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Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

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COMMISSION

October 30, 2006

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. 2006-00456

Dear Ms. O'Donnell:

On October 27, 2006, Kentucky Utilities Company ("KU") filed an Application for approval of accounting treatment relating to income tax expense in the above-referenced proceeding. It has come to our attention that page 7 of the Application was included in the original filed with the Commission, but was inadvertently left out of the copies. Enclosed please find an original and ten (10) copies of page 7 of the Application for filing.

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

Sincerely,

Allyson K Sturgeon

Allyson K. Sturgeon

AKS/kmw
Enclosures

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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[2] Modified Acclerated Cost Recovery System.

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