Date Filed: November 23, 2026

Witness: Brendan J. O'Brien, Garrett J. Murray and Timothy J. Griffin
Request from: Public Utilities Regulatory Authority

Question:

(DEFERRED INCOME TAXES) Application, Sch. B-1.0 and Sch. B-6.1. Provide an unlocked Excel worksheet, with formulas intact, that supports calculations of deferred taxes on contributions in aid of construction (CIAC), net of gross-up, of $35,961,000 for the Test Year and $38,004,000 for the Rate Year. Identify accounts containing the related regulatory liabilities and explain if the Company used these amounts to reduce rate base. Include references and amounts applicable to each of the application schedules.

Response:

The question incorrectly references the Rate Year amount as $38,004,000, however the Rate Year ending amount in the file application is $39,550,000. Please refer to RRU-202, Attachment 1, for the calculations supporting the deferred taxes on CIAC for the Test Year and Rate Year amounts in Exhibit CLP-REVREQ-2 Schedule B-6.1.

A book to tax difference occurs from the receipt of a CIAC. For book purposes, there is no impact on book net income, while for tax purposes, receipt of the contribution is taxable in the year received. The CIAC tax rules allow taxpayers to depreciate the value of recognized CIAC, creating a temporary tax difference, therefore giving rise to deferred taxes in accordance with SFAS 109. Under existing rules, CIAC temporary differences reverse over a twenty-year period.

The CIAC deferred tax asset represents the tax effected depreciation benefit the Company will receive over twenty years without taking into account the time value of money loss, and the gross-up represents the time value of money loss between the upfront payment in year 1 and the present value of depreciable tax benefit over the twenty-year period. The deferred taxes on CIAC, net of gross-up is an addition to rate base.