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Request from: Public Utilities Regulatory Authority

Question:

Please provide a calculation showing the buildup of ADIT resulting from the storm deferral as accumulated from 2018-2023.

Response:

Please refer to LFE-001 Attachment 1 for a calculation showing the estimated buildup of Accumulated Deferred Income Taxes ("ADIT") resulting from the storm costs and partially offsetting customer funding as authorized in PURA's Final Decision in Docket No. 25-12-13 (the "Final Decision"). The Company applied specific Final Decision cost adjustments to each storm where available within the Final Decision and ratably allocated non-storm specific adjustments to each storm (i.e. extrapolation adjustments) where such adjustments were not storm-specific.

It is important to note that the ADIT benefit resulted from the Company's outlay of its own capital (net of any customer contributions) for which the Company has not been reimbursed by customers for the net storm costs reflected in Column (H). The deferred storm cost asset is not reflected in rates (i.e. rate base) and therefore the associated ADIT is not reflected in rates (i.e. rate base). In other words, the ADIT benefit recognized by the Company only exists as a result of the fact that the Company has had to expend nearly $1 billion of capital to contemporaneously pay its storm restoration costs with no corresponding revenues. This 'benefit' only served to modestly reduce the carrying costs incurred by the Company in the intervening years since the time that the Company incurred the storm restoration costs and when it collects those costs in rates from customers. This creates a tax 'benefit' in the short term that is ultimately transferred to customers once the Company has received the cash resulting from the close of the financing and is reflected in the balance the Company is ultimately securitizing.

The Company has consistent presented its carrying charge calculations net of ADIT and net of customer contributions. In PURA's Final Decision in Docket No. 25-12-13, although disputed by the Company, PURA declined to recognize carrying charges on either storm restoration costs or on customer receipts received prior to the date of prudence. It would similarly not be appropriate to attribute any benefit to customers of the ADIT balance prior to the date of securitization.