STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

In The Matter of the Petition of
Public Service Electric and Gas Company
for Approval of an Increase in Electric and Gas
Rates and For Changes In the Tariffs For Electric
And Gas Service, B.P.U.N.J. No. 16 Electric and
B.P.U.N.J. No. 16 Gas Pursuant to
***N.J.S.A.* 48:2-21 and *N.J.S.A*. 48:2-21.1,**
And For Other Appropriate Relief

BPU Docket Nos. ER18010029 & GR18010030

DIRECT TESTIMONY OF ROBERT C. KRUEGER, JR. 9+3 UPDATE

VICE-PRESIDENT – SPECIAL PROJECTS
PSEG SERVICES COMPANY

May 14, 2018
P-4 R-1

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DIRECT TESTIMONY
OF
ROBERT C. KRUEGER, JR.
VICE-PRESIDENT – SPECIAL PROJECTS
PSEG SERVICES COMPANY

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert C. Krueger, Jr. 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 – Special Projects. My professional credentials are included as Schedule RCK-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", "Public Service", or the "Company"). The purpose of this testimony is to present and support tax expense, accumulated deferred income taxes ("ADIT") and address several tax issues arising in the filing including those raised by the passage of Tax Cuts and Jobs Act of 2017 ("the Act"). Given the significant impacts of the Act, the Board of Public Utilities ("Board") Order in Docket No. AX18010001 addressing the Act, and the impacts of same on the Company's original filing, this testimony serves as a complete replacement to the original version submitted on January 12, 2018. The purpose of my testimony is to:

- summarize the impact of recently-enacted federal tax legislation on this filing;

- present current and deferred tax expense included in test period results, including a modification from historical practice in this determination;
- present ADIT attributable to utility rate base. In this regard, my testimony will support and supplement the testimony of Mr. Scott Jennings, PSE&G's Vice President – Utility Finance on these matters; and
- discuss the consolidated tax ratemaking adjustment ("CTA") and present a computation of that adjustment that is consistent with the recent Board decision in *I/M/O the Verified Petition Of Jersey Central Power & Light Company For Review and Approval of Increases In And Other Adjustments To Its Rates And Other Charges For Electric Service,* BPU Docket No. ER12111052, Order Adopting Initial Decision With Modifications and Clarifications (March 26, 2013), at page 73.

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

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

Schedule RCK-1 describes my professional qualifications and business experience;

Schedule RCK-2 R-1 details the calculation of protected and unprotected excess deferred taxes as a result of tax reform;

Schedule RCK-3 R-1 details the computation of income tax expense for electric and gas for the test year;

Schedule RCK-4 R-1 details the computation of accumulated deferred income taxes for electric and gas for the test year;

Schedule RCK-5 R-1 details two adjustments associated with the Company's proposal to flow-through to customers the tax benefit associated with the Safe

Harbor Adjusted Repair Expense deductions, and two pro forma adjustments to income tax expense;

Confidential Schedule RCK-6A R-1 details the computation of the CTA;

Confidential Schedule RCK–6B R-1 details the computation separating transmission taxable income from electric taxable income; and

Schedule RCK-7 R-1 details the computation of the offset of certain regulatory assets by unprotected excess deferred income taxes.

II. THE IMPACT OF FEDERAL TAX LEGISLATION

Q. What are the implications of the Act?

A. The Act contains many provisions that substantially modify the Internal Revenue Code. The Act impacts utility rates in the following respects:

a. The Act reduces the federal corporate tax rate from 35% to 21% effective, January 1, 2018.

b. The Act has a provision that controls the pace at which excess deferred taxes related to accelerated depreciation resulting from the federal corporate tax rate change may be returned to utility customers. It provides that these excess deferred taxes may be returned no more rapidly than under the Average Rate Assumption Method ("ARAM").

c. The Act limits the deduction of business interest; however, regulated utilities are exempt from this provision.

d. The Act allows for 100% bonus depreciation for capital additions incurred or committed after September 27, 2017. However, regulated utilities that are exempt from the interest deduction limitations are also not permitted to deduct bonus depreciation. There are transition rules that may allow bonus depreciation on certain capital additions after that date.

e. The Act expands the disallowance of the deduction for compensation in excess of $1 million by removing the exception for performance based compensation, by expanding the definition of covered employee to include the Chief Financial Officer, and requiring the status as covered employee to continue for life.

There are other relevant provisions in the Act, but these are the most significant.

Q. Please describe the implications of the reduction in the federal corporate income tax rate on tax expense and operating income and how customers will be provided any savings.

A. The Act reduced the federal corporate income tax rate from a maximum of 35% to 21%, effective January 1, 2018. This rate change reduced PSE&G's tax expense beginning January 1, 2018. This reduction in tax expense creates a built-in over-collection in current rates. Pursuant to the Board's Order in Docket No AX18010001, the Company reduced its rates effective April 1, 2018 to eliminate this over-collection and further, the Company has deferred the over-collection for the period January 1, 2018 through March 31, 2018 on the books for return to customers. PSE&G proposes to return this deferred balance of $27,430,520 ($5,641,142 for electric and $21,789,378 for gas) to customers with interest computed pursuant to the Board's Order, through the Company's newly proposed Tax Adjustment Credit ("TAC"), discussed in more detail below. Mr. Swetz will propose to return these savings to customers over a 12 month period.

Q. Please describe what excess deferred taxes are.

A. PSE&G, through the ratemaking process, charges customers current and deferred income tax expense. Current tax expense represents the tax expense expected to be paid to the government for that tax year. Deferred tax expense represents a future tax liability that will be paid when related temporary differences between book and taxable income reverse.

Q. Can you provide an example of this type of temporary difference?

A. An example of such a temporary difference is the difference created by accelerated depreciation. In the case of accelerated depreciation, deductible tax depreciation exceeds book depreciation in the early portion of an asset's life, but then in the later portion of that asset's life, book depreciation exceeds tax depreciation. In total, the amount of depreciation is the same, just the timing is different. Deferred tax accounting spreads the tax benefit of depreciation over the book life of the property, so that every dollar of book depreciation charged to customers carries a tax benefit. This deferred tax also reduces rate base so that customers receive the benefit of the cost-free capital. While the IRS normalization rules require deferred tax accounting for depreciation-related timing differences, the Board has typically approved deferred tax accounting for other types of timing differences as well.

Q. How does a tax rate change impact a utility's accumulated deferred income taxes?

A. Deferred taxes are calculated using the tax rate in effect at the time the deduction is claimed (historically 35% for federal taxes). However, now that the tax rate has permanently declined to 21%, when those timing differences reverse, the amount of tax owed will be computed at the new lower rate, not the 35% rate. As a result, a portion of PSE&G's existing

Accumulated Deferred Income Tax ("ADIT") balance is now in excess of what is needed to offset future tax liabilities; the tax rate change has resulted in excess deferred taxes. These excess deferred taxes fall into two categories – those restricted by the normalization provisions of the Act (sometimes referred to as "protected" ADIT), and those that are not (sometimes referred to as "unprotected" ADIT). The protected excess deferred taxes can be returned to customers, but no more rapidly than permitted under the ARAM. The ARAM provision, which is essentially the same as the rule enacted in the Tax Reform Act of 1986, provides for the reversal of excess ADIT on a vintage and class basis as the related timing differences reverse, using the weighted average tax rate at which deferred taxes were established. By way of contrast, the return of the unprotected excess deferred taxes to customers is unconstrained by the tax law. Note that any refund of excess deferred taxes previously used to reduce rate base would result in a corresponding increase in rate base and revenue requirement. In Schedule RCK-2 R-1, I show the computation of protected and unprotected excess deferred taxes. These amounts represent the Company's best estimates at this time, but are subject to significant change until after the 2017 tax return is completed.

Q. How do you propose to provide customers the benefit of excess deferred taxes?

A. The Company proposes the benefit of excess deferred taxes be provided to customers using two methodologies:

1. First, I propose that PSE&G's after tax deferred storm costs and certain other regulatory assets (discussed in the testimony of Mr. Jennings) be offset with unprotected excess deferred taxes. Unprotected excess deferred taxes represents cash already recovered from customers. Rather than returning all of these unprotected amounts to customers through

rate credits and then increasing rates to recover storm costs and other regulatory assets, the Company proposes to offset a portion of the excess deferred taxes with after-tax storm costs and other regulatory assets, thereby recovering those costs without increasing current rates. As a result of this offset, the balance of ADIT associated with rate base decreases by the offset. I have reflected the result of this *pro forma* adjustment on Schedule RCK-7 R-1.

2. Second, the Company proposes to return the balance of excess deferred taxes to customers through either the TAC or through the specific adjustment clause related to that portion of the excess deferred taxes (those associated with the Green Program Recovery Charge). In general, the Company proposes to flow back the protected excess deferred taxes to customers in accordance with the required ARAM method discussed previously. The timing of the refund of the unprotected excess deferred taxes must consider the impact to customer rates as well as the credit metrics of the Company. Based on these considerations, the Company proposes to flow the remaining balance of unprotected excess deferred taxes to customers over a five-year period in a manner discussed and developed by Mr. Jennings and Mr. Swetz that takes the Company's financial position and credit metrics into account. The balance of excess deferred taxes to be returned via the TAC as well as the ARAM amortization for 2018 and 2019 is shown on Schedule RCK-2 R-1.

Q. Does the Act also include a limitation of the deduction of interest expense?

A. Yes, the Act has a provision limiting the deduction of interest. However, regulated utilities are exempt from this provision. Therefore, there will be no loss of interest deduction for PSE&G and thus no resultant increase in tax.

Q. How does the Act address accelerated and "bonus" depreciation?

A. While the Act provides for 100% depreciation for capital expenditures beginning September 27, 2017, regulated utilities are not eligible for this 100% expensing. The Company believes that beginning on September 27, 2017, only regular Modified Accelerated Cost Recovery System ("MACRS") tax depreciation may be claimed by regulated utilities. There is uncertainty in the Act as to whether some bonus depreciation (either 50% or 100%) may be applied for the period from September 27, 2017 through December 31, 2017. The Company expects clarification of this rule later this year. At this time PSE&G believes the best interpretation of the Act is that 100% bonus depreciation will not apply to utility property. However, the Company believes the transition rules will permit the application of 50% bonus depreciation to certain capital expenses incurred prior to September 27, 2017 related to projects placed in service after that date. While this conclusion is not free from doubt, the Company has updated Schedules RCK-3 R-1 and RCK-4 R-1 reflecting this interpretation. PSE&G will update its filing as needed if additional technical guidance is provided.

III. TAX EXPENSE AND ACCUMULATED DEFERRED INCOME TAXES

Q. Have you determined the appropriate income tax expense component of operating income for the filed test period?

A. Yes I have. Based upon 9 months of actual data and 3 months of forecast, I have computed a net total income tax expense of $133.981 million for electric and $74.617 million for gas, comprised of a current tax expense of $74.411 million and ($48.344) million for electric and gas, respectively, and a deferred tax expense of $59.570 million and $122.961

million for electric and gas, respectively. As described in more detail below, I am proposing three pro forma adjustments that increase income tax expense by $5.165 million for electric and decrease income tax expense by $2.627 million for gas. Therefore, the total income tax expense for the test year is $139.146 million for electric and $71.990 million for gas. The actual and forecasted amounts have been updated to reflect: the impact of tax reform on tax expense; the deferred accounting for the tax reform overcollection from January 1 to March 31, 2018; and the April 1st rate reduction implemented to reflect the impact of tax reform on rates. The details of this determination are shown on Schedule RCK-3 R-1, which shows current tax expense and significant components of deferred tax expense. I provided this tax expense to Mr. Jennings for inclusion in his Schedule SSJ–25 R-1.

Q. Did you prepare a schedule showing the balance of Accumulated Deferred Income Taxes ("ADIT") associated with utility plant?

A. Yes I did; it can be found at Schedule RCK–4 R-1. That schedule shows a proposed rate base reduction of $1.790 billion for electric and $1.689 billion for gas as of December 31, 2018. As previously discussed, the Company proposes to utilize a portion of the unprotected excess deferred taxes to offset storm costs and certain regulatory assets totaling approximately $141.755 million for electric and $10.008 million for gas. As a result, the adjusted ADIT balance for the period ending December 31, 2018 is approximately $1.649 billion for electric and $1.679 billion for gas. In the schedule, I have broken utility plant related ADIT down into several categories as follows:

- Accelerated Depreciation and other - includes the federal deferred taxes that either arise or reverse through depreciation deductions (including bonus depreciation) allowed pursuant to sections 167 and 168 of the Internal Revenue Code and certain other plant related deductions such as cost of removal.

- Safe Harbor Adjusted Repair Expense ("SHARE") deductions – includes Federal deferred taxes associated with projects that are claimed as deductible repair expenses pursuant to IRC section 162 but are capital assets for financial reporting purposes.

- NJ Corporation Business Tax – includes all deferred taxes provided for the NJ Corporation Business Tax.

- Protected Excess Deferred Taxes

- Unprotected Excess Deferred Taxes

Mr. Jennings has reflected these deferred taxes as a rate base reduction in Schedule SSJ–03 R-1.

Q. Are there any adjustments that should be made to income taxes?

A. Yes. The flow through of the federal tax benefit associated with the tax deduction of the Asset Depreciation Range ("ADR") Repair Allowance should be eliminated and replaced with a flow through of the federal tax benefit for the new SHARE deduction via a new TAC discussed below. In addition, the Company is proposing two other adjustments to income tax expense for an ITC reclass and an operating versus non-operating income adjustment as described in more detail below.

Q. What is the ITC reclass adjustment to income tax?

A. There is an equal and offsetting $4.725 million adjustment to income taxes between electric and gas. This adjustment relates to a correction of the unamortized ITC balance that resides on the balance sheet between the divisions. As this is related to a balance sheet reclass, the income statement impact should be removed.

Q. What is the adjustment for operating versus non-operating tax expense?

A. In December 2017 it was discovered that the electric pre-tax income used in computing tax expense was out of sync with pre-tax operating income reported for financial statement purposes. Accordingly, in December a full year update was made to pre-tax income used in computing tax expense. The adjustment to electric's tax expense represents the portion of the tax expense that pertains to the pre-test year period.

Q. Why do you propose eliminating the ADR Repair Allowance from operating income?

A. In short, because the Company no longer deducts the ADR Repair Allowance for electric distribution property.

Q. What is the ADR Repair Allowance?

A. The ADR Repair Allowance is a deduction set out in Treasury Regulation 1.167-11(d)(2). It provides that certain qualifying capital additions to property may be currently deductible as an expense up to a defined cap. It only applies to additions to or replacements of older units of property (placed in service prior to 1981). Because it only applies to these older vintages of property and is capped, the size of the deduction is limited.

Q. Why did the Company stop deducting the ADR Repair Allowance?

A. On September 12, 2011, the Internal Revenue Service ("IRS") released Revenue Procedure 2011-43 (which was later modified in Revenue Procedure 2014-16), detailing a safe harbor method for determining repair deductions for electric utilities. These rules apply to all vintages of property and permit a significantly larger repair deduction than was permitted under the ADR Repair Allowance rules. Section 5(7) of that Revenue Procedure provides that taxpayers that wished to adopt the safe harbor method set out in the Revenue Procedure were precluded from electing the ADR Repair Allowance. While the Company began claiming enhanced repair deductions in 2010 for both electric and gas distribution, the provision precluding the repair allowance deduction for electric distribution had to be complied with for the 2013 tax year. Accordingly, because the repair deduction under the new safe harbor provision was substantially larger than under the old ADR Repair Allowance, effective in 2013 PSE&G adopted the SHARE revenue procedure and did not elect an ADR Repair Allowance on its tax return for that year or any year since for electric distribution property.

Q. How do you propose that SHARE deduction impact ratemaking?

A. Because the Board required PSE&G to flow through the ADR Repair Allowance deduction for ratemaking purposes, and because that ADR Repair Allowance deduction has been replaced by the larger SHARE deduction, the Company now proposes to flow back to customers the SHARE deduction in place of the ADR repair allowance deduction.

Q. What is deferred tax accounting and how does it differ from flow-thru accounting?

A. Generally Accepted Accounting Principles ("GAAP)," now codified as ASC 740, require comprehensive inter-period tax allocation for all temporary differences between book and tax accounting. Simply stated, a temporary difference is an item of income or expense, for which the difference in basis or timing of recognition in income differs between tax purposes and financial reporting purposes. When a temporary difference is reflected in the computation of taxable income in a different period than it is for financial reporting purposes, there is an impact on the timing of taxation, and GAAP requires that a deferred tax expense or benefit be recorded on the income statement to reflect the future reversal of that temporary difference. A deferred tax expense results in an increase in ADIT liabilities on the balance sheet, and the liability reverses as the Company repays the temporary benefit to the government in the form of higher tax payments in the future. This is what I refer to as deferred tax accounting.

Q. Has the Board ever decided not to use deferred tax accounting?

A. In some cases, the Board has chosen not to recognize these deferred tax impacts for ratemaking purposes, allowing the impact in the current period tax return to flow through to the income statement and be recognized currently for ratemaking purposes. This choice to not allow deferred taxes in the computation of utility tax expense for ratemaking is what I refer to as "flow through accounting."

Q. Can you describe flow through accounting?

A. To say it simply, flow through accounting puts the utility on a tax return basis (cash basis) for tax recovery in the ratemaking process. Tax expense or benefit of the particular item will flow to customers in the year in which the taxes are reflected in the tax return. Deferred tax accounting, in contrast, matches the tax impact of an item of expense or income with the recovery of that item from customers.

Q. Please provide an example of the difference between flow through and deferred tax accounting.

A. A classic example is the Allowance for Doubtful Accounts (also known as uncollectible expense). For financial reporting purposes, an expense is accrued each year related to the accounts receivable from customers estimating the amount of those receivables that will ultimately be uncollectable. For tax purposes, this reserve is not deductible until specific accounts receivable actually are declared uncollectable and abandoned. This typically happens in a year after the book reserve was accrued.

For example, assume in year 1 that a $1,000 expense is accrued on the books related to estimated uncollectable accounts. For tax purposes, this expense is not deductible in year 1, so an adjustment is made in the tax return to disallow that book deduction. Accordingly, there will be no current tax benefit for that $1,000 reserve in Year 1. In year 2, assume the actual account is written off and the $1,000 then becomes deductible in the tax return in year 2 resulting in a $210 tax benefit in year 2 ($1,000 deduction times the 21% Federal tax rate).

If flow through accounting is employed, the full $1,000 bad debt reserve would be charged to utility customers in year 1 and the $210 tax benefit would be passed to customers in year 2 because that is the year in which the FIT deduction would be recognized. If deferred tax accounting is employed, a $210 deferred tax benefit would be recorded in year 1, and the amount charged to customers in year 1 would be $790 ($1,000 less the $210 deferred tax benefit). There would be no customer impact in Year 2.

Q. Would the flow through of the SHARE deduction jeopardize the Company's ability to claim that or any other deductions?

A. No, it would not. Unlike accelerated depreciation, for example, the SHARE deduction is not within the scope of the IRS normalization rules, so deferred tax accounting is not an IRS requirement. Moreover, flowing this tax benefit through to customers is consistent with PSE&G's past Board Order in Docket Number ER85121163. If, as that

Order establishes, it was permissible to flow through one type of repair deduction, it follows that the SHARE deduction could also be flowed through to customers.

Q. How much larger is the SHARE than the ADR Repair Allowance?

A. For the period 2010 through 2015, the total ADR Repair Allowance deduction was approximately $300 million versus the total SHARE deduction of approximately $1.7 billion, which includes a one-time change in accounting method adjustment. Clearly the larger deduction is in the Company's and customers' best interests, so it changed to the SHARE.

Q. Is either the flow-through or deferred tax accounting method required?

A. With two exceptions, neither method is required in setting rates. The first exception is for ratemaking purposes, deferred tax accounting is required when the normalization rules of the Internal Revenue Code ("IRC") apply. Under those rules, the deduction for accelerated depreciation will be forfeited if the benefit is flowed through to customers instead of being normalized. These rules however, specifically apply only to deductions associated with accelerated depreciation claimed pursuant to IRC sections 167 and 168. The normalization rules do not apply to deductions claimed under any other section of the Code. The SHARE deduction is not claimed under either of those IRC sections, so normalization is not required for this repair deduction for federal income tax purposes.

The second exception is that N.J.S.A. 48:2-21.34 requires deferred tax accounting in setting utility rates for all temporary differences used in computing New Jersey ("NJ") State income tax. So no ADIT computed at the NJ rate may be flowed through. Therefore, normalization would be required for the NJ State income tax portion of the SHARE deduction.

Q. Is one method to be preferred over the other?

A. Arguments can be made for each method of ratemaking, and the choice should be determined based upon company specific facts and circumstances. On the one hand, deferred tax accounting is consistent with GAAP and matches an expense with its related tax benefit, ensuring that a customer who pays for a particular expense also receives the related tax benefit. Further, for utilities that are in need of cash flow, deferred tax accounting can provide cash by allowing the utility to retain the cash benefit of accelerated deductions for a longer period of time (resulting, of course, in higher rates in the near term).

On the other hand, it has been argued that customers should not be billed a tax expense that the Company has not yet paid to the federal government. Deferred taxes by their nature are not paid to the government until a future period. Where a company's cash position is relatively sound, it may be more appropriate to not collect deferred taxes from customers until they are actually due and payable to the taxing authority. Both methods are widely employed across the country and have been employed by PSE&G.

Q. When PSE&G initially claimed the SHARE deduction, did the Company provide deferred taxes on that deduction and, if so, why?

A. Generally, yes. The Company did so because GAAP requires the deferred tax method of accounting for *temporary* differences. Only a specific order of the Board can cause a tax adjustment to be flowed through in the financial statements. Consequently, PSE&G reviewed prior Board orders and concluded they applied only to an amount of repair deduction attributable to the ADR Repair Allowance, not to the larger SHARE deduction. Nevertheless, it was apparent the SHARE deduction and the ADR repair allowance are similar in nature as they both relate to deducting similar costs as repair costs for tax purposes.

In fact, the ADR repair allowance is a subset of the larger SHARE deduction. Accordingly, PSE&G continued to flow through a portion of the SHARE deduction that was equal to the ADR repair allowance deduction. Deferred taxes were recorded for the balance of the SHARE deduction.

Q. How does the Company propose to implement the flow through adjustment?

A. The Company proposes to implement this adjustment in two separate pieces:

1. A *pro forma* adjustment to test period tax expense;
2. The creation of a TAC to flow through the current SHARE benefit and to amortize the remaining balance of SHARE related ADIT back to customers.

I will describe each of these in more detail.

1. <u>*Pro forma* adjustment to test period tax expense.</u>

Schedule RCK-5 R-1 – Adjustment 1, shows the computation of the *pro forma* adjustment to eliminate the flow through tax benefit of the ADR repair allowance. While this adjustment will eliminate the flow-through benefit of the ADR repair allowance from base rates, the entire SHARE deduction, which includes the ADR repair allowance currently being flowed through to customers for ratemaking purposes, will be flowed through to customers through the proposed TAC. This adjustment effectively removes the tax benefit of the ADR Repair allowance deduction net of the related book depreciation for the test period. I have not modified test period tax expense for the flow through of the SHARE deduction as that will be included in the proposed TAC discussed below. I have adjusted my test period tax expense in Schedule RCK-3 R-1 by the adjustment computed in RCK-5 R-1, Adjustment 1.

2. <u>Flow through of the current SHARE deduction, amortization and flow through of the remaining ADIT related to the SHARE deduction and truing up amounts in the future through a tax adjustment charge or credit.</u>

The Company proposes that the flow through of the estimated current period SHARE tax benefit as well as the SHARE related ADIT, net of the resultant change in return-related revenue requirement, be accomplished through the TAC. The SHARE related ADIT will be the balance at the time amortization of the SHARE related ADIT commences in the TAC. While the Company proposes the flow thru of the current period SHARE benefit commence immediately when new rates go into effect, the Company proposes to delay returning the balance of SHARE related ADIT until after the balance of unprotected excess deferred taxes has been returned to customers.

Q. Can you describe your proposed TAC in more detail?

A. I propose the creation of a TAC, to be adjusted annually. The TAC is essentially a tax adjustment clause that will be used to make significant tax adjustments annually outside of a full base rate proceeding. As discussed above, the Company plans on using the TAC for the following purposes:

a. This would be the mechanism to return to customers the tax savings collected from January 1, 2018 through March 31, 2018 with interest over a twelve month period.

b. This would be the mechanism to return excess deferred taxes created by the Tax Act to customers. Protected deferred taxes would be returned using the ARAM and unprotected deferred taxes would be returned over an approximately five year period. The adjustment would be computed net of the return impact due to the change in ADIT, as described in more detail in the testimony of Mr. Swetz.

c. This would be the mechanism to flow thru to customers the current period tax benefit associated with the SHARE deduction, as well as return the unamortized balance of SHARE related ADIT in a future period. This adjustment would be computed net of the return impact due to the change in ADIT, as described in more detail in the testimony of Mr. Swetz. The amortization of the SHARE related ADIT will commence after the unprotected excess deferred taxes have been returned to customers. The actual computation of the initial revenue credit and the operational details of the TAC are detailed in the testimony of Mr. Swetz.

d. The TAC would also serve as a mechanism to more accurately reflect in rates on an annual basis the current period SHARE deduction benefit each year and true it up to actuals in the following year. The repair deduction has the potential to vary significantly from year to year based on the mix of capital projects undertaken. Swings in the tens of millions of dollars in SHARE-related benefits year to year are possible. In order to ensure that customers get the full benefit of the SHARE deduction, the Company proposes the TAC to ensure rates are accurate and are trued up annually for actual repair deductions. The mechanics of the TAC are discussed in Mr. Swetz's testimony.

e. The TAC would further provide a mechanism that will permit the recovery of IRS audit adjustments and changes in the tax law, if any. While the IRS has not yet challenged the Company's SHARE deductions, tax deductions of this magnitude are routinely scrutinized. Given the size of these deductions and the IRS's policy of auditing multiple years at a time, a final disallowance could be material. Because the tax benefit of any deductions will have already been passed to customers, any IRS disallowance and interest thereon would need to be recovered from customers. The TAC will provide the mechanism to ensure timely recovery.

Q. What are other benefits associated with the TAC that you are proposing?

A. Utilizing the annually adjusted credit has several benefits. First, it allows for an uneven method of amortization, which could not be done in a traditional base rate amortization without an annual base rate case. It also permits flow through of the annual best estimate of the current period SHARE benefit as well as the true-up to actual SHARE deductions to ensure customers receive the full flow through benefit. Finally, it provides a mechanism to stop the amortization of historical ADIT once the excess deferred taxes and SHARE related ADIT is fully returned to customers, in order to avoid possible IRS normalization violations. If the Company were to over-amortize the unprotected excess deferred balance or the SHARE deduction related ADIT balance, the excess amortization arguably would come from the depreciation related ADIT, which is protected by the normalization rules. Reversing that deferred tax would result in a normalization violation and the possibility of significant penalties. Use of the TAC avoids that risk entirely.

Q. Is there any other benefit associated with the TAC you're advocating?

A. Yes. The TAC is a mechanism the Company suggests using to address other major tax changes, now (i.e., the changes occasioned by the Act described above) or in the future.

Q. Why do you propose to flow through only the federal deferred tax related to the SHARE deduction?

A. As noted above, N.J.S.A. 48:2-21.34 requires deferred tax accounting in setting utility rates for all temporary differences in computing New Jersey State income tax. Accordingly, as the New Jersey statute does not allow for flow through, the Company is not proposing the flow through of the state deferred taxes.

IV. <u>CONSOLIDATED TAX ADJUSTMENT</u>

Q. What is a Consolidated Tax Adjustment?

A. In the simplest terms, a Consolidated Tax Adjustment ("CTA") is a ratemaking adjustment designed to pass some or all of the benefit of tax savings generated by nonregulated subsidiaries of a consolidated return filing group to the regulated affiliate.

Q. Has the Board ever issued an order mandating a CTA in a previous PSE&G rate case?

A. No. Although the Office of the Ratepayer Advocate has proposed a CTA in many of PSE&G's rate proceedings, all of those cases were settled without specific resolution of the CTA.

Q. Do you believe that the imposition of a CTA is appropriate?

A. No I do not. I and others representing PSE&G have testified several times in New Jersey about the flaws of the CTA adjustment. I continue to believe the imposition of a CTA is an inappropriate regulatory adjustment.

Q. Has the Board purported to revise its policy regarding CTAs since PSE&G's last rate case?

A. Yes it has. On January 23, 2014 the Board issued an order opening Docket EO12121072, a generic proceeding to review the applicability and computation of the CTA. On November 22, 2014 the Board issued an order ("November 22 Order") in that docket setting out key computational requirements with respect to the CTA. Those requirements represented a significant change from computations that had been approved by the Board in the past. The order in this generic proceeding was ultimately reversed on appeal. I am advised by counsel that that reversal was on "procedural grounds"; the court provided no opinion regarding the computational requirements the Board has recently set out. However, the Board has issued a decision in a litigated proceeding that is consistent with its November 22 Order in *I/M/O the Verified Petition Of Jersey Central Power & Light Company For Review and Approval OF Increases In And Other Adjustments To Its Rates And Other Charges For Electric Service*, BPU Docket No. ER12111052, Order Adopting Initial Decision With Modifications and Clarifications (March 26, 2013)("JCP&L Order"), at page 73. It is my understanding that this decision was not affected by the reversal of the November 22 Order. In addition, at its December 19, 2017 agenda meeting, the Board adopted a proposed formal rule codifying use of this method going forward.

Q. Please briefly describe these computational requirements and how they differ from past computations?

A. The computational requirements are:

1. The calculation period for the CTA shall include a look back period of five calendar years, including any complete year that is included in the test year. The Board's previous orders for other companies had approved a lookback period beginning in 1991 continuing through the test period.

2. The calculated tax adjustment based on the review period shall be allocated so that the revenue requirement of the company is reduced by 25% of the adjustment. In the past, the Board has approved revenue requirement reduction of 100% of the computed adjustment.

3. Transmission assets of the Electric Distribution Companies would not be included in the calculation of the CTA. In past orders, the Board did not make this distinction.

Q. Have you included a computation of the CTA that is consistent with the JCP&L Order?

A. Yes I have. In Confidential Schedules RCK–6A R-1 and 6B R-1, I have provided data dating back to 1991 consistent with data provided in the CTA generic proceeding, updated for settled IRS audits. Confidential Schedule RCK–6A R-1 presents the computation of the CTA and Confidential Schedule RCK–6B R-1 presents the computation separating transmission taxable income from electric taxable income. I then computed a CTA using this data in accordance with the JCP&L Order. The resulting CTA is a reduction of rate base equal to $0.6 million for electric and $0.2 million for gas. Mr. Jennings has included this amount in rate base as shown in Schedule SSJ–03 R-1.

Q. Notwithstanding the Board's recent decisions concerning the CTA, do you believe this is an appropriate adjustment to make?

A. No I do not. I have always believed and continue to believe that the CTA is an inappropriate ratemaking adjustment and the practice should be eliminated, as it has been in most states. Nevertheless, the Company has computed and provided an adjustment consistent with the JCP&L Order.

Q. Does this conclude your testimony at this time?

A. Yes, it does.

QUALIFICATIONS OF
ROBERT C. KRUEGER, JR.

Educational Background

In 1982 I graduated from Bucknell University with a Bachelor of Science n Business Administration – Accounting Degree. In 1983, I earned the degree of Master of Business Administration from Lehigh University. I have been a licensed Certified Public Accountant in the State of New Jersey since 1985.

Work Experience

Between 1983 and 1988, I was employed by the accounting firm of Deloitte, Haskins, and Sells (DH&S) and performed general auditing and tax accounting. I commenced employment with Public Service Electric and Gas Company (PSE&G) in 1988 as a Principal Tax Account. 1992, I was promoted to Director – Tax Services, where I was responsible for tax compliance , as well as accounting and planning activities. In 1999, I was promoted to Director – Financial Planning and Analysis, responsible for business forecasting and budgeting. In 2000, I assumed the responsibility for analysis of accounting and tax strategies for PSE&G and Public Service Enterprise Group Incorporated. In 2006, I was promoted to Vice-President and Assistant Controller – Tax and have been responsible for all tax matters of the Enterprise Group. Effective January 1, 2018, I was assigned the role of Vice President – Special Projects.

I am a member of the American Institute of Certified Public Accountants and the New Jersey State Society of Certified Public Accountants.

I have testified before the New Jersey Board of Public Utilities (NJBPU) during the PSE&G Energy Master Plan Phase II proceeding, whereby the NJBPU conducted investigations into the future structure of the electric power industry. I have also testified in the 2001 PSE&G Gas Base Rate Case proceeding. In both of these rate proceedings, I served as the PSE&G accounting witness, responsible for all accounting and tax-related issues. I also provided rebuttal testimony in PSE&G's 2009 base rate case.

In 2002, I was appointed by the Governor of the State of New Jersey, James E. McGreevey, to the New Jersey Corporate Business Tax Study Commission. I served on this Commission until June of 2004, when the Commission issued its final report.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
Computation of Excess Accumulated Deferred Income Tax at 12/31/17

Electric Distribution

Temporary Difference	TYPE	Regulated Excess Deferred Tax	At ADIT level	Related to Specific Adjustment Clauses	Excess Deferreds used to offset Regulatory Assets	Excess Deferreds to Flow through the TAC	Ratebase Related Excess Deferred	% ratebase related
Depreciation	protected	(440,386,258)						
Safe Harbor Accellerated Repair Expense (S.H.A.R.E)	unprotected	(81,816,130)						
Other Plant Basis Differences	unprotected	(117,226,128)						
Plant Related State Tax	unprotected	40,065,322						
Pension	unprotected	(53,655,754)						
OPEB	unprotected	74,728,578						
Regulatory Assets (excluding pension & Opeb and netted against related nondeductible liabilities)	unprotected	(63,901,924)						
State Tax excluding Fin 48 and Plant Related	unprotected	(15,516,898)						
Pending Audit Adjustments at new rate	unprotected	8,252,386						
Pending Audit Adjustments (retained at 35%)	no excess	-						
Other - excluding Fin 48	unprotected	(6,706,834)						
Total before Gross -up		(656,163,641)						
Gross up to Revenue level		(256,569,202)						
Total Refundable		(912,732,843)						
Service Company Excess Deferred taxes billed to PSE&G	unprotected	5,789,698						
Net Regulatory Liability		(906,943,145)						
		At revenue level						
Total Protected - Electric		(612,583,472)	(440,386,258)	39,017,029		(401,369,229)	(440,386,258)	
Less ARAM Amortization from 1/1/18 thru 9/30/18		10,605,344	7,624,182			7,624,182	7,624,182	
Remaining Protected - Electric		(601,978,128)	(432,762,076)	39,017,029	-	(393,745,047)	(432,762,076)	100%
Total Unprotected - Electric		(294,359,673)	(211,615,169)	8,862,930	186,543,624	(16,208,614)	(158,976,936)	
Less ARAM Amortization from 1/1/18 thru 9/30/18		(10,605,344)	(7,624,182)			(7,624,182)	(7,624,182)	
Remaining Unprotected - Electric		(304,965,017)	(219,239,351)	8,862,930	186,543,624	(23,832,796)	(166,601,118)	76%
Total		(906,943,145)	(652,001,427)	47,879,959	186,543,624	(417,577,844)	(599,363,194)	92%

Gas Distribution

Temporary Difference		Regulated Excess Deferred Tax	At ADIT level	Related to Specific Adjustment Clauses	Excess Deferreds used to offset Regulatory Assets	Excess Deferreds to Flow through the TAC	Ratebase Related Excess Deferred	% ratebase related
Depreciation	protected	(335,208,540)						
Safe Harbor Accellerated Repair Expense (S.H.A.R.E)	unprotected	(164,103,927)						
Other Plant Basis Difference	unprotected	(78,438,108)						
Plant Related State Tax	unprotected	37,202,820						
Pension	unprotected	(41,174,033)						
OPEB	unprotected	4,406,461						
Regulatory Assets (excluding pension & Opeb and netted against related nondeductible liabilities)	unprotected	(35,747,669)						
State Tax excluding Fin 48 and Plant Related	unprotected	6,108,555						
Pending Audit Adjustments at new rate	unprotected	2,068,387						
Pending Audit Adjustments (retained at 35%)	no excess	-						
Other	unprotected	1,406,316						
Total before Gross -up		(603,479,739)						
Gross up to Revenue level		(235,969,056)						
Total Refundable		(839,448,796)						
Service Company Excess Deferred taxes billed to PSE&G	unprotected	5,332,616						
Net Regulatory Liability		(834,116,180)						
		At revenue level						
Total Protected - GAS		(466,279,789)	(335,208,540)			(335,208,540)	(335,208,540)	
Less ARAM Amortization from 1/1/18 thru 9/30/18		8,204,359	5,898,114			5,898,114	5,898,114	
Remaining Protected - GAS		(458,075,430)	(329,310,427)	-	-	(329,310,427)	(329,310,427)	100%
Total Unprotected - GAS		(367,836,390)	(264,437,581)	2,757,176	12,807,436	(248,872,969)	(205,339,216)	
Less ARAM Amortization from 1/1/18 thru 9/30/18		(8,204,359)	(5,898,114)			(5,898,114)	(5,898,114)	
Remaining Unprotected - GAS		(376,040,750)	(270,335,695)	2,757,176	12,807,436	(254,771,083)	(211,237,330)	78%
Total		(834,116,180)	(599,646,121)	2,757,176	12,807,436	(584,081,509)	(540,547,756)	90%

At revenue level	At ADIT level
(1,060,053,558)	(762,072,503)
(681,005,767)	(489,575,046)
(1,741,059,324)	(1,251,647,548)

Note: These amounts represent our best estimates at this time, but are subject to significant change with the filing of the 2017 tax return and any audits of prior periods, changes in law or interpretation of law.
Any required adjustments will be reflected in our proposed Tax Adjustment Credit (TAC).

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
Computation of Excess Accumulated Deferred Income Tax at 12/31/17

Electric Distribution

Temporary Difference	TYPE	Normalized Temporary Difference	Reclasses	Normalized Temporary Difference	Regulated Federal ADIT @ 35.00%	Regulated Federal ADIT 21.00%	Regulated Excess Deferred Tax
Depreciation	protected	(3,145,616,130)		(3,145,616,130)	(1,100,965,645)	(660,579,387)	(440,386,258)
Safe Harbor Accellerated Repair Expense (S.H.A.R.E)	unprotected	(584,400,927)		(584,400,927)	(204,540,324)	(122,724,195)	(81,816,130)
Other Plant Basis Differences	unprotected	(837,329,486)		(837,329,486)	(293,065,320)	(175,839,192)	(117,226,128)
Plant Related State Tax	unprotected	150,689,301	135,491,572	286,180,873	100,163,305	60,097,983	40,065,322
Pension	unprotected	(383,255,388)		(383,255,388)	(134,139,386)	(80,483,632)	(53,655,754)
OPEB	unprotected	533,775,554		533,775,554	186,821,444	112,092,866	74,728,578
Regulatory Assets (excluding pension & Opeb and netted against related nondeductible liabilities)	unprotected	(456,442,312)		(456,442,312)	(159,754,809)	(95,852,886)	(63,901,924)
State Tax excluding Fin 48 and Plant Related	unprotected	24,656,583	(135,491,572)	(110,834,988)	(38,792,246)	(23,275,348)	(15,516,898)
Pending Audit Adjustments at new rate	unprotected	58,945,613		58,945,613	20,630,964	12,378,579	8,252,386
Pending Audit Adjustments (retained at 35%)	no excess	(58,945,613)		(58,945,613)	(20,630,964)	(20,630,964)	-
Other - excluding Fin 48	unprotected	(47,905,956)		(47,905,956)	(16,767,085)	(10,060,251)	(6,706,834)
Total before Gross -up		(4,745,828,760)	-	(4,745,828,760)	(1,661,040,066)	(1,004,876,425)	(656,163,641)

Gas Distribution

Temporary Difference	TYPE	Normalized Temporary Difference	Reclasses	Normalized Temporary Difference	Regulated Federal ADIT @ 35.00%	Regulated Federal ADIT 21.00%	Regulated Excess Deferred Tax
Depreciation	protected	(2,394,346,718)		(2,394,346,718)	(838,021,351)	(502,812,811)	(335,208,540)
Safe Harbor Accellerated Repair Expense (S.H.A.R.E)	unprotected	(1,172,170,909)		(1,172,170,909)	(410,259,818)	(246,155,891)	(164,103,927)
Other Plant Basis Difference	unprotected	(560,272,203)		(560,272,203)	(196,095,271)	(117,657,163)	(78,438,108)
Plant Related State Tax	unprotected	265,734,429		265,734,429	93,007,050	55,804,230	37,202,820
Pension	unprotected	(294,100,233)		(294,100,233)	(102,935,082)	(61,761,049)	(41,174,033)
OPEB	unprotected	31,474,718		31,474,718	11,016,151	6,609,691	4,406,461
Regulatory Assets (excluding pension & Opeb and netted against related nondeductible liabilities)	unprotected	(255,340,494)		(255,340,494)	(89,369,173)	(53,621,504)	(35,747,669)
State Tax excluding Fin 48 and Plant Related	unprotected	43,632,538		43,632,538	15,271,388	9,162,833	6,108,555
Pending Audit Adjustments at new rate	unprotected	14,774,189		14,774,189	5,170,966	3,102,580	2,068,387
Pending Audit Adjustments (retained at 35%)	no excess	(14,774,189)		(14,774,189)	(5,170,966)	(5,170,966)	-
Other	unprotected	10,045,117		10,045,117	3,515,791	2,109,475	1,406,316
Total before Gross -up		(4,325,343,754)	-	(4,325,343,754)	(1,513,870,314)	(910,390,575)	(603,479,739)

Forecasted ARAM Amortization

	1/1/18 - 9/30/18	10/1/18 - 12/31/19
Electric	7,624,182	13,200,598
Gas	5,898,114	10,605,817
Total	13,522,296	23,806,415

Note: These amounts represent our best estimates at this time, but are subject to significant change with the filing of the 2017 tax return and any audits of prior periods, changes in law or interpretation of law.
Any required adjustments will be reflected in our proposed Tax Adjustment Credit (TAC).

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

CURRENT AND DEFERRED INCOME TAXES

Line		($000) Test year ended 6/30/18 Electric	Gas	Total
1	***Current***			
2	Federal	$ 85,117	$ (29,390)	$ 55,727
3	State	(10,706)	(18,955)	$ (29,661)
4	***Total Current***	$ 74,411	$ (48,344)	$ 26,067
5	***Deferred***			
6	Depreciation and Other - federal	10,921	73,537	84,458
7	Repair - federal	6,988	66,203	73,191
8	State - plant related	24,035	10,392	34,427
9	Loss on Reacquired Debt	(574)	(344)	(918)
10	Clause - RAC (Environmental Clean Up)	4,781	(4,807)	(26)
11	Clause - Societal Benefits Clause (AAP)	6,894	(3,671)	3,223
12	Clause - Deferred Fuel	1,096	(8,410)	(7,314)
13	Contributions in Aid of Construction	(9,867)	(2,126)	(11,993)
14	Pension - Tax Deduction	5,531	5,435	10,965
15	OPEB - Tax Deduction	12,247	(6,105)	6,142
16	Other	2,981	3,083	6,064
17	Excess Deferred Tax - Cost Of Removal	-	(14,373)	(14,373)
18	Total Deferred	$ 65,033	$ 118,814	$ 183,846
19	Investment Tax Credit Amortized	(5,463)	4,148	(1,315)
20	Net Income Taxes	$ 133,981	$ 74,617	$ 208,598
	Proforma Adjustments:			
21	Remove ADR Repair Allowance - RCK-5 Adjustment 1	4,966	2,098	7,065
22	Adjust For ITC Reclass - RCK 5 - Adjustment 2	4,725	(4,725)	-
23	Adjustment for Operating vs Non-Op Income- RCK 5 - Adjustment 3	(4,526)	-	(4,526)
24	Adjusted income taxes	$ 139,146	$ 71,990	$ 211,136

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

ACCUMULATED DEFERRED TAXES - ELECTRIC
($000)

	Estimated Balance 6/30/18	Activity	Estimated Balance 12/31/18
Depreciation & Other	$ (743,119)	$ (4,391)	$ (747,511)
Repair Deduction	$ (126,608)	$ (3,884)	$ (130,493)
NJ Corporate Business Tax	$ (301,531)	$ (11,409)	$ (312,939)
Protected Excess Deferred Tax	$ (432,762)	$ -	$ (432,762)
Unprotected Excess Deferred tax	$ (166,601)	$ -	$ (166,601)
Total Electric Accumulated Deferred Taxes	$ (1,770,622)	$ (19,684)	$ (1,790,306)
Proforma Adjustments:			
Storm Cost Offset - Excess Deferred Tax	$ 141,755	$ -	$ 141,755
Adjusted Electric Accumulated Deferred Taxes	$ (1,628,866)	$ (19,684)	$ (1,648,550)

ACCUMULATED DEFERRED TAXES - GAS
($000)

	Estimated Balance 6/30/18	Activity	Estimated Balance 12/31/18
Depreciation & Other	$ (573,694)	$ (10,759)	$ (584,453)
Repair Deduction	$ (266,678)	$ (20,523)	$ (287,201)
NJ Corporate Business Tax	$ (271,043)	$ (5,309)	$ (276,352)
Protected Excess Deferred Tax	$ (329,310)	$ -	$ (329,310)
Unprotected Excess Deferred tax	$ (211,237)	$ -	$ (211,237)
Total Gas Accumulated Deferred Taxes	$ (1,651,963)	$ (36,590)	$ (1,688,553)
Proforma Adjustments:			
Storm Cost Offset - Excess Deferred Tax	$ 10,008	$ -	$ 10,008
Adjusted Electric Accumulated Deferred Taxes	$ (1,641,956)	$ (36,590)	$ (1,678,546)

Note: The amounts above include all plant related excess deferred taxes. The rate base reduction for excess deferred taxes will not be reduced until excess deferred taxes are returned to customers.

Public Service Electric and Gas Company

Adjustments related to the conversion from ADR Repair Allowance to Safe Harbor Repairs and to Test Year Income Tax Expense

($000's)

Adjustment 1

Proforma Adjustment to Test Period Tax Expense **Remove ADR Repair Allowance flow Through**	**Electric** July - December	**Electric** January - June	**Electric** Total Test Period	**Gas** July - December	**Gas** January - June	**Gas** Total	**Total** July - December	**Total** January - June	**Total** Total
ADR Repair Allowance deduction included in the test period	(17,534)	(16,500)	(34,034)	(4,991)	(5,000)	(9,991)	(22,526)	(21,500)	(44,026)
Book Depreciation associated with ADR Repair Allowance property	8,465	7,966	16,431	1,247	1,249	2,496	9,712	9,215	18,927
Net flow through deduction included in test period	(9,069)	(8,534)	(17,603)	(3,745)	(3,751)	(7,496)	(12,814)	(12,285)	(25,099)
Federal Statutory Tax Rate	35.0%	21.0%		35.0%	21.0%		35.0%	21.0%	
ADIT needed to normalize ADR Repair allowance - Proforma adjustment to test year tax expense - To RCK-2	3,174	1,792	4,966	1,311	788	2,098	4,485	2,580	7,065

Adjustment 2
SHARE Tax adjustments to be flowed through via the Tax Adjustment Clause

2019 Current Period SHARE Flow Thru Benefit	**Electric**	**Gas**	**Total**
2019 Period Estimate of SHARE tax deduction (excluding repair allowance)	(12,391)	(172,342)	(184,733)
2019 Period Estimate of ADR Repair Allowance deduction	(33,000)	(10,000)	(43,000)
2019 Period Estimated Total SHARE Deduction	(45,391)	(182,342)	(227,733)
2019 Period Estimate of book depreciation associated with SHARE property	286	1,869	2,155
2019 Period Estimate of book depreciation associated with Repair Allowance property	15,211	2,442	17,653
2019 Period Estimated Total SHARE Book Depreciation	15,496	4,311	19,807
Net flow through deduction to be included in the Tax Adjustment Clause	(29,895)	(178,031)	(207,925)

Adjustment 3 - ITC Reclass
As reflected in FERC Form 1, this adjustment pertains to the realignment of the unamortized ITC balance between Electric and Gas

	Electric	Gas	Total
Page 266, FERC Form 1 - Adjusment Column	4,725	(4,725)	-

Adjustment 4 - Operating vs Non-Operating

	Electric	Gas	Total
Full Year 2017 Adjustment Reducing Operating Income - included in December 2017 Pre-tax Income	(20,487)	-	(20,487)
Less: Portion Applicable to July 2017 - December 2017 Test Period	(9,406)	-	(9,406)
Portion Applicable to Jan 2017 - June 2017 Non-Test Period	(11,081)	-	(11,081)
Portion Applicable to Jan 2017 - June 2017 Non-Test Period - Tax Effected - to RCK -2	(4,526)	-	(4,526)

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

ADJUSTMENT RELATED TO THE OFFSET OF STORM COSTS WITH UNPROTECTED EXCESS DEFERRED TAXES
($000's)

	Electric	Gas	Total
Proforma Adjustment to Accumulated Deferred Income Tax			
Offset Deferred Storm Costs with Unprotected Excess Deferred Tax			
Unprotected Excess Deferred Tax	(210,376)	(267,579)	(477,955)
Offest Deferred Storm Costs	257,888	7,565	265,453
Offset other Regulatory Assets	1,597	10,250	11,847
			-
Offset Related Deferred Tax at 28.11%	(72,941)	(5,008)	(77,949)
Remaining Unprotected Excess Deferred Taxes	(23,833)	(254,771)	(278,604)
Percentage of Excess Deferred Tax Related to Rate base	76%	78%	
Adjustment Required to Plant Related Accumulated Deferred Income tax - To RCK-4	141,755	10,008	151,763

Issues -