



ST. LOUIS COUNTY WATER CO. • 535 North New Ballas Road • St. Louis, Mo 63141 (314) 991-3404

December 15, 1986

The Honorable Daniel J. Redel
Acting Secretary
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Re: P.S.C. Case No. AO-87-48

Dear Secretary Redel:

Pursuant to Order AO-87-48 requiring utilities to report the effects of the Tax Reform Act of 1986 (ACT), I am providing an original and fourteen copies of this document and the following attachments:

DESCRIPTION	EXHIBIT NO.	
	1987 TAX RATES	1988 TAX RATES
1985 Statement of Operations unadjusted and adjusted for ACT effect	87-1	88-1
Calculation of 1985 Taxable Income unadjusted and adjusted for ACT effect	87-2	88-2
Calculation of 1985 Current and Deferred Income Tax Provisions unadjusted and adjusted for ACT effect	87-3	88-3
1985 Revenue Requirement calculation unadjusted and adjusted for the ACT effect	87-4	88-4
Analysis of Adjustments to reflect effect of the ACT on 1985	87-5	88-5
Calculation of Flowback of Excess Accumulated Deferred Income Taxes	87-6	88-6

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PUBLIC SERVICE COMMISSION

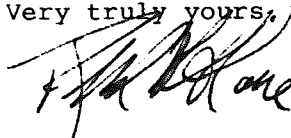
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EXHIBIT NO.

<u>DESCRIPTION</u>	<u>1987 TAX RATES</u>	<u>1988 TAX RATES</u>
Calculation of Advance Multiplier and Tax Depreciation based on Taxation of Contributions and Advances in Aid of Construction	87-7	88-7
Comments Re Recognition of Revenue Effect of the ACT		8

The Company plans to reflect the impact of the ACT on its 1987 operations in the rate case (WR-87-2) currently in progress.

Very truly yours,



RICHARD T. CIOTTONE
Vice President &
General Counsel

ST LOUIS COUNTY WATER COMPANY
P. S. C. CASE NO. AD-87-48

	Per Books YE 1985 1985 Rates	1986 Adj'ts	Notes	Per Books YE 1985 1986 Rates	1987 Adj'ts	Notes	Per Books YE 1985 1987 Rates
<u>Statement of Operations:</u>							
Operating Revenue	46,366,227			46,366,227			46,366,227
Operating Expenses							
Operations	18,574,819			18,574,819			18,574,819
Maintenance	5,158,064			5,158,064			5,158,064
Depreciation	2,833,949			2,833,949			2,833,949
Current Income Tax	1,717,786	1,652,382		3,370,088	1,566,425		4,936,513
Deferred Income Tax	2,822,342	(1,644,222)		1,178,120	(251,085)		927,115
Other Taxes	3,047,975			3,047,975			3,047,975
Total Operating Expense	34,154,935	8,000		34,163,015	1,315,420		35,478,435
Net Operating Income	12,211,292	(8,000)		12,203,212	(1,315,420)		10,887,792
Other Income (Expense)							
Interest Expense	(6,027,615)			(6,027,615)			(6,027,615)
Int Chgd to Const	430,618			430,618			430,618
Other, Net	(39,113)			(39,113)			(39,113)
Total	(5,636,110)			(5,636,110)	0		(5,636,110)
Net Income	6,575,182	(8,000)		6,567,102	(1,315,420)		5,251,682

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AO-87-48

	Per Books YE 1985 1985 Rates	1986 Adj'ts	Notes	Per Books YE 1985 1985 Rates	1987 Adj'ts	Notes	Per Books YE 1985 1985 Rates
TAXABLE INCOME:							
Net Operating Income	12,211,292	(8,000)		12,203,212	(1,315,420)		10,887,792
Income taxes	4,540,128	8,000		4,540,208	1,315,420		5,863,628
Pre Tax Income	16,751,420			16,751,420	0		16,751,420
ADJUSTMENTS:							
Interest on Ltd	(6,179,505)			(6,179,505)	430,618 (A)		(5,748,887)
Amortization of Debt Exp	(35,399)			(35,399)			(35,399)
Other Interest Charges	187,289			187,289			187,289
Ordinary loss ACRS	(182,255)			(182,255)			(182,255)
Corp over PSC Depreciation	(12,434)			(12,434)			(12,434)
A&G Expenses Capitalized	(805,875)			(805,875)	805,875 (B)		0
Addl Deprec Normalized	(322,622)			(322,622)	(8,949) (C)		(331,571)
Addl Deprec Tax	(2,699,329)			(2,699,329)	224,690 (C)		(2,474,639)
Deferred Comp Paid	(14,250)			(14,250)			(14,250)
Rate Case Exp	(27,043)			(27,043)			(27,043)
Rate Case Exp-Dep Study	(67,214)			(67,214)			(67,214)
Removal Cost on ADR	(20,020)			(20,020)			(20,020)
Deferred Comp Accrued	5,700			5,700			5,700
Salvage Ordinary Gain ACRS	45,532			45,532			45,532
Salvage Ordinary Gain ADR	10			10			10
Deduction to Maint HDE	(130)			(130)			(130)
Deprec " Old Co" Promoters	1,694			1,694			1,694
Gain on A T & HDE	7,044			7,044			7,044
Norm Deprec ACRS A T & HDE	310,163			310,163			310,163
Int Chrg to Structure	84,009			84,009	(84,009) (A)		0
Rate Case Expense Amortized	0			0	0		0
Amort-Int Chrgd Const- Struct	(10,133)			(10,133)	8,400 (A)		(1,733)
Non-Deductible Meals	0			0	6,167 (D)		6,167
Amort of Unbilled Revenue	0			0	1,475,858 (E)		1,475,858
Amort of Reserve for Bad Debts	0			0	36,773 (F)		36,773
Bad Debt Expense	0			0	(15,663) (G)		(15,663)
Contributions/Advances In Aid	0			0	6,400,325 (H)		6,400,325
Tax Depreciation on CIAC	0			0	(171,070) (I)		(171,070)
Total Adjustments	(9,654,768)			(9,654,768)	9,117,015		(537,753)
Taxable Income	7,096,652			7,096,652	9,117,015		16,213,667

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AQ-67-48

	Per Books YE 1985 1985 Rates	1986 Adj'ts	Notes	Per Books YE 1985 1985 Rates	1987 Adj'ts	Notes	Per Books YE 1985 1987 Rates
CURRENT & DEFERRED INCOME TAX EXPENSE:							
Taxable Income	7,096,652			7,096,652	9,117,015		16,213,667
State Tax Calc							
Factor	2.700%			2.700%			3.000%
State Tax	191,610			191,610	294,800		486,410
State Neighborhood ass't Cr	(12)			(12)	2		(10)
Invest Tax Credit	83,060	(83,060)		0	0		0
R & D Credit	1,896	(1,896)		0	0		0
Total	276,562	(84,964)		191,598	294,802		486,400
Factor	97.700%			97.700%			98.000%
Total	283,073	(86,965)		196,108	300,219		496,327
State Neighborhood ass't Cr	(500)			(500)			(500)
Current State Tax	282,573	(86,965)		195,608	300,219		495,827
Federal Tax Calc							
Federal Taxable Income	6,814,079	86,965		6,901,044	8,816,796		15,717,840
Rate	46.00%			46.00%			48.000%
Total	3,134,476	40,004		3,174,480	3,112,656		6,287,136
Invest Tax Credit	(1,661,350)	1,661,350 (A)		0			0
R & D Credit	(37,913)	37,913 (B)		0			0
Alternate Min Tax	0			0			0
Current Federal Tax	1,435,213	1,739,267		3,174,480	3,112,656		6,287,136
Tax Received From Developers	0			0	(1,846,450) (C)		(1,846,450)
Total Current Income Tax	1,717,786	1,652,382		3,370,000	1,566,425		4,936,513
Deferred Tax Calc							
Tax Depr Over Normalized	2,699,329			2,699,329	(224,690) (D)		2,474,639
Deferred Compensation	8,550			8,550	0		8,550
Together	2,707,879			2,707,879	(224,690)		2,483,189
Marginal Rate	47.492323%			47.492323%			41.8367%
Deferred Income Tax	1,286,035			1,286,035	(247,151)		1,038,884
Invest Tax Credit	1,661,350	(1,661,350) (A)		0	0		0
Amort of ITC	(125,043)	17,128 (A)		(107,915)			(107,915)
Amort of Excess Reserve					(3,854) (E)		(3,854)
Total Deferred Income Tax	2,822,342	(1,644,222)		1,178,120	(251,005)		927,115

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AO-87-48

	Per Books YE 1985 1985 Rates	1986 Adj'ts	Notes	Per Books YE 1985 1985 Rates	1987 Adj'ts	Notes	Per Books YE 1985 1987 Rates
REVENUE REQUIREMENT:							
Plant In Service	216,273,572			216,273,572			216,273,572
Promoters Advances	(19,866,992)			(19,866,992)			(19,866,992)
Contributions In Aid	(15,162,888)			(15,162,888)			(15,162,888)
Accumulated Depreciation	(46,187,652)			(46,187,652)			(46,187,652)
Deferred Income Tax Payable	(9,848,845)			(9,848,845)	251,885	(A)	(8,797,848)
Working Capital Materials	1,864,488			1,864,488			1,864,488
Cash Working Capital	2,325,240			2,325,240			2,325,240
Original Cost Rate Base	138,277,795			138,277,795	251,885		138,528,880
Cost of Capital	10.82%			10.82%			10.82%
Earnings Required	14,896,857			14,896,857	27,159		14,123,216
Earnings Available	12,211,292	(8,888)		12,203,212	(1,315,428)		10,887,792
Earnings Deficiency	1,884,765	8,888		1,892,845	1,342,579		3,235,424
Income Tax Factor	1.9045			1.9045			1.7193
Revenue Required	3,589,535	15,388		3,604,923	1,957,741		5,562,664

ST LOUIS COUNTY WATER COMPANY

P.S.C. CASE NO. AD-87-48

EXPLANATION OF ADJUSTMENTS - TAXABLE INCOME:

- (A) To reflect the capitalization of interest charges which have previously been expensed for tax purposes

Interest Charged to Construction	438,618	
Interest Charged to Structures	(84,889)	
Amortization of Interest Charged to Structures	8,480	
	<u>355,009</u>	

(Actual 1985 interest capitalized for book purposes was used to simplify the calculation. In actual practice the amount capitalized for tax purposes will likely be somewhat higher than the book amount based on a preliminary understanding of the ACT.)

- (B) To reflect the capitalization of Administrative and General Expenses which have previously been expensed for tax purposes

Payroll Taxes	184,533	
Administrative and General Salaries	121,265	
Pension Costs	136,535	
Payroll Insurance	97,299	
Employee Benefits	266,243	
	<u>805,875</u>	

(In the interest of simplicity and in the absence of any definitive guidance in the ACT, the actual indirect costs capitalized for book purposes were assumed for tax purposes. It appears that certain administrative type costs may have to be capitalized for tax purposes in addition to those already capitalized for book purposes, however, until regulations are issued it is impossible to quantify the additional amount.)

- (C) To increase tax depreciation expense due to increase in asset base related to capitalization of interest charges and A&G Expenses (61,452)

To decrease tax depreciation expense due to a decrease in ACRS rates applied to 1985 depreciable additions	286,142	
	<u>224,690</u>	

To increase normalized depreciation expense due to increase in asset base related to capitalization of interest charges and A&G Expenses (8,949)

- (D) To reflect non-deductible business meal expense:

Total cost of business meals, including those served on premises	38,836	
Percent non-deductible	28.00%	
	<u>6,167</u>	

- (E) To reflect the amortization of unbilled revenues estimated at 12/31/86
Amortization Rate
- | | |
|------------------|--|
| 5,983,431 | |
| 25.00% | |
| <u>1,475,858</u> | |

ST LOUIS COUNTY WATER COMPANY

P.S.C. CASE NO. 80-87-48

(F) To reflect the amortization of Reserve for Bad Debts

Reserve Balance at 11/1/84	147,892	
Amortization Rate	25.88%	
	<u> </u>	36,773

(G) To reflect excess of actual write off of uncollectible accounts over amount provided using the reserve method

Actual write offs for year 1985	(144,688)	
Provision for Bad Debt Expense per books	129,817	
	<u> </u>	(13,663)

(H) To reflect total taxable Advances/Contributions In Aid received during the year 1985 (See Exhibit 87-7 for determination of Advance Multiplier)

Advances/Contributions from Developers	4,449,787	
Advance Multiplier	1.414968	
	<u> </u>	
Gross amount received from Developers	6,296,157	
ARB Revenue	112,168	
	<u> </u>	6,408,325

(I) To reflect additional tax depreciation on Advances/Contributions (See Exhibit 87-7)

(171,870)

9,117,815EXPLANATION OF ADJUSTMENTS - CURRENT & DEFERRED INCOME TAX EXPENSE

(A) To reflect the elimination of annual Investment Tax Credit effective for tax years after 12/31/85

Current Tax Expense	1,661,358
Deferred Tax Expense	(1,661,358)
Amortization of Investment Tax Credit	17,128

(B) To reflect the elimination of Research and Development Credit effective for tax years after 12/31/85

Current Tax Expense	37,913
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(C) To reflect the tax received from developers based on net advances of \$4,449,787 adjusted for net present value of depreciation allowance. See Exhibit 87-7 for determination of Advance Multiplier. $(4,449,787 \times .414968)$

(1,846,458)

ST LOUIS COUNTY WATER COMPANY

P.S.C. CASE NO. AQ-87-48

(D) To increase (decrease) tax depreciation due to:

1) An increase in depreciable asset base related to capitalization of Interest and A&B Expenses	61,452	
2) A decrease in ACRS rates effective after 12/31/86 applied to 1985 depreciable additions	(286,142)	
	<u> </u>	(224,690)

(E) To reflect the flowback of excess deferred taxes related to:
(See Exhibit No. 87-6)

Accelerated Depreciation	(4,338)	
Deferred Compensation Paid	484	
	<u> </u>	(3,854)
		<u> </u>
		(2,019,953)
		<u> </u>

EXPLANATION OF ADJUSTMENTS - REVENUE REQUIREMENT

(A) To reflect a decrease in Deferred Income Tax Payable due to increased tax depreciation, amortization of excess deferred tax payable, and reduced Federal and State marginal tax rates.	137,072
	<u> </u>

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AO-87-48

FLOWBACK OF EXCESS ACCUMULATED DEFERRED INCOME TAX

ACCELERATED DEPRECIATION:

Vintage Year	Class	Excess Tax Vs Norm Deprec @ 12/85	Combined Def Tax @ 12/85	Average Tax Rate	1986 Tax Vs Norm Deprec	Provision 1987 Rate (.418367)
1970	50 YR	438,214	216,482	49.3827%	(17,836)	(7,462)
1970	10 YR	11,827	5,422	49.1782%	(101)	(42)
1971	8 YR	5,969	2,946	49.3558%	(117)	(49)
1972	8 YR	9,923	4,890	49.2795%	(195)	(82)
6/1973	8 YR	4,689	2,272	49.2949%	(46)	(19)
6/1973	5 YR	7,070	3,518	49.7595%	(200)	(84)
12/1973	8 YR	16,896	8,299	49.1181%	(314)	(131)
12/1973	5 YR	956	475	49.6862%	(20)	(8)
1974	8 YR	20,189	9,898	49.8267%	(381)	(159)
1975	5 YR	2,962	1,463	49.3923%	(55)	(23)
1975	8 YR	4,624	2,256	48.7889%	(84)	(35)
1975	5 YR	15,672	7,716	49.2343%	(283)	(118)
1976	8 YR	3,928	1,907	48.3489%	(70)	(29)
1976	5 YR	2,070	1,014	48.9855%	(37)	(15)
1977	8 YR	2,024	975	48.1719%	(35)	(15)
1977	5 YR	2,233	1,085	48.5893%	(39)	(16)
1978	5 YR	9,671	4,640	47.9785%	(196)	(82)
1979	5 YR	13,528	6,425	47.4941%	(228)	(95)
1980	5 YR	4,666	2,216	47.4925%	(103)	(43)
1981	5 YR	148,115	70,343	47.4922%	(10,829)	(4,530)
1981	3 YR	77,630	36,868	47.4919%	(5,313)	(2,223)
1982	3 YR	61,965	29,430	47.4946%	(9,179)	(3,840)
1983	3 YR	62,641	29,750	47.4929%	(18,539)	(7,756)
		926,582	450,210	48.5883%	(64,200)	(26,856)

Provision at Average Tax Rate (48.5883%) (31,194)

Excess of Average Rate over Effective Rate (4,338)

DEFERRED COMPENSATION:

Deferred Compensation Paid in 1985 (Per Tax) 14,250
Deferred Compensation Expensed in 1985 (Per Books) (5,700)

Amount in Excess of Current Provision 8,550

Average Rate at December 1985 47.4923%

Effective Rate 41.8367%

Difference 5.6556%

Excess of Average Rate over Effective Rate 484

St Louis County Water Company
P.S.C. Case No. MO 87-48
Calculation of Advance Multiplier and Tax Depreciation

Year	Annual 1987 Rates		Annual Tax Savings	Cumulative NPV	Annual NPV Increment	% Of Annual Tax	PV Of Annual Tax
	Annual Depr %	Depr Based on \$4,561,875					
1	3.75%	\$171,070	\$71,570	0.033839	0.033839	96.2373%	\$64,583
2	7.22%	329,367	137,796	0.092628	0.058789	81.4252%	112,201
3	6.68%	304,733	127,490	0.141710	0.049082	73.4760%	93,675
4	6.18%	281,924	117,948	0.182685	0.040975	66.3026%	78,203
5	5.71%	260,483	108,977	0.216847	0.034162	59.8284%	65,199
6	5.28%	240,867	100,771	0.245352	0.028505	53.9867%	54,403
7	4.89%	223,076	93,328	0.269175	0.023823	48.7178%	45,467
8	4.64%	211,671	88,556	0.289572	0.020397	43.9591%	38,928
9	4.64%	211,671	88,556	0.307978	0.018406	39.6681%	35,128
10	4.64%	211,671	88,556	0.324586	0.016608	35.7931%	31,697
11	4.64%	211,671	88,556	0.339574	0.014988	32.3017%	28,605
12	4.64%	211,671	88,556	0.353097	0.013523	29.1444%	25,809
13	4.64%	211,671	88,556	0.365301	0.012204	26.3017%	23,292
14	4.64%	211,671	88,556	0.376313	0.011012	23.7328%	21,017
15	4.64%	211,671	88,556	0.386250	0.009937	21.4159%	18,965
16	4.64%	211,671	88,556	0.395216	0.008966	19.3233%	17,112
17	4.64%	211,671	88,556	0.403307	0.008091	17.4375%	15,442
18	4.64%	211,671	88,556	0.410608	0.007301	15.7349%	13,934
19	4.64%	211,671	88,556	0.417197	0.006589	14.2004%	12,575
20	4.61%	210,302	87,983	0.423103	0.005906	12.8113%	11,276
Totals	100.00%	4,561,874	1,908,535		0.423103		807,511

Rate of return allowed in last rate case	10.82%
Net Present Value of depreciation allowance	0.423103
Effective tax rate	41.8367% (a)
NPV x effective tax	0.17701233
Advance multiplier net of depreciation effect	1.414960 (b)

(a) Formula for effective tax rate where:

F = Effective Federal tax rate

S = Effective State tax rate

T = Taxable income before state tax

$$F = 40.00\%(T-S)$$

$$S = 5.00\%(T-F)$$

(b) Formula for determining advance multiplier where:

M = Multiplier

PV = Present value of tax savings from tax depreciation

T = Effective combined Federal and State tax rate

$$M = \frac{1 - PV}{1 - T}$$

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AO-87-48

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Statement of Operations:							
Operating Revenue	46,366,227			46,366,227			46,366,227
Operating Expenses							
Operations	18,574,819			18,574,819			18,574,819
Maintenance	5,158,864			5,158,864			5,158,864
Depreciation	2,833,949			2,833,949			2,833,949
Current Income Tax	1,717,786	1,652,382		3,370,088	983,093		4,273,181
Deferred Income Tax	2,822,342	(1,644,222)		1,178,120	(393,712)		784,408
Other Taxes	3,047,975			3,047,975			3,047,975
Total Operating Expense	34,154,935	8,000		34,163,015	589,381		34,672,396
Net Operating Income	12,211,292	(8,000)		12,203,212	(589,381)		11,693,831
Other Income (Expense)							
Interest Expense	(6,027,615)			(6,027,615)			(6,027,615)
Int Chgd to Const	430,618			430,618			430,618
Other, Net	(39,113)			(39,113)			(39,113)
Total	(5,636,110)			(5,636,110)	0		(5,636,110)
Net Income	6,575,182	(8,000)		6,567,182	(589,381)		6,057,721
	=====	=====		=====	=====		=====

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AO-87-48

	Per Books YE 1985			Per Books YE 1985			Per Books YE 1985		
	1985 Rates	1986 Adj'tmts	Notes	1985 Rates	1986 Adj'tmts	Notes	1985 Rates		
TAXABLE INCOME:									
Net Operating Income	12,211,292	(8,088)		12,203,212	(509,381)		11,693,831		
Income taxes	4,548,128	8,088		4,548,208	509,381		5,057,589		
Pre Tax Income	16,751,420			16,751,420	0		16,751,420		
ADJUSTMENTS:									
Interest on Ltd	(6,179,585)			(6,179,585)	438,618 (A)		(5,748,887)		
Amortization of Debt Exp	(35,399)			(35,399)			(35,399)		
Other Interest Charges	187,289			187,289			187,289		
Ordinary loss ACRS	(182,255)			(182,255)			(182,255)		
Corp over PSC Depreciation	(12,434)			(12,434)			(12,434)		
A&G Expenses Capitalized	(885,875)			(885,875)	885,875 (B)		0		
Addl Deprec Normalized	(322,622)			(322,622)	(8,949) (C)		(331,571)		
Addl Deprec Tax	(2,699,329)			(2,699,329)	224,698 (C)		(2,474,639)		
Deferred Comp Paid	(14,250)			(14,250)			(14,250)		
Rate Case Exp	(27,843)			(27,843)			(27,843)		
Rate Case Exp-Dep Study	(67,214)			(67,214)			(67,214)		
Removal Cost on ADR	(28,828)			(28,828)			(28,828)		
Deferred Comp Accrued	5,700			5,700			5,700		
Salvage Ordinary Gain ACRS	45,532			45,532			45,532		
Salvage Ordinary Gain ADR	10			10			10		
Deduction to Maint HDE	(138)			(138)			(138)		
Deprec " Old Co" Promoters	1,694			1,694			1,694		
Gain on A T & HDE	7,844			7,844			7,844		
Norm Deprec ACRS A T & HDE	318,163			318,163			318,163		
Int Chrg to Structure	84,889			84,889	(84,889) (A)		0		
Rate Case Expense Amortized	0			0			0		
Amort-Int Chrgd Const- Struct	(18,133)			(18,133)	8,488 (A)		(1,733)		
Non-Deductible Meals	0			0	6,167 (D)		6,167		
Amort of Unbilled Revenue	0			0	1,475,858 (E)		1,475,858		
Amort of Reserve for Bad Debts	0			0	36,773 (F)		36,773		
Bad Debt Expense	0			0	(15,663) (G)		(15,663)		
Contributions/Advances In Aid	0			0	6,819,398 (H)		6,819,398		
Tax Depreciation on CIAC	0			0	(171,878) (I)		(171,878)		
Total Adjustments	(9,654,768)			(9,654,768)	8,728,888		(926,688)		
Taxable Income	7,096,652			7,096,652	8,728,888		15,824,732		

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AD-87-48

	Per Books YE 1985 1985 Rates			Per Books YE 1985 1986 Rates			Per Books YE 1985 1988 Rates		
		1986 Adj'ts	Notes		1988 Adj'ts	Notes			
CURRENT & DEFERRED INCOME TAX EXPENSE:									
Taxable Income	7,096,652			7,096,652	8,728,000		15,824,732		
State Tax Calc									
Factor	2.700%			2.700%			3.300%		
State Tax	191,610			191,610	330,606		522,216		
State Neighborhood ass't Cr	(12)			(12)	3		(9)		
Invest Tax Credit	83,068	(83,068)		0	0		0		
R & D Credit	1,896	(1,896)		0	0		0		
Total	276,562	(84,964)		191,598	330,609		522,207		
Factor	97.700%			97.700%			98.300%		
Total	283,873	(86,965)		196,108	335,130		531,238		
State Neighborhood ass't Cr	(500)			(500)			(500)		
Current State Tax	282,573	(86,965)		195,608	335,130		530,738		
Federal Tax Calc									
Federal Taxable Income	6,814,079	86,965		6,901,044	8,392,950		15,293,994		
Rate	46.00%			46.00%			34.000%		
Total	3,134,476	40,004		3,174,480	2,825,478		5,199,958		
Invest Tax Credit	(1,661,350)	1,661,350 (A)		0			0		
R & D Credit	(37,913)	37,913 (B)		0			0		
Alternate Min Tax	0			0			0		
Current Federal Tax	1,435,213	1,739,267		3,174,480	2,825,478		5,199,958		
Tax Received From Developers	0			0	(1,457,515) (C)		(1,457,515)		
Total Current Income Tax	1,717,786	1,652,302		3,370,088	983,093		4,273,181		
Deferred Tax Calc									
Tax Depr Over Normalized	2,699,329			2,699,329	(224,690) (D)		2,474,639		
Deferred Compensation	8,550			8,550	0		8,550		
Together	2,707,879			2,707,879	(224,690)		2,483,189		
Marginal Rate	47.492323%			47.492323%			36.2157%		
Deferred Income Tax	1,286,035			1,286,035	(386,731)		899,304		
Invest Tax Credit	1,661,350	(1,661,350) (A)		0	0		0		
Amort of ITC	(125,043)	17,128 (A)		(107,915)			(107,915)		
Amort of Excess Reserve					(6,901) (E)		(6,901)		
Total Deferred Income Tax	2,822,342	(1,644,222)		1,178,120	(393,712)		784,408		

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AD-87-48

	Per Books YE 1985 1985 Rates	1986 Adj'mts	Notes	Per Books YE 1985 1985 Rates	1986 Adj'mts	Notes	Per Books YE 1985 1986 Rates
REVENUE REQUIREMENT:							
Plant In Service	216,273,572			216,273,572			216,273,572
Promoters Advances	(19,866,992)			(19,866,992)			(19,866,992)
Contributions In Aid	(15,162,888)			(15,162,888)			(15,162,888)
Accumulated Depreciation	(46,187,652)			(46,187,652)			(46,187,652)
Deferred Income Tax Payable	(9,048,045)			(9,048,045)	393,712	(A)	(8,654,333)
Working Capital Materials	1,864,480			1,864,480			1,864,480
Cash Working Capital	2,325,240			2,325,240			2,325,240
Original Cost Rate Base	130,277,795			130,277,795	393,712		130,671,507
Cost of Capital	10.82%			10.82%			10.82%
Earnings Required	14,096,857			14,096,857	42,600		14,138,657
Earnings Available	12,211,292	(8,080)		12,203,212	(509,381)		11,693,831
Earnings Deficiency	1,884,765	8,080		1,892,845	551,981		2,444,826
Income Tax Factor	1.9045			1.9045			1.5678
Revenue Required	3,589,535	15,380		3,604,923	228,075		3,832,998

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AD-87-48

EXPLANATION OF ADJUSTMENTS - TAXABLE INCOME:

- (A) To reflect the capitalization of interest charges which have previously been expensed for tax purposes

Interest Charged to Construction	438,618	
Interest Charged to Structures	(84,009)	
Amortization of Interest Charged to Structures	8,400	
	<hr/>	355,009

(Actual 1985 interest capitalized for book purposes was used to simplify the calculation. In actual practice the amount capitalized for tax purposes will likely be somewhat higher than the book amount based on a preliminary understanding of the ACT.)

- (B) To reflect the capitalization of Administrative and General Expenses which have previously been expensed for tax purposes

Payroll Taxes	184,533	
Administrative and General Salaries	121,265	
Pension Costs	136,535	
Payroll Insurance	97,299	
Employee Benefits	266,243	
	<hr/>	805,875

(In the interest of simplicity and in the absence of any definitive guidance in the ACT, the actual indirect costs capitalized for book purposes were assumed for tax purposes. It appears that certain administrative type costs may have to be capitalized for tax purposes in addition to those already capitalized for book purposes, however, until regulations are issued it is impossible to quantify the additional amount.)

- (C) To increase tax depreciation expense due to increase in asset base related to capitalization of interest charges and A&G Expenses (61,452)

To decrease tax depreciation expense due to a decrease in ACRS rates applied to 1985 depreciable additions	286,142	
	<hr/>	224,690

To increase normalized depreciation expense due to increase in asset base related to capitalization of interest charges and A&G Expenses (8,949)

- (D) To reflect non-deductible business meal expense:

Total cost of business meals, including those served on premises	30,836	
Percent non-deductible	20.00%	
	<hr/>	6,167

- (E) To reflect the amortization of unbilled revenues estimated at 12/31/85 Amortization Rate

5,983,431	
25.00%	
<hr/>	1,475,858

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AD-87-48

- (F) To reflect the amortization of Reserve for Bad Debts

Reserve Balance at 11/1/84	147,092	
Amortization Rate	25.00%	
	<u> </u>	36,773

- (G) To reflect excess of actual write off of uncollectible accounts over amount provided using the reserve method

Actual write offs for year 1985	(144,688)	
Provision for Bad Debt Expense per books	129,017	
	<u> </u>	(15,663)

- (H) To reflect total taxable Advances/Contributions In Aid received during the year 1985 (See Exhibit 88-7 for determination of Advance Multiplier)

Advances/Contributions from Developers	4,449,707	
Advance Multiplier	1.327553	
	<u> </u>	
Gross amount received from Developers	5,907,222	
ARB Revenue	112,168	
	<u> </u>	6,019,390

- (I) To reflect additional tax depreciation on Advances/Contributions (See Exhibit 88-7)

(171,070)

8,728,888

EXPLANATION OF ADJUSTMENTS - CURRENT & DEFERRED INCOME TAX EXPENSED:

- (A) To reflect the elimination of annual Investment Tax Credit effective for tax years after 12/31/85

Current Tax Expense	1,661,350
Deferred Tax Expense	(1,661,350)
Amortization of Investment Tax Credit	17,128

- (B) To reflect the elimination of Research and Development Credit effective for tax years after 12/31/85

Current Tax Expense	37,913
---------------------	--------

- (C) To reflect the tax received from developers based on net advances of \$4,449,707 adjusted for net present value of depreciation allowance. See Exhibit 88-7 for determination of Advance Multiplier. $(4,449,707 \times .327553)$

(1,475,515)

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AO-87-48

(D) To increase (decrease) tax depreciation due to:

1) An increase in depreciable asset base related to capitalization of Interest and A&G Expenses	61,452	
2) A decrease in ACRS rates effective after 12/31/85 applied to 1985 depreciable additions	(286,142)	
	<u> </u>	(224,690)

(E) To reflect the flowback of excess deferred taxes related to:
(See Exhibit No. 88-6)

Accelerated Depreciation	(7,945)	
Deferred Compensation Paid	964	
	<u> </u>	(6,981)
		<u> </u>
		(1,652,145)

EXPLANATION OF ADJUSTMENTS - REVENUE REQUIREMENT

(A) To reflect a decrease in Deferred Income Tax Payable due to increased tax depreciation, amortization of excess deferred tax payable, and reduced Federal and State marginal tax rates.	<u> </u>
	295,162

ST LOUIS COUNTY WATER COMPANY
P.S.C. CASE NO. AO-87-48

FLOWBACK OF EXCESS ACCUMULATED DEFERRED INCOME TAX

ACCELERATED DEPRECIATION:

Vintage Year	Class	Excess Tax Vs Norm Deprec @ 12/85	Combined Def Tax @ 12/85	Average Tax Rate	1986 Tax Vs Norm Deprec	Provision 1988 Rates (.362157)
P1970	50 YR	438,214	216,482	49.3827%	(17,836)	(6,459)
1970	10 YR	11,827	5,422	49.1782%	(181)	(37)
1971	8 YR	5,969	2,946	49.3558%	(117)	(42)
1972	8 YR	9,923	4,890	49.2795%	(195)	(71)
6/1973	8 YR	4,609	2,272	49.2949%	(46)	(17)
6/1973	5 YR	7,878	3,518	49.7595%	(288)	(72)
12/1973	8 YR	16,896	8,299	49.1181%	(314)	(114)
12/1973	5 YR	956	475	49.6862%	(28)	(7)
1974	8 YR	28,189	9,898	49.8267%	(381)	(138)
1975	5 YR	2,962	1,463	49.3923%	(55)	(20)
1975	8 YR	4,624	2,256	48.7889%	(84)	(30)
1975	5 YR	15,672	7,716	49.2343%	(283)	(102)
1976	8 YR	3,928	1,987	48.5489%	(78)	(25)
1976	5 YR	2,878	1,814	48.9855%	(37)	(13)
1977	8 YR	2,824	975	48.1719%	(35)	(13)
1977	5 YR	2,233	1,085	48.5893%	(39)	(14)
1978	5 YR	9,671	4,640	47.9785%	(196)	(71)
1979	5 YR	13,528	6,425	47.4941%	(228)	(83)
1980	5 YR	4,666	2,216	47.4925%	(183)	(37)
1981	5 YR	148,115	78,343	47.4922%	(18,829)	(3,922)
1981	3 YR	77,638	36,868	47.4919%	(5,313)	(1,924)
1982	3 YR	61,965	29,438	47.4946%	(9,179)	(3,324)
1983	3 YR	62,641	29,758	47.4929%	(18,539)	(6,714)
		926,582	458,218	48.5883%	(64,288)	(23,249)

Provision at Average Tax Rate (48.5883%) (31,194)

Excess of Average Rate over Effective Rate (7,945)

DEFERRED COMPENSATION:

Deferred Compensation Paid in 1985 (Per Tax) 14,250
Deferred Compensation Expensed in 1985 (Per Books) (5,788)

Amount in Excess of Current Provision 8,558

Average Rate at December 1985 47.4923%
Effective Rate 36.2157%

Difference 11.2766%

Excess of Average Rate over Effective Rate 964

St Louis County Water Company
P.S.C. Case No. MO 87-48
Calculation of Advance Multiplier and Tax Depreciation

Year	Annual		1988 Rates		Annual NPV Increment	% Of Annual Tax	PV Of Annual Tax
	Depr %	Depr Based on \$4,561,875	Annual Tax Savings	Cumulative NPV			
1	3.75%	\$171,070	\$61,954	0.033839	0.033839	90.2373%	\$55,906
2	7.22%	329,367	119,283	0.092628	0.058789	81.4252%	97,126
3	6.68%	304,733	110,361	0.141710	0.049082	73.4760%	81,089
4	6.18%	281,924	102,101	0.182685	0.040975	66.3026%	67,696
5	5.71%	260,483	94,336	0.216847	0.034162	59.8204%	56,440
6	5.28%	240,867	87,232	0.245352	0.028505	53.9867%	47,094
7	4.89%	223,076	80,789	0.269175	0.023823	48.7178%	39,359
8	4.64%	211,671	76,658	0.289572	0.020397	43.9591%	33,698
9	4.64%	211,671	76,658	0.307978	0.018406	39.6681%	30,409
10	4.64%	211,671	76,658	0.324586	0.016608	35.7931%	27,438
11	4.64%	211,671	76,658	0.339574	0.014988	32.3017%	24,762
12	4.64%	211,671	76,658	0.353097	0.013523	29.1444%	22,342
13	4.64%	211,671	76,658	0.365301	0.012204	26.3017%	20,162
14	4.64%	211,671	76,658	0.376313	0.011012	23.7328%	18,193
15	4.64%	211,671	76,658	0.386250	0.009937	21.4159%	16,417
16	4.64%	211,671	76,658	0.395216	0.008966	19.3233%	14,813
17	4.64%	211,671	76,658	0.403307	0.008091	17.4375%	13,367
18	4.64%	211,671	76,658	0.410608	0.007301	15.7349%	12,062
19	4.64%	211,671	76,658	0.417197	0.006589	14.2004%	10,886
20	4.61%	210,302	76,162	0.423103	0.005906	12.8113%	9,761
Totals	100.00%	4,561,874	1,652,114		0.423103		699,020
Rate of return allowed in last rate case	10.82%						
Net Present Value of depreciation allowance	0.423103						
Effective tax rate	36.2157% (a)						
NPV x effective tax	0.15322971						
Advance multiplier net of depreciation effect	1.327553 (b)						

(a) Formula for effective tax rate where:

F = Effective Federal tax rate

S = Effective State tax rate

T = Taxable income before state tax

$$F = 34.00\%(T-S)$$

$$S = 5.00\%(T-F)$$

(b) Formula for determining advance multiplier where:

N = Multiplier

PV = Present value of tax savings from tax depreciation

T = Effective combined Federal and State tax rate

$$1 - PV$$

$$N = \frac{1 - PV}{1 - T}$$

$$1 - T$$

COMMENTS RE RECOGNITION OF REVENUE EFFECT OF
TAX REFORM ACT OF 1986 (ACT)

Flowback of Excess Deferred Income Taxes

While the Act clearly prescribes the method for flowback of the excess deferred income taxes related to accelerated depreciation created by the reduction in the tax rate from 46% to 34%, it does not restrict the rate of flowback of excess deferred taxes arising due to the tax rate reduction to 46% in 1979 or relating to items other than depreciation. We believe that the fair and reasonable method to use in the flowback of all excess deferred income taxes is to use the Act prescribed method, that is, to reverse the excess over the remaining regulatory life of the asset or liability which gave rise to the deferred tax reserve. To do otherwise will create a one time aberration in rates and burden utilities with yet another significant cash drain as a result of the Act and this ultimately will adversely affect the ratepayers.

Unbilled Revenues

The Act requires utilities to include unbilled revenues in taxable income for the year in which the utility services are rendered to customers starting in 1987. That is, the utility must estimate the income attributable to services rendered from the last meter reading or billing date to the end of the taxable year. It further provides that the beginning unbilled revenue adjustment will be spread ratably over the first four years after the effective date. In spite of this four year amortization, the cash flow impact of this provision will be major for any utility not currently recognizing unbilled revenue, particularly those on a quarterly billing cycle, since effectively the utility is forced to pay taxes currently on revenues it will not collect for months into the following year.

In theory, this creates a book-tax timing difference which reverses as the revenues are billed in the subsequent period; however, the reversals are immediately replaced with taxes paid on unbilled revenue for the subsequent period. Hence, in fact, a permanent level of prepaid tax is created subject to the limited fluctuations in the level of unbilled revenue.

Given the fact that the utility is forced to incur a current tax expense by including unbilled revenue in taxable income with no associated cash revenue, the proper ratemaking treatment is to flow the tax payment through in current rates. In the traditional ratemaking process a full 12 months of revenue and expense, including taxes, are included. However,

the fact remains that in addition to a full 12 months of revenue, expense and taxes incurred in each year, the utility will incur an additional tax on the unbilled revenue. This additional expense, which will occur in each of the next four years and to a lesser extent thereafter, must be recovered in rates. Some might argue that rate base treatment through the use of deferred tax accounting is more appropriate than flowthrough in current rates; however, to require rate base treatment effectively denies recovery of a legitimate operating expense in rates and unlawfully requires the utility to effectively make a permanent investment to finance that current operating expense.

Taxation of Contributions and Advances in Aid of Construction (CIAC)

Starting in 1987, CIAC will be treated as income and subject to taxation. As required by the Public Service Commission Report and Order in Case No. WO-86-100, all water and sewer utilities must charge contributors an additional amount equal to the taxes owed on CIAC, including a multiplier to account for taxes on taxes, less the estimated present value of future tax savings which may be realized by the utility as a result of the CIAC. The use of the present value of tax savings to reduce the multiplier used to calculate the CIAC results in a net current tax expense in the year of receipt of the CIAC which must be paid by the utility.

In its Order, the Commission partially addresses the rate-making treatment of this present value of tax saving differences (PV), stating that this method places some increased burden for taxes on the ratepayer in the first year (i.e., this PV difference would be flowed through current income tax expense in the year of payment). However, the methodology for developing the level of the PV difference to be allowed in ratemaking and insuring equitable treatment for both the ratepayer and the utility must be addressed.

In the normal ratemaking process the utility would project a level of CIAC and the resulting PV difference to recover this tax expense in rates. However, St. Louis County Water Company's (and, we believe, any other utility's) ability to project CIAC, and thus the PV tax impact thereof, is very limited since numerous independent variables outside the control of the utility determine the level of construction activities. To the extent this inability to accurately project exists, it is impossible to insure equitable treatment for the utility and the ratepayer without the use of some type of balancing account mechanism.

Exhibit 8A represents an example of how such a balancing account would be used. Basically, a level of PV difference would

be projected based on estimated CIAC for a rate year. This projected PV difference would be charged to current tax expense for the rate year with an offsetting credit to the deferred balancing account (DBA) which per the accompanying example in year 1 would be \$550,000. The DBA would be charged with the actual PV difference, or \$612,799 in year 1. The resulting net balance at the end of year 1 of \$62,799 would be carried as a deferred debit in the utility's balance sheet. In the next rate filing in year 2 the \$62,799 DBA balance would be written off by a charge to current tax expense along with the projected level of PV difference for new CIAC of \$500,000 per the example which when compared to the actual level of PV difference in year 2 of \$536,199 results in a DBA credit balance of \$26,600 at the end of year 2. In years when no rate filing occurs the amount of amortization from the DBA would continue at the level authorized in the most recent rate case as shown for year 3.

Several additional points related to the use of a DBA should be considered:

1. Truly equitable treatment of the utility and rate-payers would dictate that the DBA balance be given rate base treatment to compensate for the use of money (either the utility's in the case of a debit balance or the ratepayer's in the case of a credit balance).
2. The example presented in the exhibit assumes that the actual and projected level of tax savings realized from tax depreciation on assets constructed with CIAC is flowed directly through current tax expense in the interest of simplicity. This tax savings could also be accounted for through the DBA; however, we believe this adds a significant bookkeeping burden to the utility with no real benefit to either the utility or ratepayer since the difference between actual and projected tax savings in any period should be insignificant.
3. There is the question of whether the use of a DBA would constitute retroactive ratemaking. First, we believe that the unique and unpredictable nature of the PV difference mandates the use of such a balancing account. Second, other jurisdictions including New York have previously used and continue to use deferred accounts to capture certain costs or savings for later flowthrough in rates. While the specific deferral may differ, the concept and the objective of insuring equitable treatment for the utility and ratepayer are the same. Third, technical concerns should defer to a pragmatic solution where that solution uniquely serves the interests of all parties and where the consequence

of ultimate reversal would be no more than a return to the inequitable status quo.

Reserve for Bad Debts

The Act repeals the availability of the reserve method for deducting bad debts for all utilities starting in 1987. The beginning reserve for bad debts amount must be included in taxable income ratably over a four year period. Since the ratepayer has enjoyed the benefits of this tax deduction on a flowthrough basis we believe it is appropriate to likewise flow through the writeoff of the reserve in current rates.

Expense Capitalization Rules

Expenses such as interest and a portion of indirect costs of construction which have previously been deductible for tax purposes must now be capitalized starting in 1987. This will result in a significant increase in current income tax expense for any utility engaged in significant construction activities. In traditional ratemaking, the ratepayer has enjoyed the benefits of the tax deduction of these expenses on a flowthrough basis. Accordingly, we believe it is appropriate to likewise flow through the effect of the capitalization of these expenses in current rates.

Alternative Minimum Tax

The Act establishes a corporate Alternative Minimum Tax (AMT) starting in 1987. This system requires that after a company computes its regular tax, it perform a separate AMT computation by figuring Alternative Minimum Taxable Income (AMTI) and then applying a 20% tax rate to it. To the extent that the tentative AMT so calculated exceeds the regular tax, the excess (the AMT) must be paid in addition to the regular tax liability.

The AMT paid in any year can be carried forward (but not back) indefinitely and offset against so much of any year's regular tax liability as exceeds that year's tentative AMT. The AMTI is calculated by adjusting regular taxable income for certain items, the most significant of which will likely be tax depreciation in excess of a separate AMT depreciation calculated using the 150% declining balance method over the ADR midrange life and the book/tax difference adjustment which requires the add-back of an amount equal to one-half the difference between adjusted pre-tax book income and AMTI calculated before this adjustment.

Some significant regulatory issues arise in considering the proper accounting for the AMT, as illustrated in the following example:

Assume a utility has one \$3,000,000 water plant with a 50 year regulatory life. This asset would have an ACRS class life of 20 years and an ADR midrange of 50 years.

	BOOKS (Full Normal- ization)	BOOKS (Partial Normal- ization)	TAX
Book income before depreciation	\$1,290,000	\$1,290,000	\$1,290,000
Depreciation	-60,000	60,000	-225,000
Timing item #1			-290,000
Timing item #2		600,000	-600,000
Taxable income	\$1,230,000	\$ 630,000	\$ 175,000
Regular tax @ 34%	418,200	214,200	59,500
Tentative AMT	246,000	186,000	154,000
AMT	0	0	94,500

The tax return Tentative AMT is computed as follows:

Regular taxable income	\$ 175,000
Depreciation (225,000 - 90,000)	135,000
Book/Tax difference (1,230,000-310,000)/2	460,000
	770,000
	x 20%
	\$ 154,000

Thus, the company would pay \$154,000 to the IRS (i.e., the regular tax plus the AMT) and become entitled to an AMT carryforward of \$94,500.

In a full normalization jurisdiction, cost of service attributable to federal taxes would be \$418,200. Since the tax currently payable would clearly be \$154,000, by default deferred taxes would be \$264,200. The effect of this method of computation places the burden of the AMT squarely on the utility and its shareholders. The reason for this is that as a result of the AMT, only \$246,200 of deferred taxes have been charged with respect to \$1,055,000 of timing differences -- a 23% rate. The company has absorbed the financing of the AMT. The only way to remedy this situation would be for the tax expense element of cost of service to be increased by the AMT -- to \$512,700. In this event, \$358,700 of deferred taxes would be provided and this precisely equals the statutory rate (34%) multiplied by the total timing differences (\$1,055,000).

In a partial normalization jurisdiction, such as Missouri, which flows through the tax benefits of some timing differences the consequences of the AMT are more detrimental. Under the partial normalization calculation above, ratepayers would be charged \$214,200 of tax expense under these circumstances. When measured against the tax expense charged ratepayers in the full normalization example (\$418,200), this represents a reduction of \$204,000. In effect, the ratepayers have been given a benefit of 34% for each dollar of timing difference flowed through. As a result, the deferred taxes which would be provided in connection with the \$455,000 of timing items not flowed through would be only \$60,200 (\$154,700 less \$94,500) -- a 13% rate. The normalized timing items have been burdened with the entire AMT impact. Not only would this constitute a terrible result from a ratemaking perspective, it might also constitute a normalization violation because the deferred taxes associated with depreciation have been forced to bear the deferral of benefits associated with other timing differences. The appropriate remedy is to increase the tax expense in cost of service for the AMT.

ST LOUIS COUNTY WATER COMPANY
TAXATION OF ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION
EXAMPLE OF USE OF A DEFERRED BALANCING ACCOUNT AND THE PRESENT VALUE METHOD
DR (CR)

A	B	C	D	E	F	G	H	I	J	K	L	M	N
Net Tax (Rec'd) Paid									Deferred Balancing Account				
Year	Plant In Service	Construction		Tax Paid To IRS C-Dx(a)1(b)	Tax From Developer C-Dx(a)-1	PV Difference		Rate Filing	Record				
		Advance	Refund			Actual E-F	Projected		Actual Net Tax Paid E-F	(Inc) Dec Projected Net Amount	Current Tax Expense W/O Of DBA Balance	Total	Balance L+M
1	5,000,000	(5,000,000)	1,000,000	1,923,129	(1,310,208)	612,921	550,000	Y	612,921	(550,000)		(550,000)	62,921
2	4,500,000	(4,500,000)	1,000,000	1,682,738	(1,146,432)	536,306	500,000	Y	536,306	(500,000)	(62,921)	(562,921)	(26,615)
3	5,500,000	(5,500,000)	900,000	2,211,598	(1,506,739)	704,859	600,000	N	704,859	(500,000)	(62,921)	(562,921)	141,938
4	4,000,000	(4,000,000)	1,200,000	1,346,190	(917,146)	429,044	450,000	Y	429,044	(450,000)	(141,938)	(591,938)	(162,894)
5	5,000,000	(5,000,000)	1,100,000	1,875,051	(1,277,453)	597,598	550,000	Y	597,598	(550,000)	162,894	(387,106)	210,492
6	4,000,000	(4,000,000)	1,000,000	1,442,347	(982,656)	459,691	500,000	Y	459,691	(500,000)	(210,492)	(710,492)	(250,801)
7	4,500,000	(4,500,000)	950,000	1,706,777	(1,162,810)	543,967	650,000	N	543,967	(500,000)	(210,492)	(710,492)	(166,525)
8	6,000,000	(6,000,000)	1,200,000	2,307,755	(1,572,250)	735,505	550,000	Y	735,505	(550,000)	166,525	(383,475)	352,030
9	5,500,000	(5,500,000)	1,250,000	2,043,325	(1,392,096)	651,229	500,000	Y	651,229	(500,000)	(352,030)	(852,030)	(200,801)
10	5,000,000	(5,000,000)	1,000,000	1,923,129	(1,310,208)	612,921	400,000	N	612,921	(500,000)	(352,030)	(852,030)	(239,109)
49,000,000 (49,000,000) 10,600,000 18,462,039 (12,577,998) 5,884,041 5,250,000									5,884,041	(5,100,000)	(1,063,405)	(6,163,405)	

Assumptions Used

(a) Advance multiplier (1988 rates)	1.3276
(b) Effective tax rate (1988 rates)	36.2157%

Notes:

(1) In accounting for Contributions and Advances in Aid of Construction (CAIC) the use of a present value method to flow tax savings from tax depreciation through to a developer (through the use of a reduced multiplier) results in a net tax expense greater than the amount collected from a developer. Since the Company's ability to project CAIC (and thus the tax impact thereof) is very limited due to numerous independent variables outside the control of the Company which determine the level of construction activities, a Deferred Balancing Account (DBA) is used to record the difference between the actual net tax and the tax projected in the last rate filing. Any balance in the DBA is written off to increase or decrease current tax expense in the next rate filing. In years with no rate filing the amount allowed in the most recent rate case is amortized to current income taxes.

(2) The amounts used in the above example are for illustration purposes only and are not intended to represent a projection of the company's CAIC activity for any period.