LAW OFFICES
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J. B. SCHNAPP
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DANIEL P. FALL

December 26, 1986

FILED
PUBLIC SERVICE COMMISSION

Mr. Harvey G. Hubbs
Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Re: Federal Income Tax Case No. AO-87-48

Dear Mr. Hubbs:

Enclosed for filing in the above-referenced matter, please find three (3) copies of a "Motion to Reduce Tariffs of Arkansas Power & Light Company Effective January 1, 1987, to Reflect Decreased Federal Income Tax Rates."

I have this date mailed a copy of the same to all parties of record.

Sincerely yours,

Robin E. Fulton

Robin E. Fulton

REF:alw

Enclosures

cc: All parties of record

RECEIVED
DEC 29 1986
MO. PUBLIC SERVICE COMM.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE

STATE OF MISSOURI

FILED
DEC 29 1986
PUBLIC SERVICE COMMISSION

| | | |
|---|---|---|
| In the matter of Arkansas Power & Light Company of Little Rock, Arkansas, for authority to file tariffs increasing rates for electric service provided to customers in the Missouri service area of the Company. | ) | Case No. ER-85-265 |

and

| | | |
|---|---|---|
| In the matter of the investigation of the revenue effects upon Missouri utilities of the Tax Reform Act of 1986. | ) | Case No. AO-87-48 |

MOTION TO REDUCE TARIFFS OF ARKANSAS POWER & LIGHT COMPANY EFFECTIVE JANUARY 1, 1987, TO REFLECT DECREASED FEDERAL INCOME TAX RATES

Come now ASARCO, Inc., and Doe Run Company, a general partnership and successor to St. Joe Minerals Corporation and AMAX Lead Company of Missouri, Inc., intervenors in this cause, by their attorneys, Robin E. Fulton and J. B. Schnapp, Fredericktown, Missouri, and hereby move this Commission to reduce Arkansas Power & Light Company (AP&L) tariffs for all rate classifications effective January 1, 1987, to reflect reduced federal income tax liabilities of AP&L pursuant to the Tax Reform Act of 1986, and in support of such motion, state to the Commission as follows:

1. That in Case No. ER-85-265, this Commission entered its Report and Order on April 24, 1986, authorizing AP&L to file new tariffs for the recovery of certain maximum revenues as set forth therein, said new tariffs to be effective May 4, 1986. This case

35.

is still open inasmuch as AP&L has filed numerous motions therein, including their most recent motion on or about December 12, 1986.

2. That AP&L, pursuant to the Commission's Report and Order, filed new tariffs reflecting the approved revenue requirement, which tariffs were placed into effect May 4, 1986.

3. That in October, 1985, the United States Congress passed the Tax Reform Act of 1986 (Public Law No. 99-514), which substantially altered the Internal Revenue Code. This act was subsequently signed and enacted into law by the President on October 22, 1986, subsequent to the effective date of AP&L's tariffs of May 4, 1986. This Act, among other things, decreased the top corporate tax rate from the current 46 percent to 34 percent beginning July 1, 1987, with a phased in tax rate of 40 percent for calendar year 1987. This decrease is effective subsequent to the effective date of the tariffs of AP&L. The Commission is hereby requested to take judicial notice of the effective date of the Tax Reform Act of 1986 and the actual rates provided for therein.

4. That in each of the individual rate classifications, i.e. General Purpose Residential Service (MRS) p. 1A; Optional Residential Time of Use (MRT) p. 2A; Small General Service (MSG) p. 3A; Large General Service (MLG) p. 5A; Large Power Service (MLP) p. 6A; Large Power Service--Time of Use (MPT) p. 7A; Municipal Street Lighting Service (ML1) p. 8C; Traffic Signal Service (ML2) p. 9A; All Night Outdoor Lighting Service (ML4) p. 10A; Cotton Ginning Service (MCG) p. 11A; and Community Antenna

TV Amplifier Service (MTV) p. 12A, there appears under the notation "Adjustments" the following language:

Adjustments

1. Taxes. The above rate shall be subject to an increase or decrease in proportion to the amount of new taxes or increased taxes which the Company may hereafter have to pay, which are levied or imposed, or increased, or decreased by laws or ordinances which are not in effect on and after the effective date of this Rate Schedule, provided, however, that this Adjustment shall only be applied when authorized by order of the Missouri Public Service Commission."

5. That such adjustment language clearly applies to an increase or decrease in income taxes and is in effect at the current time, and has been in effect for a numerous period of years.

6. That to the best of these intervenors' knowledge, no other utility has such broad all-encompassing language for tax adjustments in its tariffs. For example, Union Electric Company tariffs and Kansas City Power & Light Company tariffs respectively provide as follows:

Union Electric:

Tax Adjustment. Any license, franchise, gross receipts, occupation or similar charge or tax levied by any taxing authority on the amounts billed hereunder will be so designated and added as a separate item to bills rendered to customers under the jurisdiction of the taxing authority.

Kansas City Power & Light Company:

TAX ADJUSTMENT:

Tax adjustment Schedule TA shall be applicable to all customer billings under this schedule.

TAX ADJUSTMENT
Schedule TA

> There shall be added to the monthly bill of the customer, as separate items, a surcharge equal to the proportionate part of any license, occupation, or other similar fee or tax applicable to electric service by the Company to the customer, which fee or tax is imposed upon the Company by taxing authorities on the basis of the gross receipts, net receipts, or revenues from electric sales by the Company.

These adjustments are clearly with regard to local gross receipts taxes and as such are clearly authorized under the Missouri Supreme Court case of Hotel Continental v. Burton, 334 S.W.2d 75 (Mo. 1960).

7. The tax adjustment clause of AP&L as set forth in Paragraph 3 above, on the other hand, clearly applies to all taxes and not just locally imposed gross receipt taxes. There are no limitations to such locally imposed taxes as are found in the UE and KCP&L tariffs. It is clear that the AP&L tax adjustment clause includes federal income tax decreases or increases. It is equally clear that such a tax adjustment clause as AP&L's herein is enforceable inasmuch as it was set forth therein by AP&L and subsequently approved by the Commission and is authorized by Hotel Continental v. Burton, 334 S.W.2d 75 (Mo. 1960).

8. That in Case No. AO-87-46, the Commission ordered that all utilities in Missouri, including AP&L, file with the Commission the revenue requirement impact of the federal tax changes implemented by the Tax Reform Act of 1986 as to January 1, 1986, and January 1, 1987 and thereafter.

9. That pursuant to said Commission Order, AP&L did file, on or about December 15, 1986, its Report as to the revenue

requirement impact of the tax reductions. That report, submitted by Mr. Ralph H. Teed, Jr., Director of Rates and Research of AP&L, stated that effective January 1, 1987, the tax savings to Missouri and the associated decrease in revenue requirement for Missouri operation would be $864,000.00 in tax savings and $273,000.00 in excess deferred tax balance, for a total decrease in revenue requirements of $1,137,000.00 for 1987. This would constitute a 2.3 percent reduction in the revenue requirement ($49,327,000.00 retail revenue requirement divided by $1,137,000.00 tax savings). Mr. Teed asserts that the decrease in revenue requirements for 1988 would be $2.49 million, consisting of $1.65 million in tax savings and $840,000.00 in excess deferred tax balance. All of these figures are based on the use of the average and peak allocation method.

10. That in the filing of AP&L, Mr. Teed, in his letter on page 2 stated:

> There have been no significant cost changes between December, 1985, and June, 1986, which would impact the level of the tax savings.
>
> . . .
>
> By the same token, there will be no cost changes between June, 1986, and December, 1986, which could significantly change the extimated tax changes.

Therefore, by the admission of AP&L, there are no other changes which would affect the tax savings, and by implication, the revenue requirements of AP&L for its Missouri operations.

11. It is therefore appropriate that this Commission reduce the tariffs of AP&L now in effect so as to reflect the tax

savings and the associated decrease in the revenue requirement. As indicated supra, this decrease is necessitated by the following:

a. The tariff "adjustment" language necessitates the decrease.

b. AP&L's admission in its filing that there have been no other cost changes since the last case.

The landmark case of State ex rel. Utility Consumers Council of Missouri, Inc., v. Public Service Commission, 585 S.W.2d 41 (Mo. banc. 1979) is not a bar to this Commission's decreasing AP&L's tariffs to reflect the decrease in the revenue requirements for two reasons:

First, this involves a tax adjustment clause, the affect and use of which was approved in Hotel Continental v. Burton, supra.

Second, the UCCM court was concerned that the allowance of a fuel adjustment clause allowed rate increases (and/or decreases) while ignoring or disregarding all other costs of the utility. In this case, however, AP&L, through Mr. Teed, has admitted that the other costs have remained constant since the last rate case.

Therefore, UCCM does not act to prohibit the Commission from decreasing the rates effective January 1, 1987, to reflect the decrease in AP&L's revenue requirements resulting from the tax savings.

12. The next question then to be answered is, How much should the rates be decreased? AP&L in its filing asserts that the revenue requirement for 1987 will decrease approximately $1.137 million or 2.3 percent for 1987. After a review of the

workpapers, however, it is clear that the decrease in the revenue requirement is, in fact, much more than that asserted by AP&L. This assertion is based upon the following:

a. The calculation by AP&L includes a rebate on non-depreciated related accumulated deferred income taxes. This refers to taxes that are collected from Missouri rate payers by AP&L but are not paid until much later. These taxes previously were collected at the 46 percent tax rate, but during 1987 will be paid at the 40 percent tax rate. This results in a decrease of $272,372.00 for 1987. However, AP&L wishes to continue to accumulate these deferred income taxes at the 40 percent rate during 1987 when it will be actually paying the same at 1988 (and thereafter) income tax rates of 36 percent. Obviously, this is improper and AP&L should not collect any more taxes than what they will actually be paying. This results in an additional decrease of revenue requirement of approximately $622,000.00, which together with the 1987 rebate amounts to $895,000.00. See Schedule 1, pages 1 and 2, and Schedule 2, page 2 of 3, for the calculation of this figure. It should be noted that the correct refund conversation factor to be utilized is 1.7194 and not the 1.5679 utilized by AP&L, for the reason that the rebate becomes effective January 1, 1987.

Thus as indicated in Schedule 1 and in Schedule 2, page 2 of 3, the reduction in rates with this modification from AP&L's filing amounts to 3.57 percent as opposed to AP&L's calculation of 2.3 percent, which ignores the deferred income taxes being collected during 1988. (Compare Teed's letter dated December 15, 1986, with attached exhibit "Arkansas Power & Light Company, Non-Depreciation Related Accumulated Deferred Income Tax" with Schedule 1, pages 1 and 2, and Schedule 2, page 2 of 3.)

b. Additionally, AP&L's filing fails to take into any consideration whatsoever that the billed cost of Grand Gulf will be decreasing also as a result of the Tax Reform Act of 1986.

As this Commission is well aware, the FERC-mandated Grand Gulf costs are billed on a formula rate, one of the calculations being the federal income tax rate. See, FERC Opinion No. 234. The actual calculation of the Grand Gulf income tax expense is calculated on a formula set forth in Exhibit 118, Testimony of Michael Bemis, Schedule MBB-13, pages 18 and 19 of 19, in this case, copies of which are attached hereto. In addition, attached hereto is Schedule DWM-2, page 1 of 1, and DWM-1, pages 1 and 2 of 2, which set forth the actual calculation of billings and taxes on Grand Gulf, from Mid-South Energy to AP&L. These schedules were attached to the testimony of Mr. Meyer in the interim rate case, ER-86-52.

In Schedule 2, page 3 of 3, we have calculated an estimated reduction in Grand Gulf purchased power expense. As indicated therein, the reduction in Grand Gulf expenses to AP&L for the Missouri jurisdiction for 1987 would be approximately $537,000.00. Of course, in 1988, the Grand Gulf expense would decrease an additional sum, the amount of which we have not calculated.

The total reduction in the revenue requirement when taking into consideration the decrease in Grand Gulf costs and subparagraph (a) above, would be $2.296 million or a 4.65 percent reduction. This calculation is set forth in Schedule 2, page 1 of 3, attached hereto.

13. As indicated earlier, AP&L's filing was based upon the use of the average and peak jurisdictional allocation methodology. Inasmuch as the Commission's Report and Order in this case utilized the single coincidental peak (1CP) method, the correct method to be used to determine the decrease in rates for the decrease in taxes would be 1CP. However, AP&L did not, in their filing of December 15, 1986, disclose the data necessary to calculate the 1CP factor. Therefore, all calculations have been based on the average and peak method. This Commission should order AP&L to file additional data on the taxes based on the 1CP method using data on the year ending December 31, 1986.

14. These intervenors assert that the Commission should and must enter its order requiring AP&L to file new tariffs reflecting the decrease in the revenue requirement as a result of the federal income tax decrease effective January 1, 1987. These Intervenors believe the appropriate amount of decrease should be the $2.296 million or 4.65 percent calculated in Schedule 2. This amount is in line with the 6 percent decrease of phase-in rates in Arkansas that resulted as a result of the tax law changes. <u>See</u>, "Electric Utility Week," August 11, 1986. Alternatively, inasmuch as these Intervenors' calculations on the decrease in Grand Gulf costs are educated estimates, the Commission should decrease rates by the $1.759 million or 3.57 percent set forth in Schedule 1, and to have an immediate hearing with the sole issue

to be determined being the amount by which Grand Gulf expenses will decrease as a result of the tax law changes. As a third alternative, the Commission should order an interim decrease based upon these Intervenors' Schedule 2 of 4.65 percent and have a hearing as soon as possible. The sole issue of that hearing would be to determine the final amount of the appropriate decrease in tariffs resulting from the tax law changes. The Commission prior to the hearing should order AP&L to file schedules and workpapers indicating the effect of the Tax Reform Act of 1986 on the test year utilized in the last rate case using the methodologies and adjustments ordered by the Commission in its April 24, 1986, Report and Order. The appropriateness of this procedure is established by Mr. Teed's admission and confirmation in his December 15, 1986, letter that there have been no other changes in revenue requirements other than income taxes.

15. There is no requirement under Missouri law that there be a thirty (30) day waiting period prior to the effective date of the rate decrease, inasmuch as the tariffs on file require an <u>immediate</u> decrease in rates, and no harm will result to any interested person, particularly the Missouri rate payers of AP&L, due to the fact that a rate decrease is at issue and not a rate increase.

16. The rate decrease ordered should be applied to each rate class equally for the same reasons that the Commission in this case ordered all classes to share the increase equally.

WHEREFORE, for the foregoing reasons, these Intervenors move the Commission to decrease AP&L's tariffs by 4.65 percent for all rate classes equally, effective January 1, 1987, to reflect the decrease in the revenue requirements resulting from the Tax Reform Act of 1986, or effectuate one of the alternatives set forth in Paragraph 13 above; and for such other and further relief as to the Commission seems just and proper.

Respectfully submitted,

SCHNAPP, GRAHAM, REID & FULTON

By: [signature]
Robin E. Fulton #29513
135 East Main Street
Fredericktown, Missouri 63645
314-783-7212
Attorney for Intervenors
ASARCO, Inc., and
Doe Run Company

**PROOF OF SERVICE**

THE UNDERSIGNED CERTIFIES THAT A COMPLETE COPY OF THIS INSTRUMENT WAS SERVED UPON THE ATTORNEY OF RECORD OF EACH PARTY TO THE ABOVE BY ACTUALLY ENCLOSING THE SAME IN ENVELOPES ADDRESSED TO SAID ATTORNEYS AT THEIR BUSINESS ADDRESS AS DISCLOSED BY THE PLEADINGS OF RECORD HEREIN, WITH FIRST-CLASS POSTAGE FULLY PREPAID, AND BY DEPOSITING SAID ENVELOPES IN A U. S. POST OFFICE MAIL BOX

IN FREDERICKTOWN, MISSOURI ON THE 26th DAY OF December A.D. 19 86

[signature] OF

SCHNAPP, GRAHAM & REID
135 EAST MAIN
FREDERICKTOWN, MISSOURI

ARKANSAS POWER & LIGHT COMPANY

1987 Rate Reduction to
Reflect Tax Savings
(Test Year Ended June, 1986)

| Line | Description | Amount (000) |
|---|---|---|
| 1 | AP&L Test Year Revenue Requirement | $49,327 |
| 2 | APL Tax Savings | $ 864 |
| 3 | Non-Depreciaton-Related Deferred Tax Reduction | 895 |
| | Total Reduction: | |
| 4 | Amount | $ 1,759 |
| 5 | Percent | 3.57% |

# ARKANSAS POWER & LIGHT COMPANY

## Non-Depreciaton-Related Accumulated Deferred Income Tax

| Line | Description | Interest Cap on Nuclear Fuel (1) | Missouri Retail (2) | Total (3) |
|---|---|---|---|---|
| 1 | Year-End 1986 Tax to be Turned Around | $15,642 | $158,411 | $173,873 |
| 2 | Year-End 1987 Tax to be Turned Around | 0 | 361,648 | 361,648 |
| 3 | Total Tax to be Turned Around | $15,642 | $520,059 | $535,521 |
| 4 | Refund Amount - 1987 Revenue Conversion Factor 1.7194 | 26,585 | 894,189 | 920,774 |
| 5 | Missouri Allocation Factor | .0367 | 1.000 | - |
| 6 | 1987 Missouri Rate Reduction Amount | $ 976 | $894,189 | $895,165 |

ARKANSAS POWER & LIGHT COMPANY

1987 Rate Reduction to
Reflect Tax Savings
(Test Year Ended June, 1986)

| Line | Description | Amount (000) |
|---|---|---|
| 1 | AP&L Test Year Revenue Requirement | $49,327 |
| 2 | APL Tax Savings | $ 864 |
| 3 | Non-Depreciaton-Related Deferred Tax Reduction | 895 |
| 4 | Tax Savings in Grand Gulf Purchased Power Expense | 537 |
| | Total Reduction: | |
| 5 | Amount | $ 2,296 |
| 6 | Percent | 4.65% |

# ARKANSAS POWER & LIGHT COMPANY

## Non-Depreciaton-Related Accumulated Deferred Income Tax

| Line | Description | Interest Cap on Nuclear Fuel (1) | Missouri Retail (2) | Total (3) |
|---|---|---|---|---|
| 1 | Year-End 1986 Tax to be Turned Around | $15,642 | $158,411 | $173,873 |
| 2 | Year-End 1987 Tax to be Turned Around | 0 | 361,648 | 361,648 |
| 3 | Total Tax to be Turned Around | $15,642 | $520,059 | $535,521 |
| 4 | Refund Amount - 1987 Revenue Conversion Factor 1.7194 | 26,585 | 894,189 | 920,774 |
| 5 | Missouri Allocation Factor | .0367 | 1.000 | - |
| 6 | 1987 Missouri Rate Reduction Amount | $ 976 | $894,189 | $895,165 |

ARKANSAS POWER & LIGHT COMPANY

Estimated Reduction in Grand Gulf
Purchased Power Expense

| Line | Description | Amount (000) |
|---|---|---|
| 1 | Year Ended June 1986 Grand Gulf Purchased Power Expense[1] | $346,225 |
| 2 | Tax Reduction Effect @ 5% | 17,311 |
| 3 | Missouri Allocation Factor per AP&L Tax Filing | .0310 |
| 4 | 1987 Missouri Rate Reduction Amount | $ 537 |

(1) AP&L jurisdiction cost-of-service studies filed December 15, 1986, Page 19-1, Line 4.

Magri T&E
dated 9/18/85
ER-86-52

MIDDLE SOUTH ENERGY, INC.

Jackson, Miss. August 7, 1985

TO: Mr. [illegible] King
Arkansas Power & Light

| | |
|---|---|
| To bill you for cost of service for July, 1985 | 32,828,153.26 |

MIDDLE SOUTH ENERGY, INC.
COST OF SERVICE
JULY, 1985
GRAND GULF UNIT I

## OPERATING EXPENSES

| | | | |
|---|---|---|---|
| OPERATION EXPENSES: | | | |
| FUEL EXPENSE (ACCOUNT 518) | | $ | 6,771,981.55 |
| OTHER OPERATION EXPENSES (ACCOUNTS 517, 519-535, 536, 537, 560-567, 901-905, 920-931) | | | 7,372,498.60 |
| MAINTENANCE EXPENSES (ACCOUNTS 528-532, 568-573, 932) | | | 2,137,091.75 |
| DEPRECIATION EXPENSE (ACCOUNT 403) - SCHEDULE A | | | 9,140,195.57 |
| DECOMMISSIONING EXPENSE (ACCOUNT 403)* | | | 92,765.67 |
| AMORTIZATION EXPENSES (ACCOUNTS 404-407) | | | 0.00 |
| TAXES OTHER THAN INCOME TAXES (ACCOUNT 408.1) | | | 1,267,040.00 |
| TAXES - INCOME (ACCOUNTS 409.1, 409.3, 410.1, 411.1 AND 411.4) | | | 19,122,699.77 |
| GAINS/LOSSES FROM DISPOSITION OF UTILITY PLANT (ACCOUNTS 411.6-411.7) | | | 0.00 |
| TOTAL OPERATING EXPENSES | | $ | 45,904,272.91 |
| **ADJUSTMENT OF PRIOR BILLINGS - SCHEDULE E** | | | |
| OPERATING EXPENSES AS BILLED | $ | 0.00 | |
| OPERATING EXPENSES ACTUAL | | 0.00 | 0.00 |
| **RETURN ON NET UNIT INVESTMENT - SCHEDULE B** | | | 45,285,041.69 |
| **TOTAL COST OF SERVICE** | | $ | 91,189,314.60 |

* THE MONTHLY DECOMMISSIONING EXPENSE FOR GRAND GULF UNIT 1 IS $92,765.67. DECOMMISSIONING FUNDS WILL BE DEPOSITED MONTHLY IN AN EXTERNAL SINKING FUND UNDER THE CONTROL OF AN INDEPENDENT TRUSTEE.

ARKANSAS POWER & LIGHT COMPANY
ESTIMATED COST OF SERVICE-GRAND GULF 1
(THOUSANDS OF DOLLARS)

| 1 | | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2 | COST OF SERVICE | | | | | | | | | | | | | |
| 3 | OPERATING EXPENSES | | | | | | | | | | | | | |
| 4 | NUCLEAR FUEL EXPENSE | 5612 | 5571 | 5331 | 5367 | 5229 | 5407 | 5379 | 4789 | 5268 | 5073 | 5147 | 5010 | 63183 |
| 5 | OTHER OPERATING EXPENSE | 6725 | 6785 | 6583 | 6605 | 6617 | 6663 | 7408 | 7408 | 7408 | 7408 | 7408 | 7408 | 84844 |
| 6 | MAINTENANCE EXPENSE | 2388 | 2487 | 2234 | 2404 | 2390 | 2359 | 2626 | 2626 | 2626 | 2626 | 2626 | 2626 | 30018 |
| 7 | DEPRECIATION EXPENSE(EXCL. | | | | | | | | | | | | | |
| 8 | DECOMMISSIONING EXP.) | 7492 | 7480 | 7214 | 7313 | 7174 | 7419 | 7482 | 6708 | 7432 | 7208 | 7366 | 7222 | 87160 |
| 9 | TAXES OTHER THAN INCOME | 1465 | 1465 | 1465 | 1465 | 1465 | 1410 | 2751 | 2751 | 2751 | 2751 | 2751 | 2751 | 25296 |
| 10 | DECOMMISSIONING EXPENSE | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 1116 |
| 11 | AMORTIZATION EXPENSE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | GAIN/LOSS- | | | | | | | | | | | | | |
| 13 | DISPOSAL OF PLANT | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | SUB-TOTAL | 23773 | 23469 | 22920 | 23447 | 22968 | 23676 | 25739 | 24375 | 25978 | 25139 | 25391 | 25110 | 292038 |
| 15 | INCOME TAXES- | | | | | | | | | | | | | |
| 16 | FROM SCHEDULE 9 | 18614 | 18575 | 18537 | 17833 | 17710 | 18157 | 18502 | 17662 | 17984 | 18726 | 18185 | 18037 | 218542 |
| 17 | TOTAL OPERATING EXPENSE | 42387 | 42404 | 41477 | 41280 | 40678 | 41833 | 44241 | 42037 | 43962 | 43865 | 43576 | 43147 | 510067 |
| 18 | RETURN ON NET UNIT | | | | | | | | | | | | | |
| 19 | INVESTMENT-FROM | | | | | | | | | | | | | |
| 20 | SCHEDULE 8 | 44824 | 44350 | 44174 | 44048 | 44891 | 44575 | 44264 | 43986 | 43790 | 43581 | 43313 | 43048 | 540841 |
| 21 | TOTAL COST OF SERVICE | 87211 | 86814 | 87651 | 87328 | 87569 | 86408 | 90505 | 86023 | 87752 | 86966 | 86889 | 86195 | 1050908 |

| | | |
|---|---|---|
| 22 | TOTAL COST OF SERVICE | 1050908 |
| 23 | LESS:NUCLEAR FUEL EXPENSE | -63183 |
| 24 | | 987725 |
| 25 | % AP&L ALLOCATION | 36% |
| 26 | AP&L SHARE | 355581 |

AP&L Schedule DWM-2

# MIDDLE SOUTH ENERGY, INC.
## INCOME TAX EXPENSE
## MONTH 198X

| Current Income Tax Expense | Formula Description | |
|---|---|---|
| | Operating Expenses (excluding income taxes) | $ |
| | - Income Tax Deductions | |
| | + Deferred Tax Provisions | |
| | - Return on Net Unit Investment (Debt Component) | |
| | + Total Return on Net Unit Investment | |
| | - ITC Amortization | |
| | - State Income Taxes | |
| | = Taxable Income | $ |
| | X Tax Rate / (1-tax rate) | |
| | = Income Taxes before ITC Provision | $ |
| | - ITC Provision | |
| | = Current Federal Income Taxes | $ |

Deferred Income Tax Expense

| Description | (1) Operating Expenses | (2)1/ Adjustment For Permanent Differences | (3) Operating Expenses As Adjusted | (4)1/ Timing Differences | (5) Income Ta[x] Deductio[ns] |
|---|---|---|---|---|---|
| Fuel Expense | $ | $ | $ | $ | $ |
| Other Operations Expense | | | | | |
| Maintenance Expense | | | | | |
| Depreciation Expense | | | | | |
| Decommissioning Expense | | | | | |
| Taxes Other than Income Taxes | | | | | |
| [Ta]xes Capitalized Per Books | | | | | |
| | $ | $ | $ | | $ |
| Deferred State Income Tax Provision | | | | | |
| Net Timing Differences | | | | $ | |
| Deferred Federal Income Tax Provision | | | | $ | |

| Summary: | | |
|---|---|---|
| | Current Tax Expense | $ |
| | Deferred Tax Expense | |
| | ITC Provision | |
| | ITC Amortization | |
| | Total Income Taxes | $ |

1/ Supporting calculations follow on page 2 of 2. These columns will include such amounts as are necessary to comply with the FERC's normalization rules under Order Nos. 144 and 144-A, and with normalization rules under the Internal Revenue Code.

# MIDDLE SOUTH ENERGY, INC.
## INCOME TAX EXPENSE
## (CONTINUED)
## MONTH 198X

**Deferred Income Tax Expense Supporting Calculations**

**Permanent Differences:**

| | |
|---|---|
| Depreciation of AFUDC - $ | |
| Tax Basis of Unit #1 | $ |
| Taxes Capitalized Per Books | ______ |
| Basis for Deferred Tax Calculation | $______ |
| Book Basis | $______ |
| Ratio of Basis for Deferred Tax Calculations to Book Basis: | % |
| Book Depreciation of Basis for Deferred Tax Calculation | $ |
| Book Depreciation | (______ |
| Depreciation of AFUDC | $______ |

**Timing Differences**

| | |
|---|---|
| Fuel Expense - $ | $ |
| Tax Depreciation of Nuclear Fuel | $ |
| Interest Expense in Book Fuel Expenses | |
| Nuclear Fuel-Expense Per Books | (______ |
| Excess | $______ |
| Depreciation Expense - $ | |
| Tax Depreciation of Unit I | $ |
| Depreciation of Basis for Deferred Tax Calculation | (______ |
| Excess | $______ |
| Decommissioning Expense - $ | |
| Tax Deduction for Accrued Decommissioning Expenses | $ |
| Book Accrual for Decommissioning Expenses | (______ |
| Excess | $______ |
| Taxes Capitalized - $ | |
| Tax Deduction for Taxes Capitalized Per Books | $ |
| Tax Capitalized Per Books | (______ |
| Excess | $______ |