

## **LATE-FILED EXHIBIT No. 49**

### **SETTLEMENT OF AFUDC AND IRS ADJUSTMENTS ISSUES**

#### **AFUDC**

UE and the Staff agree that the current deduction of the interest portion of AFUDC, proposed by the Staff, should be allowed in computing income taxes during the third sharing period. UE and the Staff also agree that UE's calculation of the deferred tax provision associated with the interest portion of AFUDC should be unchanged for the determination of the credits during the third sharing period.

#### **IRS Adjustments**

UE and the Staff agree that the effects of the income tax adjustments resulting from audits of UE's 1978-1990 income tax returns by the Internal Revenue Service, which were booked in December 1997, should not be included in the calculation of UE's earnings for the determination of credits in the third sharing period.

UE agrees that the Staff shall have the right to address the appropriate regulatory treatment of such adjustments in a rate proceeding following the end of the second Experimental Alternative Regulatory Plan. Staff agrees that UE shall have the right to contest any proposal presented by the Staff related to these adjustments in any future rate proceeding, such as arguing that prior period adjustments should not be recognized in later periods, but UE agrees that it will not argue that the Staff's proposal should be rejected because (1) it violates the Stipulation And Agreement in Case No. ER-95-411 or the Stipulation And Agreement in Case No. EM-96-149, (2) it should have been raised, heard and decided no later than for the third sharing period of the Case No. ER-95-411 Experimental Alternative Regulation Plan, or (3) for the Commission to adopt the Staff's proposal would constitute retroactive ratemaking.

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