



Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

RECEIVED  
OCT 27 2006  
PUBLIC SERVICE  
COMMISSION

**Kentucky Utilities Company**  
State Regulation and Rates  
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Louisville, Kentucky 40232  
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October 27, 2006

Kent W. Blake  
Director  
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RE: *In the Matter Of: The Application Of Kentucky Utilities Company For An Order Approving The Accounting Treatment Relating To Income Tax Expense*

Case No. 2006-00756

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten (10) copies of Kentucky Utilities Company's Application in the above-referenced matter. Kentucky Utilities Company respectfully requests the Commission enter an order granting the relief requested in its Application by December 31, 2006.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Kent W. Blake

cc: Hon. Elizabeth E. Blackford  
Hon. Michael L. Kurtz

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

OCT 27 2006

PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR AN ORDER APPROVING )  
THE ACCOUNTING TREATMENT RELATING TO ) CASE NO. 2006-00456  
INCOME TAX EXPENSE )

APPLICATION OF  
KENTUCKY UTILITIES COMPANY

Kentucky Utilities Company ("KU" or "Applicant"), by counsel, hereby petitions the Kentucky Public Service Commission ("Commission") for an order approving the accounting treatment for use in the calculation of its annual net operating income for 2006 and subsequent years.

In support of this Application, KU states as follows:

1. KU is a Kentucky corporation organized pursuant to Kentucky law. KU's post office address is P.O. Box 32030, Louisville, Kentucky 40232. KU is a utility as defined by KRS 278.010(3) (a), and is subject to this Commission's jurisdiction as to its retail rates and service. KU generates and purchases electricity, and distributes and sells electricity to over 500,000 customers at retail in seventy-seven counties in Central, Northern, Southeastern and Western Kentucky. A certified copy of the Applicant's Articles of Incorporation was filed with the Commission in Case No. 2005-00471, *In the Matter of: Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of their Transmission System*, and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

2. This Application is filed pursuant to KRS 278.220, which authorizes the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction.

3. Communication regarding this Application should be addressed to:

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Counsel for Kentucky Utilities Company

**Uniform System of Accounts, General Instruction 18,  
and Federal and Kentucky Income Tax Law**

4. The Federal Energy Regulatory Commission (the "FERC"), in General Instruction 18 to the Uniform System of Accounts (18 C.F.R. 101), requires utility companies under FERC jurisdiction to follow comprehensive interperiod tax allocation (i.e., normalization or normalized accounting) using the deferred tax method where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax regulated accounting income. The Commission pursuant to its authority under KRS 278.220 similarly requires utility companies under Commission jurisdiction to use normalized accounting.

5. The Internal Revenue Code ("Code") similarly requires normalization of such timing differences for regulated accounting purposes as a precondition to the use of accelerated depreciation methods in calculating federal taxable income. Sections 168(f)(2) and (i)(9) of the Code require regulatory commissions to normalize, for ratemaking purposes, the income tax effects of differences between book and tax depreciation arising from use of accelerated depreciation for federal income tax but not book purposes.

6. Kentucky income tax law also requires normalization of such timing differences for regulated accounting purposes as a precondition to use of accelerated depreciation methods in calculating Kentucky taxable income. KRS 141.010(13) authorizes utilities to use the accelerated depreciation methods authorized in Section 168 of the Code for Kentucky income tax purposes. KRS 141.050(1) incorporates into Kentucky income tax law the accounting methods and procedures mandated by federal income tax law as follows:

Except to the extent required by differences between this chapter and its application and the federal income tax law and its application, the administrative and judicial interpretations of the federal income tax law, computations of gross income and deductions therefrom, accounting methods, and accounting procedures, for purposes of this chapter shall be as early as practicable identical with those required for federal income tax purposes.

7. A normalization method of accounting requires that the utility defer the difference between actual federal and Kentucky income tax liability and book-tax expense in the early years and permits ratepayers to pay a normalized level of income tax expense through rates. The normalized level of tax expense is based on the tax rate in effect at the time the deferral occurs. It assumes that the timing differences between book and tax depreciation giving rise to deferred taxes would reverse in future periods at that same tax rate. Following the enactment of House Bill 272 on March 18, 2005 (later codified in relevant part as KRS 141.040), that assumption

was no longer valid with respect to the Kentucky corporate income tax. Specifically, this legislation reduced the Kentucky corporate income tax rate from 8.25 percent to 7.00 percent for tax years beginning January 1, 2005. The rates will be further reduced from 7.00 percent to 6.00 percent for tax years beginning January 1, 2007.

8. In April, 2005, KU filed an application with the Commission for authority to establish regulatory liabilities for the excess deferred state income taxes resulting from the enactment of House Bill 272 and for approval of an accounting treatment to flow back the excess deferred state income taxes for book purposes only. In the Matter of: *Application of Kentucky Utilities Company for an Order Approving the Accounting Treatment Relating to Income Tax Expense for 2005 and Subsequent Years*, Case No. 2005-00181, the Commission approved KU's application by Order dated June 30, 2005. Noting that the legislation provided for a second reduction in the Kentucky corporate income tax rate effective January 1, 2007, the Commission also expected KU to request prior approval of any further regulatory asset or liability accounts relating to additional excess Kentucky deferred income taxes resulting from the January 1, 2007 tax rate reduction.

9. KRS 141.040, among other things, reduces the Kentucky income tax rates applicable to corporate taxable net income for taxable years beginning on or after January 1, 2007 as follows:

Income Level	Current Rate	2007+
\$0.00 - \$25,000	4%	Same
\$25,000.01 - \$50,000	4%	Same
\$50,000.01 - \$100,000	5%	Same
\$100,000.01 - \$250,000	7%	6%
> \$250,000	7%	6%

## **KU's Accounting for Deferred Tax Expense**

10. KU uses accelerated depreciation methods for federal and Kentucky income tax purposes. Consistent with General Instruction 18, Sections 168(f)(2) and (i)(9) of the Code, and KRS 141.010(13) and KRS 141.050(1), KU follows normalized accounting using the deferred tax method for book and ratemaking purposes.

11. KRS 141.040's reduction in Kentucky corporate income tax rates causes KU to have an excess or surplus deferred tax reserve for book purposes. Because state taxes are deducted against otherwise taxable federal income, this reduction in future Kentucky corporate income tax rates also affects KU's federal income tax liability for book purposes.

### **Legislatively "Protected" and "Unprotected" Excess Deferred Taxes and Historical Commission Treatment**

12. The Tax Reform Act of 1986 ("TRA") reduced the federal corporate income tax rate from 46% to 34% and created an excess federal income tax deferral for KU and other Kentucky utilities. Section 203(e) of the TRA required that utilities flow back excess deferred taxes related to depreciation timing differences no faster than under the average-rate assumption method (so-called legislatively "protected" excess deferred taxes). The average-rate assumption method for calculating the reversal of deferred taxes ensures the normalization of this excess in the utility's reserve for deferred taxes. The TRA did not, however, have specific provisions for excess deferred taxes unrelated to depreciation timing differences (so-called legislatively "unprotected" excess deferred taxes).

13. Consistent with the TRA, the Commission in a series of decisions required utilities to transfer protected excess deferred taxes caused by the reduction in the federal income tax rate to a separate regulatory liability account and use the average-rate assumption method to

flow back protected excess deferred taxes. *See, e.g. In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Louisville Gas and Electric Company*, KPSC Case No. 9781 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Kentucky Utilities Company*, KPSC Case No. 9780 (June 11, 1987).<sup>1</sup>

14. Exhibit No. 1 to this Petition shows an example of the depreciation-related mismatch between KU's current and deferred tax expense for tax and book purposes created by the reduction in the tax rate for illustrative purposes. It assumes that KU purchased and placed in service in 2002 a piece of equipment costing \$10,000 when the Kentucky corporate income tax rate was 8.25%. For tax purposes, the equipment is classified as five-year MACRS<sup>2</sup> property. For book purposes, KU uses the straight-line method over a ten-year useful life. Because of the enactment of HB 272, KU in 2005 and 2006 is subject to a Kentucky corporate income tax rate of 7%, and in 2007 and subsequent years the applicable Kentucky corporate income tax rate is 6%. As shown in the first table, additions to KU's deferred tax reserve in years 2002 through 2006 are computed based on the effective tax rates for those years (i.e., 8.25% in 2002 through 2004 and 7% in 2005 and 2006). The reversals from KU's deferred tax reserve in years 2007

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<sup>1</sup> *See also In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Kentucky Power Company*, KPSC Case No. 9779 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Louisville Gas and Electric Company*, KPSC Case No. 9781 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Union Light, Heat and Power Company*, KPSC Case Nos. 9788 and 9782 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Delta Natural Gas Company, Inc.*, KPSC Case No. 9785 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Western Kentucky Gas Company*, KPSC Case No. 9789 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Alltel Kentucky, Inc.*, KPSC Case No. 9796 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Brandenburg Telephone Company, Inc.*, KPSC Case No. 9797 (June 11, 1987); *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of South Central Bell Telephone Company*, KPSC Case No. 9803 (June 11, 1987); and *In re the Effects of the Federal Tax Reform Act of 1986 on the Rates of Kentucky-American Water Company*, KPSC Case No. 9815 (June 11, 1987). The foregoing authorities are cited for the regulatory accounting treatment approved therein and not for the ratemaking procedure used therein. The KPSC subsequently has recognized that single-issue ratemaking is appropriate only where specifically authorized by statute or the result of a unanimous agreement by all parties with approval by the KPSC. *In re Big Rivers Electric Corporation*, KPSC Case No. 94-543 (February 21, 1997); see also *The Application of Louisville Gas and Electric Company for Approval of New Rate Tariffs Containing a Mechanism for the Pass-Through of MISO-Related Revenues and Costs not Already Included in Existing Base Rates*, KPSC Case No. 2004-004.59 (Dec. 22, 2004).

through 2011 are computed based on the effective tax rates for those years. Absent an adjustment to KU's normalization method of accounting for these timing differences, KU will have a \$68 remaining tax deferral reserve which balance is the excess tax deferral.

15. Exhibit No. 1 to this Petition also illustrates the normalization of KU's excess deferred state taxes using the average-rate assumption method. As shown in the second table, additions to KU's deferred state tax reserve in years 2002 through 2006 are computed based on the effective Kentucky tax rates for those years (i.e., 8.25% in 2002 through 2004 and 7% in 2005 and 2006). The reversals from KU's deferred tax reserve in years 2007 through 2011 are adjusted for book purposes as requested by this Application, using the weighted average of the effective Kentucky tax rates for the years 2002 through 2006 (7.7% in this example). At the end of 2011, KU's deferred state tax reserve has been reduced to zero, and there is no remaining balance.

#### **KU's Proposed Treatment of Excess Deferred Taxes**

16. KU has established a regulatory liability for its excess deferred taxes caused by the reduction in the Kentucky corporate income tax rate. This regulatory liability is separated into two components: (i) protected excess deferred taxes (i.e., deferred taxes associated with depreciation related timing differences), and (ii) unprotected excess deferred taxes (i.e., deferred taxes not associated with depreciation related timing differences).

17. As of December 31, 2006, KU will record as a regulatory liability excess deferred state taxes of \$11,012,000 (\$10,863,000 protected; \$149,000 unprotected). The \$10,863,000 protected component of the excess deferred taxes is comparable to the \$11,028,000 estimate approved as part of the Commission's June 2005 order, reflecting 2005 and 2006 amortization

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<sup>2</sup> Modified Accelerated Cost Recovery System.

and other changes to activity estimated as part of the initial April 2005 application. The \$149,000 unprotected excess deferred state tax is the result of changes in 2005 and 2006 activity estimated as part of the initial April 2005 application. The journal entries to establish this regulatory liability are shown on Exhibit No. 2 attached to this Application. The current estimate of the Kentucky-related excess deferred income taxes is shown on Exhibit No. 3, including breakdowns between protected and unprotected excess deferred taxes and Kentucky and Other Jurisdiction components.

18. In accordance with KRS 141.010(13) and 141.050(1) and the KPSC's historical treatment, KU proposes for accounting purposes to flow back protected excess deferred state taxes in accordance with the average-rate assumption method. Under this method a weighted average tax rate is calculated and, as timing differences reverse, the accumulated deferred state taxes are credited to income at the weighted average rate, reducing the excess deferred state taxes to zero over the remaining life of the property. The weighted average rate is an historical composite tax rate used to provide deferred Kentucky income tax. It is the ratio of the cumulative deferred taxes (i.e., the balance in the deferred tax reserve immediately before the turnaround period) over the total remaining timing differences for which the deferred taxes were provided. This method produces fair, just and reasonable results because: (i) it matches the deferred taxes with the depreciation of the asset over the life of the applicable asset and equitably benefits both current and future customers and (ii) the ratepayer will obtain the benefit of the reversal of deferred taxes at the original rate at which the taxes were established. Furthermore, this method is consistent with Commission precedent and applicable U.S. Treasury guidelines.

19. As it did in Case No. 2005-00181, KU proposes to flow back the entire unprotected excess deferred state taxes in 2006. KU proposes this adjustment rather than the use

of an amortization period because KU's unprotected excess deferred state taxes are de minimis and it is administratively prudent to do so.

20. A table summarizing the flow back of protected and unprotected excess deferred taxes consistent with the methodologies implicit in this Application is shown on Exhibit No. 4 attached to this Application. KU will continue to make monthly journal entries subsequent to the initial journal entries until the entire net excess deferred taxes has been flowed back into regulated accounting income. The accounts impacted each month by the amortization of the excess deferred taxes are shown on Exhibit No. 4.

21. As the new tax rates become effective on January 1, 2007, KU respectfully requests that the Commission issue its order approving this Application by December 31, 2006.

**WHEREFORE**, Kentucky Utilities Company requests that the Commission enter an order no later than December 31, 2006, authorizing for accounting and reporting purposes the establishment of separate regulatory liabilities, including the related deferred tax gross-up, of \$10,863,000 and \$149,000 for the excess deferred taxes resulting from the new tax rates contained in KRS 141.040, to flow back through net income tax expense \$6,637,000 in protected deferred taxes using the average-rate assumption method, and to immediately reduce income tax expense by \$91,000 related to unprotected deferred taxes.

Respectfully submitted,



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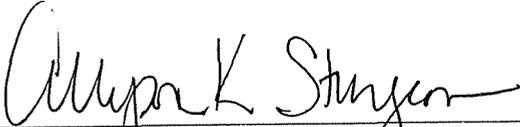


**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing Application was served by mailing a true and correct copy, via regular U.S. mail, to the following persons on the 27<sup>th</sup> day of October, 2006.

Michael L. Kurtz  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
Suite 2110  
Cincinnati, Ohio 45202

Elizabeth E. Blackford  
Assistant Attorney General  
Office of the Attorney General  
Office of Rate Intervention  
1024 Capital Center Drive, Suite 200  
Frankfort, Kentucky 40601-8204

  
\_\_\_\_\_  
Counsel for Kentucky Utilities Company



**Exhibit No. 1**

**KENTUCKY UTILITIES COMPANY**

**House Bill 272**

**Basic Illustration of Protected Excess Tax Deferral Created by HB 272**

<u>Year</u>	<u>Depreciation</u>				<u>KY Tax Rate</u>	<u>Deferred Tax</u>	
	<u>Tax</u>	<u>Book</u>	<u>Annual Difference</u>	<u>Cumulative Difference</u>		<u>Expense</u>	<u>Reserve Balance</u>
2002	\$1,500	\$1,000	\$500	\$500	8.25%	\$41.25	\$41.25
2003	2,200	1,000	1,200	1,700	8.25%	99.00	140.25
2004	2,100	1,000	1,100	2,800	8.25%	90.75	231.00
2005	2,100	1,000	1,100	3,900	7.00%	77.00	308.00
2006	2,100	1,000	1,100	5,000	7.00%	77.00	385.00
2007	0	1,000	(1,000)	4,000	6.00%	(77.00)	308.00
2008	0	1,000	(1,000)	3,000	6.00%	(60.00)	248.00
2009	0	1,000	(1,000)	2,000	6.00%	(60.00)	188.00
2010	0	1,000	(1,000)	1,000	6.00%	(60.00)	128.00
2011	0	1,000	(1,000)	0	6.00%	(60.00)	68.00
	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$0</u>				

**Protected Excess Tax Deferral: \$68.00**

Using the average-rate assumption method, the accumulated deferred state taxes are credited to income at a weighted average rate as timing differences reverse, reducing the excess deferred state taxes to zero over the remaining life of the property.

**Basic Illustration of Average-Rate Assumption Method**

<u>Year</u>	<u>Depreciation</u>				<u>KY Tax Rate</u>	<u>Deferred Tax</u>	
	<u>Tax</u>	<u>Book</u>	<u>Annual Difference</u>	<u>Cumulative Difference</u>		<u>Expense</u>	<u>Reserve Balance</u>
2002	\$1,500	\$1,000	\$500	\$500	8.25%	\$41.25	\$41.25
2003	2,200	1,000	1,200	1,700	8.25%	99.00	140.25
2004	2,100	1,000	1,100	2,800	8.25%	90.75	231.00
2005	2,100	1,000	1,100	3,900	7.00%	77.00	308.00
2006	2,100	1,000	1,100	5,000	7.00%	77.00	385.00
2007	0	1,000	(1,000)	4,000	7.70%*	(77.00)	308.00
2008	0	1,000	(1,000)	3,000	7.70%	(77.00)	231.00
2009	0	1,000	(1,000)	2,000	7.70%	(77.00)	154.00
2010	0	1,000	(1,000)	1,000	7.70%	(77.00)	77.00
2011	0	1,000	(1,000)	0	7.70%	(77.00)	0.00
	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$0</u>			<u>\$0</u>	

\* Deferred tax reserve balance of \$385 divided by the associated cumulative difference of \$5,000.



Exhibit No. 2

KENTUCKY UTILITIES COMPANY

Kentucky Corporate Income Tax Rate Reduction

Protected and Unprotected Deferred Taxes

Journal entries to record the Regulatory Liability as a result of Kentucky Corporate Income Tax rate decrease.

Protected

FERC Acct. No. 282 Deferred Income Tax Liability - State	\$10,863,000	
FERC Acct. No. 254 Regulatory Liability - State		\$10,863,000

Determined as follows:

State excess deferred tax of \$10,211,000 less federal effect of \$3,574,000 plus tax gross-up of \$4,226,000.  $[(10,211,000 - (35\% \times 10,211,000)) / (1 - 38.9\%) = 10,863,000]$

Unprotected

FERC Acct. No. 190/283 Deferred Income Tax Asset/Liability - State	\$149,000	
FERC Acct. No. 254 Regulatory Liability - State		\$149,000

Determined as follows:

State excess deferred tax of \$141,000 less federal effect of \$50,000 plus tax gross-up of \$58,000.  $[(141,000 - (35\% \times 141,000)) / (1 - 38.9\%) = 149,000]$



Exhibit No. 3

KENTUCKY UTILITIES COMPANY

Kentucky Corporate Income Tax Rate Reduction

Protected and Unprotected Deferred Taxes

Current estimate of Kentucky related excess/(deficiency) deferred income taxes between unprotected and the related changes to the regulatory (asset)/liability.

	(1) Estimated State Adjustment 12/31/2006	(2) Other	(3) Total	(4) Kentucky Jurisdictional	(5) Federal Effect 12/31/2006	(6) Other Jurisdictional	(7) Estimated Net Adjustment 12/31/2006	(8) Other Jurisdictional	(9) Total
<u>Unprotected</u>									
Pensions	39,000	6,000	45,000	(14,000)	(2,000)	(16,000)	25,000	4,000	29,000
Fuel Adjustment	109,000	16,000	125,000	(38,000)	(6,000)	(44,000)	71,000	10,000	81,000
Other	(25,000)	(4,000)	(29,000)	9,000	1,000	10,000	(16,000)	(3,000)	(19,000)
Total Non-Depreciation Related Excess Unprotected	123,000	18,000	141,000	(43,000)	(7,000)	(50,000)	80,000	11,000	91,000
<u>Protected</u>									
Depreciation Related	8,880,000	1,331,000	10,211,000	(3,108,000)	(466,000)	(3,574,000)	5,772,000	865,000	6,637,000
Total Unprotected and Protected	9,003,000	1,349,000	10,352,000	(3,151,000)	(473,000)	(3,624,000)	5,852,000	876,000	6,728,000
<u>Unprotected</u>									
Pensions	16,000	2,000	18,000	41,000	6,000	47,000			
Purchased Gas	45,000	7,000	52,000	116,000	17,000	133,000			
Other	(10,000)	(2,000)	(12,000)	(26,000)	(5,000)	(31,000)			
Total Non-Depreciation Related Excess Unprotected	51,000	7,000	58,000	131,000	18,000	149,000			
<u>Protected</u>									
Depreciation Related	3,675,000	551,000	4,226,000	9,447,000	1,416,000	10,863,000			
Total Unprotected and Protected	3,726,000	558,000	4,284,000	9,578,000	1,434,000	11,012,000			



Exhibit No. 4

KENTUCKY UTILITIES COMPANY

Kentucky Corporate Income Tax Rate Reduction

Protected and Unprotected Deferred Taxes

The following table summarizes the projected amortization of Kentucky excess/(deficiency) deferred income taxes and the related changes to the regulatory (asset) / liability.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012+</u>	<u>Total</u>
<u>Unprotected</u>								
Estimated Amortization of Non-Depreciation Related Deferred Excess - State	141,000							141,000
Federal Effect	<u>(50,000)</u>							<u>(50,000)</u>
Total Amortization	91,000							91,000
Tax Gross-up	<u>58,000</u>							<u>58,000</u>
Total Regulatory Liability	<u>149,000</u>							<u>149,000</u>
<u>Protected</u>								
Estimated Amortization of Depreciation Related Deferred Excess - State		556,000	609,000	621,000	621,000	621,000	7,183,000	10,211,000
Federal Effect		<u>(195,000)</u>	<u>(213,000)</u>	<u>(217,000)</u>	<u>(217,000)</u>	<u>(217,000)</u>	<u>(2,515,000)</u>	<u>(3,574,000)</u>
Total Amortization		361,000	396,000	404,000	404,000	404,000	4,668,000	6,637,000
Tax Gross-up		<u>230,000</u>	<u>252,000</u>	<u>257,000</u>	<u>257,000</u>	<u>257,000</u>	<u>2,973,000</u>	<u>4,226,000</u>
Total Regulatory Liability		<u>591,000</u>	<u>648,000</u>	<u>661,000</u>	<u>661,000</u>	<u>661,000</u>	<u>7,641,000</u>	<u>10,863,000</u>

Kentucky Utilities Company proposes to flow back the additional excess deferred state tax adjustment in the period ending December 31, 2006.

#### Exhibit No. 4

Amortization of the excess deferred taxes will be included as part of the Company's monthly tax provision entries. The amortization results from the reversal of deferred taxes associated with depreciation related temporary differences. The specific amount of the entries will differ period to period depending upon property additions, retirements, and other required adjustments occurring during the period. The following illustrates the debits and credits which will be made in connection with those adjustments:

##### Protected

FERC Acct. No. 282 Deferred Income Tax Liability - Federal and State	\$XXX,XXX
FERC Acct. No. 411 Deferred Income Tax Expense - Federal and State	\$XXX,XXX
FERC Acct. No. 254 Regulatory Liability - State	\$XXX,XXX
FERC Acct. No. 282 Deferred Income Tax Liability - State	\$XXX,XXX

##### Unprotected (2006 Only)

FERC Acct. No. 190/283 Deferred Income Tax Asset/Liability - Federal and State	\$XXX,XXX
FERC Acct. No. 410/411 Deferred Income Tax Expense - Federal and State	\$XXX,XXX
FERC Acct. No. 254 Regulatory Liability - State	\$XXX,XXX
FERC Acct. No. 190/283 Deferred Income Tax Asset/Liability - State	\$XXX,XXX