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

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OCT 27 2006
PUBLIC SERVICE COMMISSION

Louisville Gas and Electric Company
State Regulation and Rates
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Louisville, Kentucky 40232
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Kent W. Blake
Director
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October 27, 2006

RE: *In the Matter Of:* *The Application Of Louisville Gas and Electric Company For An Order Approving The Accounting Treatment Relating To Income Tax Expense*

Case No. 2006-00457

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten (10) copies of Louisville Gas and Electric Company's Application in the above-referenced matter. Louisville Gas and Electric 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/REL

Kent W. Blake

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

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OCT 27 2006
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER APPROVING THE ACCOUNTING TREATMENT RELATING TO INCOME TAX EXPENSE	))))	**CASE NO. 2006-**00457

APPLICATION OF
LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E" 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, LG&E states as follows:

1. LG&E is a Kentucky corporation organized pursuant to Kentucky law. LG&E's post office address is P.O. Box 32030, Louisville, Kentucky 40232. LG&E is a utility as defined by KRS 278.010(3) (a) and (b), provides retail electric service to approximately 400,000 customers and retail gas service to approximately 300,000 customers in 17 counties in Kentucky, and is subject to this Commission's jurisdiction as to its retail rates and service. 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:

Allyson K. Sturgeon
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Counsel for Louisville Gas and Electric 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, LG&E 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 Louisville Gas and Electric Company for an Order Approving the Accounting Treatment Relating to Income Tax Expense for 2005 and Subsequent Years*, Case No. 2005-00180, the Commission approved LG&E'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 LG&E 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%

LG&E's Accounting for Deferred Tax Expense

10. LG&E 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), LG&E 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 LG&E 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 LG&E'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 LG&E 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).[1]

14. Exhibit No. 1 to this Petition shows an example of the depreciation-related mismatch between LG&E'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 LG&E 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[2] property. For book purposes, LG&E uses the straight-line method over a ten-year useful life. Because of the enactment of HB 272, LG&E 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 LG&E'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 LG&E's deferred tax reserve in years 2007 through 2011 are computed based on the effective tax rates for those years. Absent an adjustment to LG&E's normalization method of accounting for these

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[1] 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 Brandenbug 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 Tarifs 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).

timing differences, LG&E 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 LG&E's excess deferred state taxes using the average-rate assumption method. As shown in the second table, additions to LG&E'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 LG&E'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, LG&E's deferred state tax reserve has been reduced to zero, and there is no remaining balance.

LG&E's Proposed Treatment of Excess Deferred Taxes

16. LG&E 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, LG&E will record as a regulatory liability excess deferred state taxes of $17,791,000 ($17,618,000 protected; $173,000 unprotected). The $17,618,000 protected component of the excess deferred taxes is comparable to the $16,340,000 estimate approved as part of the Commission's June 2005 order, reflecting 2005 and 2006 amortization and other changes to activity estimated as part of the initial April 2005 application.

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[2] Modified Acclerated Cost Recovery System.

The $173,000 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 electric and gas components.

18. In accordance with KRS 141.010(13) and 141.050(1) and the KPSC's historical treatment, LG&E 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. 2005-00180, LG&E proposes to flow back the entire unprotected excess deferred state taxes in 2006. LG&E proposes this adjustment rather than the use of an amortization period because LG&E'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. LG&E 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 Jaunary 1, 2007, LG&E respectfully requests that the Commission issue its order approving this Application by December 31, 2006.

WHEREFORE, Louisville Gas and Electric 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 $17,618,000 and $173,000 for the excess deferred taxes resulting from the new tax rates contained in KRS 141.040, to flow back through net income tax expense $10,765,000 in protected deferred taxes using the average-rate assumption method, and to immediately reduce income tax expense by $106,000 related to unprotected deferred taxes.

Respectfully submitted,

Allyson K. Sturgeon

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Counsel for Louisville Gas and Electric Company

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, Ronald L. Miller, being duly sworn, deposes and says he is Director of Corporate Tax, Louisville Gas and Electric Company, and in this position has personal knowledge of the matters set forth in the foregoing Application, and the contents therein are true and correct to the best of his information, knowledge and belief.

Ronald L. Miller

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 27th day of October, 2006.

Notary Public (SEAL)

My Commission Expires:

TAMMY J. ELZY
NOTARY PUBLIC
STATE AT LARGE
KENTUCKY
My Commission Expires Nov. 9, 2006

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 27th 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

Allyson K Sturgeon
Counsel for Louisville Gas and Electric Company

Exhibit No. 1

LOUISVILLE GAS AND ELECTRIC COMPANY

House Bill 272

Basic Illustration of Protected Excess Tax Deferral Created by HB 272

	Depreciation					Deferred Tax	
Year	Tax	Book	Annual Difference	Cumulative Difference	KY Tax Rate	Expense	Reserve Balance
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
	$10,000	$10,000	$0				
				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 Averate-Rate Assumption Method

	Depreciation					Deferred Tax	
Year	Tax	Book	Annual Difference	Cumulative Difference	KY Tax Rate	Expense	Reserve Balance
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
	$10,000	$10,000	$0			$0	

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

Exhibit No. 2

LOUISVILLE GAS and ELECTRIC 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	$17,618,000	
FERC Acct. No. 254 Regulatory Liability - State		$17,618,000

Determined as follows:
State excess deferred tax of $16,561,000 less federal effect of $5,796,000 plus tax gross-up of $6,853,000. [(16,561,000 - (35% X 16,561,000)) / (1 - 38.9%) = 17,618,000]

Unprotected

FERC Acct. No. 190/283 Deferred Income Tax Asset/Liability - State	$173,000	
FERC Acct. No. 254 Regulatory Liability - State		$173,000

Determined as follows:
State excess deferred tax of $163,000 less federal effect of $57,000 plus tax gross-up of $67,000. [(163,000 - (35% X 163,000)) / (1 - 38.9%) = 173,000]

Exhibit No. 3

LOUISVILLE GAS and ELECTRIC 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)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Estimated State Adjustment 12/31/2006			Federal Effect 12/31/2006			Estimated Net Adjustment 12/31/2006		
	Electric	Gas	Total	Electric	Gas	Total	Electric	Gas	Total
Unprotected									
Pensions	50,000	12,000	62,000	(18,000)	(4,000)	(22,000)	32,000	8,000	40,000
Purchased Gas	0	116,000	116,000	0	(40,000)	(40,000)	0	76,000	76,000
Other	25,000	(40,000)	(15,000)	(9,000)	14,000	5,000	16,000	(26,000)	(10,000)
Total Non-Depreciation Related Excess Unprotected	75,000	88,000	163,000	(27,000)	(30,000)	(57,000)	48,000	58,000	106,000
Protected									
Depreciation Related	14,243,000	2,318,000	16,561,000	(4,985,000)	(811,000)	(5,796,000)	9,258,000	1,507,000	10,765,000
Total Unprotected and Protected	14,318,000	2,406,000	16,724,000	(5,012,000)	(841,000)	(5,853,000)	9,306,000	1,565,000	10,871,000

	(10)	(11)	(12)	(13)	(14)	(15)
	Tax Gross-Up 12/31/2006			Estimated Regulatory Liability 12/31/2006		
	Electric	Gas	Total	Electric	Gas	Total
Unprotected						
Pensions	20,000	5,000	25,000	52,000	13,000	65,000
Purchased Gas	0	48,000	48,000	0	124,000	124,000
Other	10,000	(16,000)	(6,000)	26,000	(42,000)	(16,000)
Total Non-Depreciation Related Excess Unprotected	30,000	37,000	67,000	78,000	95,000	173,000
Protected						
Depreciation Related	5,894,000	959,000	6,853,000	15,152,000	2,466,000	17,618,000
Total Unprotected and Protected	5,924,000	996,000	6,920,000	15,230,000	2,561,000	17,791,000

Exhibit No. 4

LOUISVILLE GAS and ELECTRIC 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.

Unprotected	2006	2007	2008	2009	2010	2011	2012+	Total
Estimated Amortization of Non-Depreciation Related Deferred Excess - State	163,000							163,000
Federal Effect	(57,000)							(57,000)
Total Amortization	106,000							106,000
Tax Gross-up	67,000							67,000
Total Regulatory Liability	173,000							173,000

Protected	2006	2007	2008	2009	2010	2011	2012+	Total
Estimated Amortization of Depreciation Related Deferred Excess - State		725,000	711,000	716,000	715,000	715,000	12,979,000	16,561,000
Federal Effect		(254,000)	(249,000)	(251,000)	(250,000)	(250,000)	(4,542,000)	(5,796,000)
Total Amortization		471,000	462,000	465,000	465,000	465,000	8,437,000	10,765,000
Tax Gross-up		300,000	294,000	296,000	296,000	296,000	5,371,000	6,853,000
Total Regulatory Liability		771,000	756,000	761,000	761,000	761,000	13,808,000	17,618,000

Louisville Gas and Electric 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:

<u>Protected</u>

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

<u>Unprotected (2006 Only)</u>

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