	330,702	1,770	7,019	(1,170)	5,849	(35)	27,348	3,672	(4,972)	-	-	(11,050)	(15,669)
79%	(4,481)	336,935	1,803	5,849	(1,170)	4,679	(28)	27,348	3,672	(4,972)	-	-	(11,010)	(15,612)
79%	(4,481)	343,117	1,837	4,679	(1,170)	3,509	(22)	27,348	3,672	(4,972)	-	-	(10,970)	(15,556)
79%	(4,481)	349,247	1,870	3,509	(1,170)	2,340	(16)	27,348	3,672	(4,972)	-	-	(10,931)	(15,500)
79%	(4,481)	355,327	1,903	2,340	(1,170)	1,170	(9)	27,348	3,672	(4,972)	-	-	(10,891)	(15,444)
79%	(4,481)	361,353	1,936	1,170	(1,170)	0	(3)	27,348	3,672	(4,972)	-	-	(10,852)	(15,389)
Input	= Col 8 * Col 16	= Prev Col 18 - Col 11 - Col 14 - Col 17	= (Prev Col 18 + Col 18) / 2 * Monthly AT WACC	Previous Col 22	= (Prev Col 8 - Col 17)	= (Prev Col 20 - Col 21)	= (Prev Col 22 + Col 22) / 2 * Monthly AT WACC	Input	Input	= - (Col 24 - Col 25) * Fed Tax Rate	Input	Input	= Col 8 + Col 11 + Col 14 + Col 19 + Col 23 + Col 26 + Col 27 + Col 28	= Col 29 * Rev Fct + Col 3 + Col 6
			46		(1,416)		(642)	50,033	5,437	(9,365)			(20,561)	(51,292)
			2,447		(9,538)		(3,498)	171,705	29,499	(29,863)			(98,293)	(139,360)
			6,529		(10,597)		(2,845)	104,888	28,937	(15,950)			(98,318)	(139,346)
			11,456		(11,531)		(2,110)	101,075	41,128	(12,589)			(83,425)	(118,255)
			16,010		(12,789)		(1,325)	158,324	41,231	(24,590)			(97,178)	(137,798)
			21,000		(14,038)		(455)	328,176	44,059	(59,665)			(132,875)	(188,417)

**PSE&G 2021 TAX ADJUSTMENT CREDIT**  
**Electric Over/(Under) Calculation**

6/30/2022

Schedule SS-TAC-3E

Reflects a tax rate of 28.11%										
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
<u>Over / (Under)</u> <u>Recovery Beginning</u> <u>Balance</u>	<u>Electric Revenues</u>	<u>Revenue</u> <u>Requirement</u> <u>Excluding WACC</u> <u>Cost</u>	<u>Over / (Under)</u> <u>Recovery</u>	<u>Over / (Under)</u> <u>Recovery Ending</u> <u>Balance</u>	<u>Over / (Under)</u> <u>Average Monthly</u> <u>Balance</u>	<u>Interest Rate</u> <u>(Annualized)</u>	<u>Interest On Over /</u> <u>(Under) Average</u> <u>Monthly Balance</u>	<u>Interest Roll-In</u>	<u>Cumulative</u> <u>Interest</u>	
<b>Monthly Calculations</b>										
Jan-22	2,245,705	(12,017,700)	(8,828,697)	(3,189,003)	(943,298)	651,203	0.16%	62	-	4,040
Feb-22	(943,298)	(9,468,565)	(8,759,135)	(709,430)	(1,652,728)	(1,298,013)	0.16%	(124)	-	3,916
Mar-22	(1,652,728)	(9,483,974)	(8,711,524)	(772,450)	(2,425,178)	(2,038,953)	0.16%	(195)	-	3,720
Apr-22	(2,425,178)	(8,115,888)	(8,664,447)	548,558	(1,876,619)	(2,150,898)	0.16%	(206)	-	3,514
May-22	(1,876,619)	(9,592,704)	(8,617,903)	(974,801)	(2,851,420)	(2,364,020)	0.16%	(227)	-	3,288
Jun-22	(2,848,133)	(11,894,053)	(8,572,594)	(3,321,459)	(6,169,591)	(4,508,862)	0.16%	(432)	3,288	(432)
Jul-22	(6,169,591)	(13,385,509)	(8,526,414)	(4,859,095)	(11,028,686)	(8,599,139)	0.16%	(824)	-	(1,256)
Aug-22	(11,028,686)	(13,201,394)	(8,481,480)	(4,719,914)	(15,748,600)	(13,388,643)	0.16%	(1,283)	-	(2,540)
Sep-22	(15,748,600)	(8,425,215)	(8,437,080)	11,865	(15,736,735)	(15,742,668)	0.16%	(1,509)	-	(4,049)
Oct-22	(15,736,735)	(6,766,519)	(8,393,214)	1,626,694	(14,110,041)	(14,923,388)	0.16%	(1,430)	-	(5,479)
Nov-22	(14,110,041)	(6,905,938)	(8,349,881)	1,443,943	(12,666,097)	(13,388,069)	0.16%	(1,283)	-	(6,763)
Dec-22	(12,666,097)	(9,067,783)	(8,307,082)	(760,701)	(13,426,798)	(13,046,448)	0.16%	(1,251)	-	(8,013)
Jan-23	(13,434,811)	(8,464,819)	(9,359,089)	894,270	(12,540,541)	(12,987,676)	0.16%	(1,245)	(8,013)	(1,245)
Feb-23	(12,540,541)	(7,391,049)	(9,287,684)	1,896,636	(10,643,906)	(11,592,223)	0.16%	(1,111)	-	(2,356)
Mar-23	(10,643,906)	(7,515,938)	(9,237,366)	1,721,428	(8,922,478)	(9,783,192)	0.16%	(938)	-	(3,294)
Apr-23	(8,922,478)	(6,527,712)	(9,187,582)	2,659,870	(6,262,607)	(7,592,543)	0.16%	(728)	-	(4,022)
May-23	(6,262,607)	(7,345,349)	(9,138,331)	1,792,982	(4,469,625)	(5,366,116)	0.16%	(514)	-	(4,536)
Jun-23	(4,469,625)	(8,631,079)	(9,089,615)	458,535	(4,011,090)	(4,240,357)	0.16%	(406)	-	(4,942)
Jul-23	(4,011,090)	(10,336,150)	(9,041,432)	(1,294,718)	(5,305,808)	(4,658,449)	0.16%	(447)	-	(5,389)
Aug-23	(5,305,808)	(10,202,388)	(8,993,791)	(1,208,597)	(6,514,405)	(5,910,106)	0.16%	(567)	-	(5,955)
Sep-23	(6,514,405)	(7,608,200)	(8,946,684)	1,338,484	(5,175,921)	(5,845,163)	0.16%	(560)	-	(6,516)
Oct-23	(5,175,921)	(6,894,473)	(8,900,111)	2,005,637	(3,170,283)	(4,173,102)	0.16%	(400)	-	(6,916)
Nov-23	(3,170,283)	(6,536,258)	(8,854,071)	2,317,813	(852,471)	(2,011,377)	0.16%	(193)	-	(7,109)
Dec-23	(852,471)	(7,956,095)	(8,808,565)	852,471	0	(426,235)	0.16%	(41)	-	(7,149)
(Prior Col 5) + (Col 9)	Forecasted kWh * Proposed Rate	See Revenue Requirements Schedule for Details	Col 2 - Col 3	Col 1 + Col 4	(Col 1 + Col 5) / 2	Input	(Col 6 * (Col 7) / 12)*net of tax rate		Prior Month + Col 8 - Col 9	



**PSE&G 2021 TAX ADJUSTMENT CREDIT**  
**Gas Over/(Under) Calculation**

6/30/2022

Schedule SS-TAC-3G

Reflects a tax rate of 28.11%										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<u>Over / (Under)</u> <u>Recovery Beginning</u> <u>Balance</u>	<u>Gas Revenues</u>	<u>Revenue</u> <u>Requirement</u> <u>Excluding WACC</u> <u>Cost</u>	<u>Over / (Under)</u> <u>Recovery</u>	<u>Over / (Under)</u> <u>Recovery Ending</u> <u>Balance</u>	<u>Over / (Under)</u> <u>Average Monthly</u> <u>Balance</u>	<u>Interest Rate</u> <u>(Annualized)</u>	<u>Interest On Over /</u> <u>(Under) Average</u> <u>Monthly Balance</u>	<u>Interest Roll-In</u>	<u>Cumulative</u> <u>Interest</u>
<b>Monthly</b>										
<b>Calculations</b>										
Jan-22	(44,941,006)	(25,956,186)	(11,783,215)	(14,172,971)	(59,113,977)	(52,027,491)	0.16%	(4,987)	-	(17,500)
Feb-22	(59,113,977)	(19,342,803)	(11,723,651)	(7,619,152)	(66,733,129)	(62,923,553)	0.16%	(6,031)	-	(23,531)
Mar-22	(66,733,129)	(15,524,649)	(11,668,891)	(3,855,759)	(70,588,887)	(68,661,008)	0.16%	(6,581)	-	(30,112)
Apr-22	(70,588,887)	(9,476,954)	(11,614,527)	2,137,573	(68,451,315)	(69,520,101)	0.16%	(6,664)	-	(36,776)
May-22	(68,451,315)	(5,158,634)	(11,560,559)	6,401,924	(62,049,390)	(65,250,352)	0.16%	(6,254)	-	(43,031)
Jun-22	(62,092,421)	(3,199,579)	(11,508,086)	8,308,507	(53,783,914)	(57,938,168)	0.16%	(5,554)	(43,031)	(5,554)
Jul-22	(53,783,914)	(1,892,170)	(11,453,806)	9,561,637	(44,222,278)	(49,003,096)	0.16%	(4,697)	-	(10,251)
Aug-22	(44,222,278)	(1,978,562)	(11,401,032)	9,422,470	(34,799,808)	(39,511,043)	0.16%	(3,787)	-	(14,038)
Sep-22	(34,799,808)	(2,214,093)	(11,348,653)	9,134,560	(25,665,248)	(30,232,528)	0.16%	(2,898)	-	(16,936)
Oct-22	(25,665,248)	(4,488,345)	(11,296,670)	6,808,325	(18,856,923)	(22,261,086)	0.16%	(2,134)	-	(19,070)
Nov-22	(18,856,923)	(9,968,320)	(11,245,082)	1,276,762	(17,580,161)	(18,218,542)	0.16%	(1,746)	-	(20,816)
Dec-22	(17,580,161)	(15,032,028)	(11,193,891)	(3,838,138)	(21,418,299)	(19,499,230)	0.16%	(1,869)	-	(22,685)
Jan-23	(21,440,984)	(30,913,747)	(16,034,271)	(14,879,476)	(36,320,460)	(28,880,722)	0.16%	(2,768)	(22,685)	(2,768)
Feb-23	(36,320,460)	(26,069,112)	(15,959,736)	(10,109,376)	(46,429,836)	(41,375,148)	0.16%	(3,966)	-	(6,734)
Mar-23	(46,429,836)	(22,186,526)	(15,900,837)	(6,285,689)	(52,715,525)	(49,572,680)	0.16%	(4,752)	-	(11,486)
Apr-23	(52,715,525)	(12,216,731)	(15,842,333)	3,625,602	(49,089,923)	(50,902,724)	0.16%	(4,879)	-	(16,365)
May-23	(49,089,923)	(7,076,011)	(15,784,226)	8,708,215	(40,381,708)	(44,735,815)	0.16%	(4,288)	-	(20,653)
Jun-23	(40,381,708)	(5,543,544)	(15,726,514)	10,182,970	(30,198,737)	(35,290,223)	0.16%	(3,383)	-	(24,036)
Jul-23	(30,198,737)	(4,335,818)	(15,669,198)	11,333,381	(18,865,357)	(24,532,047)	0.16%	(2,351)	-	(26,387)
Aug-23	(18,865,357)	(4,112,822)	(15,612,285)	11,499,462	(7,365,895)	(13,115,626)	0.16%	(1,257)	-	(27,645)
Sep-23	(7,365,895)	(4,476,786)	(15,555,767)	11,078,980	3,713,086	(1,826,404)	0.16%	(175)	-	(27,820)
Oct-23	3,713,086	(8,307,799)	(15,499,644)	7,191,846	10,904,932	7,309,009	0.16%	701	-	(27,119)
Nov-23	10,904,932	(16,917,993)	(15,443,918)	(1,474,076)	9,430,856	10,167,894	0.16%	975	-	(26,144)
Dec-23	9,430,856	(24,819,443)	(15,388,587)	(9,430,856)	0	4,715,428	0.16%	452	-	(25,692)
	(Prior Col 5) + (Col 9)	Forecasted kWh * Proposed Rate	See Revenue Requirements Schedule for Details	Col 2 - Col 3	Col 1 + Col 4	(Col 1 + Col 5) / 2	Input	(Col 6 * (Col 7) / 12)*net of tax rate		Prior Month + Col 8 - Col 9

## PSE&G 2021 TAX ADJUSTMENT CREDIT

Schedule SS-TAC-4

### Weighted Average Cost of Capital

	<b>Percent</b>	<b>Embedded Cost</b>	<b>Weighted Cost</b>	<b>Pre-Tax Weighted Cost</b>	<b>After-Tax Weighted Cost</b>
Long-Term Debt	45.53%	3.96%	1.80%	1.80%	1.30%
Customer Deposits	0.47%	0.87%	0.00%	0.00%	0.00%
Common Equity	54.00%	9.60%	5.18%	7.21%	5.18%
Total	<u>100.00%</u>		<u>6.99%</u>	<u>9.02%</u>	<u>6.48%</u>
Federal Tax Rate	21.00%				0.5402%
State Tax Rate	9.00%				
Fed Benefit of State Tax Deduction	<u>-1.89%</u>				
Effective Tax Rate	28.11%				

**PSE&G 2021 TAX ADJUSTMENT CREDIT**  
**Revenue Factor**

Schedule SS-TAC-5

	<u><b>ELECTRIC</b></u>	<u><b>GAS</b></u>
Revenue Increase	100.0000	100.0000
Uncollectible Rate		1.6000
BPU Assessment Rate	0.2026	0.2026
Rate Counsel Assessment Rate	<u>0.0543</u>	<u>0.0543</u>
Income before State of NJ Bus. Tax	99.7431	98.1431
State of NJ Bus. Income Tax	<u>8.9769</u>	<u>8.8329</u>
Income Before Federal Income Taxes	90.7662	89.3102
Federal Income Taxes	<u>19.0609</u>	<u>18.7551</u>
Return	<u>71.7053</u>	<u>70.5551</u>
<b>Revenue Factor</b>	<u><u><b>1.3946</b></u></u>	<u><u><b>1.4173</b></u></u>

PSE&G 2021 TAX ADJUSTMENT CREDIT  
Proposed ETAC Calculation

Schedule SS-TAC-6E

(\$'s Unless Specified)

Line	Date(s)	Current SUT Rate		Electric													Source/Description	
		RS	RHS	RLM	WH	WHS	HS	GLP	LPL-S	LPL-P	HTS-S	HTS-HV	BPL	BPL-POF	PSAL	Total		
1		2023 Billing Determinants (MWh)	12,930,311	90,391	180,477	502	11	8,875	7,211,473	10,722,516	2,888,957	4,473,156	465,302	286,858	13,384	141,473	39,413,687	Input
2	2021	Rate Class Allocation	71.15%	0.63%	0.90%	0.00%	0.00%	0.03%	12.26%	10.44%	1.82%	2.64%	0.11%	0.00%	0.02%	0.00%	100.00%	Line 2
3		Revenue Requirements	(67,885,380)	(596,842)	(859,072)	0	0	(33,224)	(11,700,114)	(9,958,831)	(1,734,756)	(2,517,889)	(104,418)	0	(18,985)	0	(95,409,510)	(SS-TAC-1, In 4 [Electric]) * Line 2 * 1000
4		Proposed Rate w/o SUT (\$/kWh)	(0.005250)	(0.006603)	(0.004760)	0.000000	0.000000	(0.003743)	(0.001622)	(0.000929)	(0.000600)	(0.000563)	(0.000224)	0.000000	(0.001418)	0.000000		(Line 3 / (Line 1 * 1,000)) [Rnd 6]
5		Proposed Rate w/ SUT (\$/kWh)	(0.005598)	(0.007040)	(0.005075)	0.000000	0.000000	(0.003991)	(0.001729)	(0.000991)	(0.000640)	(0.000600)	(0.000239)	0.000000	(0.001512)	0.000000		(Line 4 * (1 + SUT Rate)) [Rnd 6]
6		Current Rates (before Provisional) w/o SUT (\$/kWh)	(0.006156)	(0.008168)	(0.005757)	0.000000	0.000000	(0.003854)	(0.001852)	(0.001131)	(0.000693)	(0.000650)	(0.000152)	0.000000	(0.001556)	0.000000		Att. C, page 9, In 4
7		2021 Revenues at Current Rates	(79,598,994)	(738,311)	(1,039,008)	0	0	(34,205)	(13,355,648)	(12,127,165)	(2,002,047)	(2,907,552)	(70,726)	0	(20,826)	0	(111,894,483)	Line 6 * Line 1 * 1000
8		Revenue Increase / (Decrease)	11,713,614	141,470	179,935	0	0	981	1,655,535	2,168,334	267,290	389,663	(33,692)	0	1,841	0	16,484,973	Line 3 - Line 7

<sup>1</sup>Rate Class Allocation remains the same and stays in effect until the conclusion of the Company's next Base Rate Case

PSE&G 2021 TAX ADJUSTMENT CREDIT  
Proposed GTAC Calculation

Schedule SS-TAC-6G

(\$'s Unless Specified)

Line	Date(s)	Current SUT Rate	6.625%	Gas							Source/Description		
				RSG	GSG	LVG	SLG	TSG-F	TSG-NF	CIG	CSG	Total	
1		2022 Billing Determinants (Therms)		1,552,679	283,091	746,721	640	24,580	164,756	24,453	778,920	3,575,841	Input
2	2021	Rate Class Allocation		71.80%	11.57%	14.07%	0.05%	0.37%	1.12%	0.32%	0.70%	100.00%	Line 2
3		Revenue Requirements		(119,885,706)	(19,320,813)	(23,500,311)	(81,397)	(615,175)	(1,868,238)	(534,960)	(1,169,732)	(166,976,331)	(SS-TAC-1, In 4 [Gas]) * Line 2 * 1000
4		Proposed Rate w/o SUT (\$/Therms)		(0.077212)	(0.068250)	(0.031471)	(0.127179)	(0.025028)	(0.011339)	(0.021877)	(0.001502)		(Line 3 / (Line 1 * 1,000)) [Rnd 6]
5		Proposed Rate w/ SUT (\$/Therms)		(0.082327)	(0.072772)	(0.033556)	(0.135605)	(0.026686)	(0.012090)	(0.023326)	(0.001602)		(Line 4 * (1 + SUT Rate)) [Rnd 6]
6		Current Rates (before Provisional) w/o SUT (\$/kWh)		(0.045216)	(0.039158)	(0.018161)	(0.075809)	(0.015352)	(0.006883)	(0.012602)	(0.001000)		Att. C, page 10, In 4
7		2021 Revenues at Current Rates		(70,205,956)	(11,085,266)	(13,561,206)	(48,519)	(377,350)	(1,134,018)	(308,159)	(778,920)	(97,499,394)	Line 6 * Line 1 * 1000
8		Revenue Increase / (Decrease)		(49,679,750)	(8,235,547)	(9,939,105)	(32,878)	(237,825)	(734,219)	(226,801)	(390,811)	(69,476,937)	Line 3 - Line 7

<sup>1</sup>Rate Class Allocation remains the same and stays in effect until the conclusion of the Company's next Base Rate Case

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

**B.P.U.N.J. No. 16 ELECTRIC**

**XXX Revised Sheet No. 69**

**Superseding**

**XXX Revised Sheet No. 69**

**TAX ADJUSTMENT CREDIT**

<u>Rate Schedule</u>	<u>Charge per kilowatt-hour</u>	<u>Charge per kilowatt-hour Including SUT</u>
RS.....	(\$0.005250)	(\$0.005598)
	<del>(\$0.006156)</del>	<del>(\$0.006564)</del>
RHS.....	(\$0.006603)	(\$0.007040)
	<del>(\$0.008168)</del>	<del>(\$0.008709)</del>
RLM.....	(\$0.004760)	(\$0.005075)
	<del>(\$0.005757)</del>	<del>(\$0.006138)</del>
WH.....	(\$0.000000)	(\$0.000000)
WHS.....	(\$0.000000)	(\$0.000000)
HS.....	(\$0.003743)	(\$0.003991)
	<del>(\$0.003854)</del>	<del>(\$0.004109)</del>
GLP.....	(\$0.001622)	(\$0.001729)
	<del>(\$0.001852)</del>	<del>(\$0.001975)</del>
LPL - Secondary.....	(\$0.000929)	(\$0.000991)
	<del>(\$0.001131)</del>	<del>(\$0.001206)</del>
LPL - Primary.....	(\$0.000600)	(\$0.000640)
	<del>(\$0.000693)</del>	<del>(\$0.000739)</del>
HTS - Subtransmission.....	(\$0.000563)	(\$0.000600)
	<del>(\$0.000650)</del>	<del>(\$0.000693)</del>
HTS – High Voltage & HTS - Transmission.....	(\$0.000224)	(\$0.000239)
	<del>(\$0.000152)</del>	<del>(\$0.000162)</del>
BPL.....	(\$0.000000)	(\$0.000000)
BPL-POF.....	(\$0.001418)	(\$0.001512)
	<del>(\$0.001556)</del>	<del>(\$0.001659)</del>
PSAL.....	(\$0.000000)	(\$0.000000)

**Tax Adjustment Credit**

This mechanism is designed to return net tax benefits from the Tax Cuts and Jobs Act of 2017, and other income tax related adjustments to customers. The charge will be reset on an annual basis. Interest at the weighted average of the interest rates on PSE&G's commercial paper and bank credit lines utilized in the prior month will be accrued monthly on any under or over recovered balances. The interest rate shall be reset each month.

Date of Issue:

Issued by SCOTT S. JENNINGS, SVP - Corporate Planning, Strategy and Utility Finance –PSE&G  
80 Park Plaza, Newark, New Jersey 07102

Filed pursuant to Order of Board of Public Utilities dated  
in Docket No.

Effective:

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

B.P.U.N.J. No. 16 ELECTRIC

XXX Revised Sheet No. 69

Superseding

XXX Revised Sheet No. 69

**TAX ADJUSTMENT CREDIT**

<u>Rate Schedule</u>	<u>Charge per kilowatt-hour</u>	<u>Charge per kilowatt-hour including SUT</u>
RS.....	(\$0.005250)	(\$0.005598)
RHS.....	(\$0.006603)	(\$0.007040)
RLM.....	(\$0.004760)	(\$0.005075)
WH.....	(\$0.000000)	(\$0.000000)
WHS.....	(\$0.000000)	(\$0.000000)
HS.....	(\$0.003743)	(\$0.003991)
GLP.....	(\$0.001622)	(\$0.001729)
LPL - Secondary.....	(\$0.000929)	(\$0.000991)
LPL - Primary.....	(\$0.000600)	(\$0.000640)
HTS - Subtransmission.....	(\$0.000563)	(\$0.000600)
HTS – High Voltage & HTS - Transmission.....	(\$0.000224)	(\$0.000239)
BPL.....	(\$0.000000)	(\$0.000000)
BPL-POF.....	(\$0.001418)	(\$0.001512)
PSAL.....	(\$0.000000)	(\$0.000000)

**Tax Adjustment Credit**

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Effective:

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

**B.P.U.N.J. No. 16 GAS**

**XXX Revised Sheet No. 51  
Superseding  
XXX Revised Sheet No. 51**

**TAX ADJUSTMENT CREDIT**

<u>Rate Schedule</u>	<u>Charge per Therm</u>	<u>Charge per Therm Including SUT</u>
RSG.....	<del>(\$0.077212)</del>	<del>(\$0.082327)</del>
	<del>(\$0.045216)</del>	<del>(\$0.048212)</del>
GSG.....	<del>(\$0.068250)</del>	<del>(\$0.072772)</del>
	<del>(\$0.039158)</del>	<del>(\$0.041752)</del>
LVG.....	<del>(\$0.031471)</del>	<del>(\$0.033556)</del>
	<del>(\$0.018161)</del>	<del>(\$0.019364)</del>
SLG.....	<del>(\$0.127179)</del>	<del>(\$0.135605)</del>
	<del>(\$0.075809)</del>	<del>(\$0.080831)</del>
TSG-F.....	<del>(\$0.025028)</del>	<del>(\$0.026686)</del>
	<del>(\$0.015352)</del>	<del>(\$0.016369)</del>
TSG-NF.....	<del>(\$0.011339)</del>	<del>(\$0.012090)</del>
	<del>(\$0.006883)</del>	<del>(\$0.007339)</del>
CIG.....	<del>(\$0.021877)</del>	<del>(\$0.023326)</del>
	<del>(\$0.012602)</del>	<del>(\$0.013437)</del>
CSG.....	<del>(\$0.001502)</del>	<del>(\$0.001602)</del>
	<del>(\$0.001000)</del>	<del>(\$0.001066)</del>

**Tax Adjustment Credit**

This mechanism is designed to return net tax benefits from the Tax Cuts and Jobs Act of 2017, and other income tax related adjustments to customers. The charge will be reset on an annual basis. Interest at the weighted average of the interest rates on PSE&G's commercial paper and bank credit lines utilized in the prior month will be accrued monthly on any under or over recovered balances. The interest rate shall be reset each month.

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Effective:



PUBLIC SERVICE ELECTRIC AND GAS COMPANY

B.P.U.N.J. No. 16 GAS

XXX Revised Sheet No. 51  
Superseding  
XXX Revised Sheet No. 51

**TAX ADJUSTMENT CREDIT**

<u>Rate Schedule</u>	<u>Charge per Therm</u>	<u>Charge per Therm Including SUT</u>
RSG.....	(\$0.077212)	(\$0.082327)
GSG.....	(\$0.068250)	(\$0.072772)
LVG.....	(\$0.031471)	(\$0.033556)
SLG.....	(\$0.127179)	(\$0.135605)
TSG-F.....	(\$0.025028)	(\$0.026686)
TSG-NF.....	(\$0.011339)	(\$0.012090)
CIG.....	(\$0.021877)	(\$0.023326)
CSG.....	(\$0.001502)	(\$0.001602)

**Tax Adjustment Credit**

This mechanism is designed to return net tax benefits from the Tax Cuts and Jobs Act of 2017, and other income tax related adjustments to customers. The charge will be reset on an annual basis. Interest at the weighted average of the interest rates on PSE&G's commercial paper and bank credit lines utilized in the prior month will be accrued monthly on any under or over recovered balances. The interest rate shall be reset each month.

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## TYPICAL RESIDENTIAL ELECTRIC BILL IMPACTS

The effect of the proposed changes in the Tax Adjustment Credit (TAC) on typical residential Electric bills, if approved by the Board, is illustrated below:

Residential Electric Service					
If Your Monthly Summer kWhr Use Is:	And Your Annual kWhr Use Is:	Then Your Present Annual Bill (1) Would Be:	And Your Proposed Annual Bill (2) Would Be:	Your Annual Bill Change Would Be:	And Your Percent Change Would Be:
185	1,732	\$366.80	\$368.44	\$1.64	0.45%
370	3,464	673.96	677.32	3.36	0.50
740	6,920	1,295.28	1,302.00	6.72	0.52
803	7,800	1,454.02	1,461.54	7.52	0.52
1,337	12,500	2,318.32	2,330.48	12.16	0.52

- (1) Based upon current Basic Generation Service Residential Small Commercial Pricing (BGS-RSCP) and Delivery Rates in effect October 1, 2022, and assumes that the customer receives BGS-RSCP service from Public Service.  
(2) Same as (1) except includes the proposed change in the TAC.

Residential Electric Service					
If Your Annual kWhr Use Is:	And Your Monthly Summer kWhr Use Is:	Then Your Present Monthly Summer Bill (3) Would Be:	And Your Proposed Monthly Summer Bill (4) Would Be:	Your Monthly Summer Bill Change Would Be:	And Your Percent Change Would Be:
1,732	185	\$38.44	\$38.61	\$0.17	0.44%
3,464	370	71.93	72.29	0.36	0.50
6,920	740	140.88	141.60	0.72	0.51
7,800	803	153.14	153.91	0.77	0.50
12,500	1,337	257.20	258.50	1.30	0.51

- (3) Based upon current Basic Generation Service Residential Small Commercial Pricing (BGS-RSCP) and Delivery Rates in effect October 1, 2022, and assumes that the customer receives BGS-RSCP service from Public Service.  
(4) Same as (3) except includes proposed change in the TAC.

## TYPICAL RESIDENTIAL GAS BILL IMPACTS

The effect of the proposed changes in the Tax Adjustment Credit (TAC) on typical residential gas bills, if approved by the Board, is illustrated below:

Residential Gas Service					
If Your Monthly Winter Therm Use Is:	And Your Annual Therm Use Is:	Then Your Present Annual Bill (1) Would Be:	And Your Proposed Annual Bill (2) Would Be:	Your Annual Bill Change Would Be:	And Your Percent Change Would Be:
25	170	\$303.62	\$297.82	(\$5.80)	(1.91)%
50	340	504.04	492.40	(11.64)	(2.31)
100	610	831.92	811.10	(20.82)	(2.50)
159	1,000	1,303.39	1,269.27	(34.12)	(2.62)
172	1,040	1,345.42	1,309.92	(35.50)	(2.64)
200	1,210	1,548.06	1,506.76	(41.30)	(2.67)
300	1,816	2,271.54	2,209.56	(61.98)	(2.73)

- (1) Based upon Delivery Rates and Basic Gas Supply Service (BGSS-RSG) charges in effect October 1, 2022, and assumes that the customer receives commodity service from Public Service.  
 (2) Same as (1) except includes the proposed change in the TAC.

Residential Gas Service					
If Your Annual Therm Use Is:	And Your Monthly Winter Therm Use Is:	Then Your Present Monthly Winter Bill (3) Would Be:	And Your Proposed Monthly Winter Bill (4) Would Be:	Your Monthly Winter Bill Change Would Be:	And Your Percent Change Would Be:
170	25	\$38.60	\$37.75	(\$0.85)	(2.20)%
340	50	68.60	66.89	(1.71)	(2.49)
610	100	129.70	126.29	(3.41)	(2.63)
1,040	172	216.90	211.03	(5.87)	(2.71)
1,210	200	250.77	243.94	(6.83)	(2.72)
1,816	300	371.84	361.60	(10.24)	(2.75)

- (3) Based upon Delivery Rates and Basic Gas Supply Service (BGSS-RSG) charges in effect October 1, 2022, and assumes that the customer receives commodity service from Public Service.  
 (4) Same as (3) except includes proposed change in the TAC.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

**INCOME ACCOUNT**

	<u>YTD 2021 *</u> '(\$000)
400 Electric Operating Revenues	\$ 3,336,129
Electric Operating Expenses:	
401 Operation Expense	2,297,497
402 Maintenance Expense	127,580
403 Depreciation Expense	307,425
404 Amortization of Limited Term Plant	19,424
407 Amortization of Property Losses	28,165
408.1 Taxes Other Than Income Taxes	25,027
409.1 Income Taxes - Federal	89,475
410.1 Provision for Deferred Income Taxes	258,660
411.1 Provision for Deferred Income Taxes - Credit	(300,858)
411.103 Accretion Expense-Electric	0
411.4 Investment Tax Credit Adjustments (Net)	(9,217)
Total Electric Utility Operating Expenses	<u>2,843,178</u>
Electric Utility Operating Income	<u>\$ 492,951</u>

\* Electric Distribution only

	<u>YTD 2021</u>
400 Gas Operating Revenues	\$ 1,919,020
Gas Operating Expenses:	
401 Operation Expense	1,181,121
402 Maintenance Expense	33,201
403 Depreciation Expense	189,648
404 Amortization of Limited Term Plant	15,710
407 Amortization of Property Losses	38,670
407.3 Amortization of Excess cost of removal	9,747
407.4 Amortization of Excess cost of removal	0
408.1 Taxes Other Than Income Taxes	17,275
409.1 Income Taxes - Federal	(5,189)
410.1 Provision for Deferred Income Taxes	177,572
411.1 Provision for Deferred Income Taxes - Cr	(161,098)
411.4 Investment Tax Credit Adjustments (Net)	(787)
Total Gas Utility Operating Expenses	<u>1,495,869</u>
Gas Utility Operating Income	<u>\$ 423,151</u>

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**  
**BALANCE SHEET**  
**\$ (In Thousands)**

Attachment 6

Page 1 of 3

**Jun 30, 2022**

Assets and Other Debits

Utility Plant

Electric Utility Plant

101	Electric Utility Plant in Service	\$ 24,197,617
103	Electric Experimental Plant Unclassified	-
105	Electric Utility Plant Held for Future Use	34,205
106	Electric Completed Construction not classified- Electric	3,229,035
107	Electric Construction Work in Progress	1,271,028
	Total Electric Utility Plant	<u>28,731,885</u>

Gas Utility Plant

101	Gas Utility Plant in Service	\$ 10,396,013
103	Gas Experimental Plant Unclassified	-
105	Gas Utility Plant Held for Future Use	96
106	Gas Completed Construction not classified	47,374
107	Gas Construction Work in Progress	85,286
	Total Gas Utility Plant	<u>10,528,769</u>

Common Utility Plant

101	Common Utility Plant in Service	\$ 475,542
106	Common Completed Construction not classified	-
107	Common Construction Work in Progress	46,673
	Total Common Utility Plant	<u>522,215</u>

Property under capital leases

101.1	Electric & Gas Property under capital leases	90,345
		<u>90,345</u>

**Total Utility Plant**

**39,873,214**

Accumulated Provisions for Depreciation and Amortization of  
Electric Utility Plant

108 & 111	Electric Utility Plant in Service	(4,989,873)
108.5	Electric Utility Plant Held for Future Use	-
	Total Electric Utility Plant	<u>(4,989,873)</u>

Gas Utility Plant

108 & 111	Gas Utility Plant in Service	(2,500,488)
-----------	------------------------------	-------------

Common Utility Plant

108 & 111	Common Utility Plant in Service	(283,601)
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Total Accumulated Provisions for  
Depreciation and Amortization  
of Utility Plant

(7,773,962)

Net Utility Plant Excluding Nuclear Fuel

32,099,252

Nuclear Fuel

120.1	120.1	In Process	-
120.2	120.2	Materials and Assemblies Stock	-
120.3	120.3	In Reactor	-
120.4	120.4	Spent	-

Accumulated Provisions for Amortization

120.5	120.5	Nuclear Fuel	-
		Net Nuclear Fuel	-
		<b>Net Utility Plant</b>	<u><b>32,099,252</b></u>

0

Other Property and Investments

121	Nonutility Property	3,264
122	Accumulated Provision for Depreciation & Amortization of Nonutility Property	(1,079)
123 & 123.1	Investments in Associated & Subsidiary Companies	44,904
124	Other Investments	163,521
125-8	Special Funds	34,906
175	Long-Term Portion of Derivative Assets	-
	Total Other Property and Investments	<u>245,515</u>

**BALANCE SHEET****\$ (In Thousands)**Jun 30, 2022

## Current and Accrued Assets

131	Cash	\$	37,617
132-4	Special Deposits		39,483
135	Working Funds		-
136	Temporary Cash Investments		915,000
141-3	Notes and Accounts Receivable		1,356,732
144	Accumulated Provision for Uncollectible Accounts - Credit		(334,661)
145-6	Receivables from Associated Companies		16,434
151-5	Materials and Supplies (incl. 163)		261,316
158	Allowances		-
164	Gas Stored Underground - Current		-
165	Prepayments		215,498
171	Interest and Dividends Receivable		-
172	Rents Receivable		5,966
173	Accrued Utility Revenues		227,926
174	Miscellaneous Current and Accrued		10,533
175	Current Portion of Derivative Instrument Assets		-
	Total Current and Accrued Assets		2,751,843

## Deferred Debits

181	Unamortized Debt Expense		66,954
182	Unrec'd Plt and Reg Costs and Other Reg Assets		4,265,459
183	Preliminary Survey and Investigation Charges		30,256
184	Clearing Accounts		(0)
185	Temporary Facilities		-
186	Miscellaneous Deferred Debits		32,346
188	Research and Development Expenditures		-
189	Unamortized Loss on Reacquired Debt		26,902
190	Accumulated Deferred Income Taxes		721,402
	Total Deferred Debits		5,143,319

## Total Assets and Other Debits

\$	40,239,930
	<u>0</u>

**BALANCE SHEET****\$ (In Thousands)**Jun 30, 2022

## Liabilities and Other Credits

## Proprietary Capital

201	Common Stock Issued	\$	892,260
204	Preferred Stock Issued		-
207	Premium on Capital Stock		-
208	Donations from Stockholders		2,155,446
210	Gain on Resale or Cancellation of Reacquired Capital Stock		-
211	Miscellaneous Paid-In Capital		-
215	Appropriated Retained Earnings		-
216	Unappropriated Retained Earnings		12,354,998
216.1	Unappropriated Undistributed Subsidiary Earnings		(178)
219	Other Comprehensive Income		(3,447)
	Total Proprietary Capital		<u>15,399,080</u>

## Long-Term Debt

221	221 Bonds		12,390,001
223	223 Advances from Assoc. Co.		-
225	225 Unamortized Premium on Long-Term Debt		-
226	226 Unamortized Discount on Long-Term Debt		(28,742)
	Total Long-Term Debt		<u>12,361,259</u>

## Other Non-Current Liabilities

227-9	Other Non-current Liabilities		546,721
244	Long-Term Portion of Derivative Instrument Liabilities		-
230	Asset Retirement Obligation		364,419
	Total Other Non-Current Liabilities		<u>911,139</u>

## Current and Accrued Liabilities

231	Notes Payable		-
232	Accounts Payable		697,000
233-4	Payables to Associated Companies		257,330
235	Customer Deposits		61,916
236	Taxes Accrued		20,727
237	Interest Accrued		119,881
238	Dividends Declared		-
239	Matured Long-Term Debt		-
241	Tax Collections Payable		28,052
242	Miscellaneous Current and Accrued Liabilities		1,186,504
243	Obligations Under Capital leases		12,804
244	Current Portion of Derivative Instrument Liabilities		-
	Total Current and Accrued Liabilities		<u>2,384,213</u>

## Deferred Credits

252	Customer Advances for Construction		71,615
253	Other Deferred Credits		270,666
254	Other Regulatory Liabilities		2,940,746
255	Accumulated Deferred Investment Tax Credits		112,991
281-3	Accumulated Deferred Income Taxes		5,788,221
	Total Deferred Credits		<u>9,184,239</u>

Total Liabilities and Other Credits	\$	<u>40,239,930</u>
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## NOTICE TO PUBLIC SERVICE ELECTRIC AND GAS COMPANY CUSTOMERS

### IN THE MATTER OF THE PETITION OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF CHANGES IN ITS ELECTRIC TAX ADJUSTMENT CREDIT AND GAS TAX ADJUSTMENT CREDIT

#### Notice of a Filing and Notice of Public Hearings BPU Docket No.

**TAKE NOTICE** that, in October 2022, Public Service Electric and Gas Company ("Public Service," "PSE&G," or "Company") filed a Petition with the New Jersey Board of Public Utilities ("Board" or "BPU") requesting a resetting of the Company's electric and gas Tax Adjustment Credits ("TACs"). If approved, this filing would increase rates to be paid by the Company's electric customers by \$16.5 million annually, and would decrease rates to be paid by the Company's gas customers by \$69.5 million annually. These changes are the result of adjustments to the TACs, which were designed to return net tax benefits from the Tax Cuts and Jobs Act of 2017, and other income tax related adjustments to customers. The proposed electric and gas TAC rates, if approved by the Board, are shown in Tables #1 and #2.

The approximate effects of the proposed change on typical electric and gas residential monthly bills, if approved by the Board, are illustrated in Tables #3 and #4.

Based on the filing, a typical residential electric customer using 740 kilowatt-hours per summer month, and 6,920 kilowatt-hours on an annual basis, would see an increase in the annual bill from \$1,295.28 to \$1,302.00, or \$6.72 or approximately 0.52%.

Under the Company's proposal, a residential gas heating customer using 100 therms per month during the winter months, and 610 therms on an annual basis, would see a decrease in the annual bill from \$831.92 to \$811.10, or \$20.82 or approximately 2.50%.

Moreover, under the Company's proposal, a typical residential heating customer using 172 therms per month during the winter months, and 1,040 therms on an annual basis, would see a decrease in the annual bill from \$1,345.42 to \$1,309.92, or \$35.50 or approximately 2.64%.

The Board has the statutory authority pursuant to N.J.S.A. 48:2-21, to establish the TAC at levels it finds just and reasonable. Therefore, the Board may establish the TAC at levels other than that proposed by PSE&G. As a result, the described charges may increase or decrease based upon the Board's decision.

The Company's filing is available for review at the PSEG website: <http://www.pseg.com/pseandgfilings>.

**PLEASE TAKE FURTHER NOTICE** that due to the COVID-19 pandemic, virtual public hearings have been scheduled on the following date and times so that

members of the public may present their views on the proceeding at the virtual public hearing as noted below:

#### VIRTUAL PUBLIC HEARINGS

**DATE:**

**TIMES:**

**LOCATION:** Zoom Virtual Webinar

**Join:** Join Zoom Meeting

<https://pseg.zoom.us/j/92846158128?pwd=czBtZHE5ZTh1Z1FveGlmSVg0R1NuQT09#success>

Go To [www.Zoom.com](http://www.Zoom.com) and choose "Join a Meeting" at the top of the web page. When prompted, use Meeting number 928 4615 8128 to access the meeting.

-or-

Join by phone (toll-free):

**Dial In:** (888) 475-4499

**Meeting ID:** 928 4615 8128

When prompted, enter the Meeting ID number to access the meeting.

Representatives from the Company, Board Staff, and the New Jersey Division of Rate Counsel will participate in the virtual public hearings. Members of the public are invited to participate by utilizing the link or Dial-In number set forth above and may express their views on the Petition. All comments will be made a part of the final record of the proceeding and will be considered by the Board. In order to encourage full participation in this opportunity for public comment, please submit any requests for needed accommodations, such as interpreters, or listening assistance, 48 hours prior to the above hearings to the Board Secretary at [board.secretary@bpu.nj.gov](mailto:board.secretary@bpu.nj.gov).

The Board will also accept written and/or electronic comments. While all comments will be given equal consideration and will be made part of the final record of this proceeding, the preferred method of transmittal is via the Board's [Public Document Search](#) tool. Search for the specific docket listed above, and then post the comment by utilizing the "Post Comments" button.

Emailed comments may be filed with the Secretary of the Board, in PDF or Word format, to [board.secretary@bpu.nj.gov](mailto:board.secretary@bpu.nj.gov).

Written comments may be submitted to the Acting Board Secretary, Carmen D. Diaz, at the Board of Public Utilities, 44 South Clinton Avenue, 1st Floor, P.O. Box 350,



Trenton, New Jersey 08625-0350. All mailed or emailed comments should include the name of the Petition and the docket number.

All comments are considered “public documents” for purposes of the State’s Open Public Records Act.

Commenters may identify information that they seek to keep confidential by submitting them in accordance with the confidentiality procedures set forth in N.J.A.C. 14:1-12.3.

**Table # 1**  
**Proposed Electric TAC Change**

Electric Tariff Rates	Tax Adjustment Credit	
	Present \$/kWhr (Incl. SUT)	Proposed \$/kWhr (Incl. SUT)
Rate Schedule		
RS	(\$0.006564)	(\$0.005598)
RHS	(\$0.008709)	(\$0.007040)
RLM	(\$0.006138)	(\$0.005075)
WH	(\$0.000000)	(\$0.000000)
WHS	(\$0.000000)	(\$0.000000)
HS	(\$0.004109)	(\$0.003991)
GLP	(\$0.001975)	(\$0.001729)
LPL-Secondary	(\$0.001206)	(\$0.000991)
LPL-Primary	(\$0.000739)	(\$0.000640)
HTS - Subtransmission	(\$0.000693)	(\$0.000600)
HTS - High Voltage & HTS - Transmission	(\$0.000162)	(\$0.000239)
BPL	(\$0.000000)	(\$0.000000)
BPL-POF	(\$0.001659)	(\$0.001512)
PSAL	(\$0.000000)	(\$0.000000)

**Table # 2**  
**Proposed Gas TAC Change**

Gas Tariff Rates	Tax Adjustment Credit	
	Present \$/Therm (Incl. SUT)	Proposed \$/Therm (Incl. SUT)
Rate Schedule		
RSG	(\$0.048212)	(\$0.082327)
GSG	(\$0.041752)	(\$0.072772)
LVG	(\$0.019364)	(\$0.033556)
SLG	(\$0.080831)	(\$0.135605)
TSG-F	(\$0.016369)	(\$0.026686)
TSG-NF	(\$0.007339)	(\$0.012090)
CIG	(\$0.013437)	(\$0.023326)
CSG	(\$0.001066)	(\$0.001602)

**Table #3**  
**Residential Electric Service**

If Your Annual kWhr Use Is:	And Your Monthly Summer kWhr Use Is:	Then Your Present Monthly Summer Bill (1) Would Be:	And Your Proposed Monthly Summer Bill (2) Would Be:	Your Monthly Summer Bill Increase Would Be:	And Your Percent Increase Would Be:
1,732	185	\$38.44	\$38.61	\$0.17	0.44%
3,464	370	71.93	72.29	0.36	0.50
6,920	740	140.88	141.60	0.72	0.51
7,800	803	153.14	153.91	0.77	0.50
12,500	1,337	257.20	258.50	1.30	0.51

- (1) Based upon current Delivery Rates and Basic Generation Service Residential Small Commercial Pricing (“BGS-RSCP”) charges in effect October 1, 2022, and assumes that the customer receives BGS-RSCP service from Public Service.
- (2) Same as (1) except includes the proposed change in the TAC.

**Table #4**  
**Residential Gas Service**

If Your Annual Therm Use Is:	And Your Monthly Winter Therm Use Is:	Then Your Present Monthly Winter Bill (3) Would Be:	And Your Proposed Monthly Winter Bill (4) Would Be:	Your Monthly Winter Bill Decrease Would Be:	And Your Percent Decrease Would Be:
170	25	\$38.60	\$37.75	(\$0.85)	(2.20)%
340	50	68.60	66.89	(1.71)	(2.49)
610	100	129.70	126.29	(3.41)	(2.63)
1,040	172	216.90	211.03	(5.87)	(2.71)
1,210	200	250.77	243.94	(6.83)	(2.72)
1,816	300	371.84	361.60	(10.24)	(2.75)

- (3) Based upon current Delivery Rates and Basic Gas Supply Service (“BGSS-RSG”) charges in effect October 1, 2022, and assumes that the customer receives commodity service from Public Service.
- (4) Same as (3) except includes proposed change TAC.

**Aaron I. Karp**  
**Associate Counsel—Regulatory**

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**